



Executive Office, City of Providence, Rhode Island

JOHN J. LOMBARDI
MAYOR

MEMORANDUM

Date: January 3, 2003

To: City Clerk Office

From: Mayor John Lombardi

Subject: RIPEC Management Task Force Report

Please see the attached RIPEC Management Task Force Report which was delivered to Mayor-elect Cicilline at today's press conference. We believe that this report contains information which we are sure you will find of interest. It is our hope that this document will provide you with the necessary tools to assess the City's current financial and human resource needs. I would like to thank your office and the members of the City Council for their assistance during this time.

Please distribute a copy of this report to each member of the City Council at your earliest convenience.

Attachment

IN CITY COUNCIL
FJAN 16 2003

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECORDED.

FILED

JAN 3 3 30 PM '03

DEPT. OF CITY CLERK
PROVIDENCE, R. I.

Providence Management Task Force



RIPEC

Rhode Island Public Expenditure Council

January 2003

**This Report was financed
in part from grants from
The New York Community Trust (Oenslager Fund)
and the
Health & Education Leadership for Providence (HELP)**

January 3, 2003

The Honorable John J. Lombardi
Mayor
City of Providence
25 Dorrance Street
Providence, RI 02903

Dear Mayor Lombardi,

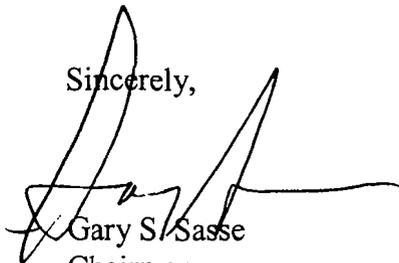
On behalf of RIPEC and the Providence Management Task Force, I am pleased to present to you the findings and recommendations of our analysis of the City's financial condition, human resources processes and its information technology systems. The report includes a number of observations and suggestions about how the City can strengthen its position with regards to these management systems.

The Task Force you appointed provided valuable insight and guidance in developing the work, making significant contributions to the findings and recommendations in this report. In addition, many City employees were very helpful in developing the information used and discussed in this report. Mr. Alex Prignano and Ms. Sybil Bailey were especially helpful in providing their expertise and experience in their respective fields. These efforts were appreciated and should be commended.

While many people provided assistance, RIPEC would like to recognize Mr. Stephen O'Rourke and Mr. Charles Hewitt, who worked diligently on human resources and information technology, respectively. Their hard work and professionalism is appreciated.

RIPEC and the Task Force hope the following report serves as a catalyst to continued progress in the City, and RIPEC stands ready to assist you and Mayor-elect David Cicilline, as well as the City Council in these efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary S. Sasse", with a long horizontal flourish extending to the right.

Gary S. Sasse
Chairman
Providence Management Task Force

Providence Management Task Force

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Introduction

Background:

As evidenced by the Executive Order 2002-04 issued on October 29, 2002, the City of Providence has requested that the Rhode Island Public Expenditure Council (RIPEC) develop an analysis of the overall financial condition of the City and of the City's administrative systems, such as information technology and human resources.

The goals of the Study were to identify immediate financial issues the City faces as well as suggest options to improve management effectiveness and efficiency without sacrificing essential municipal services.

The Study will also serve as a transition report for the newly elected Mayor. Therefore, the Study will be conducted in three phases. Phase I will encompass the management transition report and will deal primarily with developing baseline management information for identifying issues to be addressed. This phase of work will be completed by January 31, 2003.

Phase II would focus upon enhancing findings and, in concert with the Administration, developing specific recommendations. Phase III would address implementation issues and processes. Phase II and III will only commence upon the request of the Mayor consistent with the approval of the RIPEC Board of Directors.

The specific objectives of Phase I include:

- Preparing and analyzing the City's Operating budget projections for FY 2004.
- Reviewing, assessing and analyzing the management control and service systems employed by the City. Systems to be included are financial management, information technology and personnel practices.

Local Government Profile:

Adopted in 1980, the City of Providence's home-rule charter provides for a Mayor-Council form of local government with a fifteen-member City Council. The Mayor (elected to four-year terms) is the chief executive officer for the City and the City Council (elected to four-year terms) executes legislative powers for the City. There are approximately 2,200 professional staff members supporting the general operations of the City. This includes approximately 498 police officers and 496 firefighters.

The City has a direct interest in a number of City-related entities, which include, but are not limited to:

- *Providence Public Buildings Authority* - Acquires, constructs, repairs and operates public facilities through various financing techniques;
- *Providence Water Supply Board* – Provides water supply services through metered sales in Providence and parts of surrounding communities, as well as water sales to other local water supply systems; and
- *Providence Civic Center Authority* – Provides a facility for various civic, athletic and cultural events.

The municipal borders of the City of Providence also serve as the City's school district. A nine-member school committee, appointed by the Mayor, is responsible for directing the administration of the school district and appointing a Superintendent to serve as the general manager of the school district. The school district currently operates 50 schools. There are approximately 2,100 teachers supporting the various programs and activities provided to the nearly 28,000 students in the system.

General Demographics

The municipal borders of the City of Providence include approximately 18.1 square miles of land. The City of Providence's estimated population increased from 160,728 persons in 1990 to approximately 173,618 persons in 2000. This represents an 8.0 percent increase over this ten-year period. Statewide, the population grew by 4.0 percent.

Public school enrollment in the City has shown different growth rates when compared to general population trends. Overall, total enrollment has increased from 20,429 students in FY 1990 to 26,427 in FY 2000 – an increase of nearly 6,000 students over a ten-year period (a 29.4 percent increase). The City's student enrollment growth represented almost 30.0 percent of the growth in student enrollment statewide. Enrollment has since increased to 27,600 in 2002.

The demographics within the enrollment have changed as well. In FY 1990, 11.7 percent of the student population were considered Special Education, 57.0 percent were eligible for free and reduced lunch programs, and 16.6 percent were in need of language assistance programs. In FY 2000, it is estimated that 17.8 percent of the student population required Special Education, 82.9 percent were eligible for free and reduced lunch, and 21.8 percent required language assistance programs.

Many compare median family income (as reported by the Census) to gauge a community's relative income wealth. In 1990, the City of Providence's median family income was \$28,342, which was 27.6 percent below the State average (\$39,172). In 2000, Providence's median family income of \$32,058 was approximately 39.3 percent lower than the State MFI (\$52,781).

Budget Process:

The budget process is a critical tool for effective fiscal management. The City's fiscal year is from July 1 to June 30. Most municipal fiscal years in Rhode Island use this period for their fiscal years. The State also uses the same fiscal year.

Based on estimated revenues and expenditures, the Mayor submits his recommendations to the City Council no later than 60 days prior to the coming fiscal year (on or about May 1). The budget typically includes the current year's budget with proposed revisions, proposed revenue and expenditures for the advancing fiscal year, and any ordinances or other legal actions needed to implement a portion or all of the proposed budget. The Mayor is authorized to make minor transfers (\$5,000 or less) within departments.

Providence Management Task Force:

RIPEC would like to thank the members of the Providence Management Task Force, appointed by Mayor John Lombardi, for serving as team to assist in the development and evaluation of the enclosed analysis. The following list represents the Task Force Membership:

- Gary Sasse - Chairman

- Paul Caswell
- Brian Goldman, Esq.
- Carol Grant
- Senator Catherine Graziano, RN, PhD.
- Donald Iannazzi
- Stephen Key
- Donald Lopes
- Roger Mandle
- Anthony Scorpio
- Merrill Sherman
- Neil Steinberg
- Angel Taveras, Esq.
- Robert Urciuoli
- Kevin Woods



Providence Management Task Force

Executive Summary

The following represents an executive summary of the Providence Management Task Force Report. The Task Force focused on three management systems for the City of Providence – Finance, Human Resources, and Information Technology. The Executive Summary highlights key findings and recommendations for each management system. Greater detail regarding the City's management systems are provided within the body of the report.

RIPEC would like to thank Mr. Stephen O'Rourke and Mr. Charlie Hewitt for their hard work, valuable insight and time during the development of this analysis. They spent a considerable amount of time and energy reviewing the City's human resources and information technology systems to develop meaningful analysis and recommendations for the Providence Management Task Force.

In addition, many thanks go to Mr. Alex Prignano, Providence's Finance Director and Mrs. Sybil Bailey, the City's Acting Human Resources Director, for their time and cooperation in collecting and reviewing a wide range of data.

RIPEC intends the following report to serve as a blueprint for the many tasks facing the incoming Administration. While the City certainly faces many challenges, there should be some comfort in knowing that there are many very capable public servants working hard to meet the needs of the City's taxpayers.

The following highlights the findings and recommendations of the report.

Finance Report – Major Findings:

- The City has demonstrated significant improvements in its financial, accounting and reporting processes, particularly given the complexity of the City's finances and audit requirements. For example, the City has improved internal financial tracking reports for management purposes;
- The City has complied with the State's audit reporting deadline for the last three fiscal years, and the Department's personnel perform a range of analyses on the City's general ledger accounts, which has translated into higher quality management information;
- The City of Providence has a budget of \$514.7 million in FY 2003, representing a 6.0 percent increase over its FY 2002 level of expenditures (\$485.8 million);

- RIPEC estimates the City is facing an operating deficit of approximately \$33.8 million in FY 2004, and projects operating deficits to exceed \$115.0 million by FY 2008;
- The City has a \$479.4 million un-funded pension liability as of June 30, 2001. The City currently does not meet its annual obligations to the Pension Fund. However, the City is implementing a multi-year program to annually fund its actuarially recommended funding level by FY 2005. While this will put the City on the right track, it will not by itself solve the City's estimated \$479.4 million un-funded pension liability;
- The City's expenditures for Medical Insurance continue to grow at an annual rate of 18.0 percent. It represents the fastest growing component of the City's budget, with over \$60.0 million in spending in FY 2003 (includes City, schools and Water Authority);
- Changes in values across classes of property can have significant implications for the City. The City of Providence is scheduled to conduct and implement a statistical update of its real property values by December 31, 2003. This will be the property tax base used to develop the FY 2005 City Budget;
- According to RIPEC, the City of Providence had the second highest overall property tax burden in FY 2002 when using a series of measures of property tax burden (See RIPEC Publication: *FY 2002 Property Tax Burdens in Rhode Island - March 2002*);
- Providence relies on State Aid to fund 45.5 percent of its operating budget – approximately \$234.8 million in FY 2003. Direct School Aid represented 75.0 percent of the City's total State aid program in FY 2003.

Finance Report – Major Recommendations:
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- Actuarially fund the City's annual contribution to the Pension fund by FY 2005 and thereafter. The City's FY 2003 Budget does not cover the actuarially recommended annual appropriation. The City is in process of implementing a multi-year program to actuarially fund its annual pension obligations by FY 2005. This is critical for the overall fiscal health of the City and has implications for the Rating Agencies;
- Negotiate employee co-pays for health care costs to begin addressing the expected 18.0 percent annual growth in Medical Insurance. In addition, the City and employee unions should evaluate health insurance plan design and other potential providers to pursue additional cost savings. Medical Insurance costs are the fastest growing budget driver for the City;
- Establish a tax treaty with the Manchester Street Power Plant that extends beyond FY 2003. The existing treaty for approximately \$7.7 million annually expires at the close of FY 2003;

- Pursue an increase in the reimbursement rate through the State's Payment-in-lieu-of-taxes program (PILOT). The State scaled back its reimbursement rate in FY 2003 from 27.0 percent to approximately 24.8 percent of the potential tax collections from exempt properties. The City's delegation should introduce legislation to increase the reimbursement rate to 35.0 percent over a five-year period;
- Create an Emergency Hiring Council to immediately manage City staffing needs and meet turnover savings targets. The FY 2003 Budget included a savings of \$2.0 million in attrition and vacancy savings, which may not be achieved in FY 2003;
- Overhaul the City's Assessor's Office in order to provide taxpayers with high quality property tax administration. The Assessor's Office is in serious need of attention in that there are essentially two professional assessors among the eight positions budgeted. This puts a fundamental function of the City in jeopardy;
- Establish a program by which the City can expedite the property tax appeal process. There is a considerable backlog of appeals from the City's most recent revaluation that require attention. Therefore, there is a need to inject a swift and fair process into the appeal process to begin addressing these appeals in a timely manner. The City should keep in mind the potential fiscal impact that assessment appeals may have on the City's operating budget. In addition, given taxpayers' concerns regarding the most recent revaluation, the City will need a more systematic process to review appeals in place prior to implementing the Statistical Update;
- Build on the progress made to date by enhancing the City's budget presentation, including the City's Capital Improvement Plan and enhance the City's Finance function with filling selected vacancies and creating a new Budget position. The Finance Department has done an admirable job improving the City's financial reporting and accounting processes. However, there is a need for additional staff support.

Long-term Issues:

- In addition to completing the program to get the City's annual contribution funded at the recommended levels, the City should create a Pension Study Commission. The Commission should evaluate the City's pension system, understand the long-term implications for City employees, the City's operating budget and the taxpayer, and develop a long-term strategy for dealing with the City's un-funded pension liability;
- Given the Public Utilities Commission (PUC) controls the rate structure of the City Water Supply Board, it is difficult for the City to realize a fair return on investment for owning such an asset. Therefore, it is recommended that the City create a Water System Commission to explore a range of options for the sale, lease or transfer of the water asset, as well as strategies to seek appropriate relief from the current regulatory scheme in place. Caution should be used in structuring this concept given that the water supply is clearly the City's most valuable asset;

- The provision of health care and related benefits continues to be a pressing matter for the City's operating budget. Health care costs are now growing annually by at least 18.0 percent, making it increasingly difficult to meet the needs of the City's workforce. The City must remain vigilant in monitoring the industry, and must pursue alternative health care plans or programs that may provide some budget relief in the coming fiscal years;
- The City's various non-profit institutions play a critical role in the State and City's economy. Many serve as major employers and anchors to the different neighborhoods, while others provide local services to City residents. Their investments in commercial and residential areas provide needed capital to preserve the City's physical assets and character. However, the City's property tax base is affected by the presence of non-profit entities, in that they occupy over 25.0 percent of the City's property tax base, but are not assessed property taxes. Therefore, the City must develop an on-going dialogue with representatives from these institutions to understand the impact these institutions have on the City, what role they could play in the future, and the range of services the City provides them.

<p>Human Resources - Major Findings:</p>

- The relationship between the Mayor's Office and employee unions placed the Personnel Office in a subordinate position in managing and implementing appropriate human resources policies and procedures;
- Human resources activities are positioned in several locations throughout City Hall, and several functions report to different middle managers;
- The Personnel Department has a number of vacancies critical to its mission, and therefore efforts should be made to recruit qualified professionals into these positions;
- The Human Resources Department does not have a labor relations specialist on site that would assist in meeting various labor-related needs, such as preparation for contract negotiations;
- The basic operations of the human resources function have not been implemented comprehensively throughout the City. For example, the job descriptions are often out-dated or incomplete. There is little job analysis and workforce planning conducted, and the human resources function does not have established methods of interacting with and communicating with the City's workforce;
- Performance evaluations are rarely used, and are not used during the probationary period. Given that most positions are filled through contract provisions or through memorandum of agreement (MOA), there is little done in terms of recruitment or development of resume banks for future openings. In addition, there are no formal employee recognition programs, and training opportunities are only offered through union training programs.

Human Resources – Major Recommendations:

- Empower the Personnel Department to actively lead the human resource function, requiring the City to recruit a qualified, professionally trained Human Resources Director. This must also include filling vacant positions (OSHA, Personnel Tech and EEO Officer) with qualified personnel. The City should also add a Labor Relations Specialist;
- Realign and co-locate human resources related staff within City Hall, including selected retirement and health care benefit staff from Controller to Personnel. Current design is not conducive to effective human resources management;
- Establish and maintain effective recruitment practices for all positions. Clearly seniority will dictate many positions, but there are ample opportunities to effectively recruit for key City positions. This should include making better use of performance-oriented examinations and career ladders;
- Immediately implement effective use of appropriate performance evaluations for employees during their six-month probationary period;
- Establish appropriate procedures for the use of the Memorandum of Agreement as a vehicle for personnel actions that are consistent with City personnel policies and practices;
- Develop and implement a human resource plan and workforce analysis. This should include, but not be limited to, an evaluation of job classifications, wages/salaries and job descriptions, the adoption of a standard model for creating job descriptions, and an employee survey to measure employee satisfaction in the workplace;
- Create an employee evaluation system for non-union personnel with agreed upon goals and performance benchmarks;
- Create an employee evaluation system for all union employees that incorporates goals and performance expectations in order to enhance performance through additional training opportunities. The City should create a performance evaluation work group that includes union representation prior to implementing a program;
- Charge the Director of Personnel to create and implement an Employee Recognition Program for exempt and non-exempt personnel, which includes written criteria and method of selection;
- Assume responsibility for determining training needs of employees through an ongoing training needs assessment. This will require creating a training and staff development manual that reflects the results of the assessment, the methods of training, a training budget and participant selection process;

- Implement an employee orientation program that includes a presentation of the City’s policies. This should include a meaningful Employee Handbook (Labor Contract is currently used as a substitute), and posting all personnel policies onto the City’s web-site for easy access;
- Establish an employee communication system through a range of media, such as newsletters, bulletin board postings and email. The Human Resources Department should also establish a City hotline for both managers and line staff regarding questions of personnel policy.

Information Technology – Major Findings:

- Providence’s state of readiness is low, but improving. For example:
 - ✓ the first phase of the Integrated Financial and Administrative Management System (IFAMS) program completed successfully;
 - ✓ through the E-Rate program, the School Department is building a robust data telecommunications infrastructure to support its educational mission;
 - ✓ the web site, ProvidenceRI.com, provides 1100 pages of useful information to help people find and access municipal services;
 - ✓ data processing leaders are beginning to collaborate on establishing sound information management policies and practices.
- There is no single executive, other than the Mayor, who has clear responsibility for the provision of information services. The mission of providing information services is diffused among data processing organizations that report to the Director of Finance at City Hall, the Business Manager of the School Department, the Director of Finance at the Water Supply Board, and the Public Safety and Planning Departments;
- The data processing organizations primarily provide operating and support services. The majority of employee positions provide PC support and help desk service. Most software is purchased and implemented without modification, except for special report generating software to extract and report data from files and databases. Major projects, such as IFAMS, rely on consultants, “power” users and a very small number of system analysts to organize the work and to do technically advanced tasks;
- The City must play close attention to implementation timelines to ensure that the appropriate systems are on-line when expected and to reduce potential cost over-runs. In addition, the City recently implemented an information technology steering committee to adopt technical standards and to coordinate information management policies, such as disaster recovery and virus control;
- The combined operating budget of the data processing organizations (including schools and the Water Supply Board) is estimated at \$6.0 million. In addition, the City has a combined capital budget of up to about \$3.0 million. The combined IT complement is 32 full-time employee positions and 9 contract positions.

Information Technology – Major Recommendations:

Information Services Management

- Create Director of Information Services position and recruit a professionally experienced executive to fill it;
- Implement an annual Strategic Plan for Information Technology;
- Study the feasibility of consolidating voice and data telecommunications under the Director of Information Services;
- Establish uniform standard chart of accounts for information services; and
- Establish uniform standard for budgeting cost and labor hour requirements for system development projects.

Integrated Financial and Administration Management System Program

- Statistical Revaluation: Complete the implementation of the Govern Mass Appraisal system; augment existing staff with additional professional resources;
- Tax Roll Certification: Complete loading data into the Govern Assessment & Collection system;
- Payroll: Complete the implementation of the Lawson Payroll/Human Resources system; expedite for School Department personnel department staff;
- Parking Violations: Complete loading data into the Ticket Tracker system, complete arrangements with outside service provider for non-Rhode Island tickets, and deploy hand-held data entry units;
- Public Property: Complete loading fixed asset data into Lawson Asset Management system;
- Permitting and Inspection: Implement related Govern software; and
- Business Licenses: Implement related Govern software.

Other Systems

- E-mail: Move e-mail server (Exchange) to the data center in Room 408 of City Hall;
- Public Safety: Study the current implementation of the HTE criminal records and computer-aided dispatch systems; and the fingerprint identification system and, if needed, prepare a corrective action plan;
- Ad Hoc Reporting and Data Analysis: Implement a data warehouse to support on-line analytical reporting;
- Water Supply Board: Study the feasibility of retiring the Oracle financial application system, and replacing it with the Lawson system; and
- ProvidenceRI.com: Reassign ownership to the Director of Communications in the Mayor's office.

Systems Infrastructure

- Data General computing environment: Retire the Data General environment; and
- Local and Wide Area Networks: Evaluate the network for capacity, reliability, availability and service to support anticipated requirements.

Systems Management Services

- Disaster Recovery: complete the project to implement a disaster recovery plan;
- Backup & Recovery: complete the project to implement the data backup & recovery plan; and
- System Change Control: Follow-through on current plans to isolate production operations from development and training activities; implement written policy and procedures to govern the process of making changes to systems.

Skills & Knowledge

- E-mail: Implement a program to make e-mail a routine mode of communication; provide every member of the City government with access to a computer and mailbox; deliver a training and certification program to all employees;
- Web-based services: Implement a program to make the web browser a routine mode of access to information services; facilitate every client computer with a web browser; deliver a training and certification program to all employees;
- Basic office tools: Implement a program to assure management and staff know how to use the tools they need to perform their jobs, such as the word processor, spreadsheet processor and on-line statistical report writer; and
- Specialized systems: Implement appropriate training and certification programs to prepare new and advancing employees.

Finance Report - Overview

The following report provides an overview of the City's finances and summarizes the key findings and recommendations of the Task Force. The report is followed by specific analysis of key issues that face the City, presenting findings and recommendations for each issue discussed.

The Rhode Island Public Expenditure Council would like to thank those who worked on the report and the City employees who provided the Committee with information and insight into the City's finances. Mr. Alex Prignano, the City's Finance Director, was especially helpful in shedding additional light on the City's finances.

Findings:

- The City has demonstrated significant improvements in its financial, accounting and reporting processes, particularly given the complexity of the City's finances and audit requirements. For example, the City has improved internal financial tracking reports for management purposes;
- The City has complied with the State's audit reporting deadline for the last three fiscal years, and the Department's personnel perform a range of analyses on the City's general ledger accounts, which has translated into higher quality management information;
- The City of Providence has a budget of \$514.7 million in FY 2003, representing a 6.0 percent increase over its FY 2002 level of expenditures (\$485.8 million);
- RIPEC estimates the City is facing an operating deficit of \$33.8 million in FY 2004, and projects operating deficits to exceed \$115.0 million by FY 2008;
- The City has a \$479.4 million un-funded pension liability as of June 30, 2001. The City currently does not meet its annual obligations to the Pension Fund. However, the City is implementing a multi-year program to annually fund its actuarially recommended funding level by FY 2005. While this will put the City on the right track, it will not by itself solve the City's estimated \$479.4 million un-funded pension liability;
- The City's expenditures for Medical Insurance continue to grow at an annual rate of 18.0 percent. It represents the fastest growing component of the budget, with over \$60.0 million in spending in FY 2003 (includes City, schools and Water Authority);
- Changes in values across classes of property can have significant implications for the City. The City of Providence is scheduled to conduct and implement a statistical update of its real property values by December 31, 2003. This will be the property tax base used to develop the FY 2005 City Budget.

- According to RIPEC, the City of Providence had the second highest overall property tax burden in FY 2002 when using a series of measures of property tax burden (See RIPEC Publication: *FY 2002 Property Tax Burdens in Rhode Island - March 2002*).
- Providence relies on State Aid to fund 45.5 percent of its operating budget – approximately \$234.8 million in FY 2003. Direct School Aid represented 75.0 percent of the City's total State aid program in FY 2003.

<p>Recommended Actions:</p>

- Actuarially fund the City's annual contribution to the Pension fund by FY 2005 and thereafter. The City's FY 2003 Budget does not cover the actuarially recommended annual appropriation. The City is in process of implementing a multi-year program to actuarially fund its annual pension obligations in FY 2005. This is critical for the overall fiscal health of the City and has implications for the Rating Agencies;
- Negotiate employee co-pays for health care costs to begin addressing the expected 18.0 percent annual growth in Medical Insurance. In addition, the City and employee unions should evaluate health insurance plan design and other potential providers to pursue additional cost savings. Medical Insurance costs are the fastest growing budget driver for the City;
- Establish a tax treaty with the Manchester Street Power Plant that extends beyond FY 2003. The existing treaty for approximately \$7.7 million annually expires at the close of FY 2003;
- Establish a tax treaty with the Westin Hotel that extends beyond FY 2003. The existing treaty for approximately \$1.3 million expires at the close of FY 2003;
- Pursue an increase in the reimbursement rate through the State's Payment-in-lieu-of-taxes program (PILOT). The State scaled back its reimbursement rate in FY 2003 from 27.0 percent to approximately 24.8 percent of the potential tax collections from exempt properties. The City's delegation should introduce legislation to increase the reimbursement rate to 35.0 percent over a five-year period;
- Create an Emergency Hiring Council to immediately manage City staffing needs and meet turnover savings targets. The FY 2003 Budget included a savings of \$2.0 million in personnel, which may not be achieved in FY 2003;
- Overhaul the City's Assessor's Office in order to provide taxpayers with high quality property tax administration. The Assessor's Office is in serious need of attention in that there are essentially two professional assessors among the eight positions budgeted. This puts a fundamental function of the City in jeopardy;
- Implement the upcoming Statistical Update of property values in the City for the FY 2005 Budget on time.

- Establish a program by which the City can expedite the property tax appeal process. There is a considerable backlog of appeals from the City's most recent revaluation that require attention. Therefore, there is a need to inject a swift and fair process into the appeal process to begin addressing these appeals in a timely manner. The City should keep in mind the potential fiscal impact that assessment appeals may have on the City's operating budget. In addition, given taxpayers' concerns regarding the most recent revaluation, the City will need a more systematic process to review appeals in place prior to implementing the Statistical Update;
- Build on the progress made to date by enhancing the City's budget presentation, including the City's Capital Improvement Plan and enhance the City's Finance function with filling selected vacancies and creating a new Budget position. The Finance Department has done an admirable job improving the City's financial reporting and accounting processes. However, there is a need for additional staff support.

Long-term Issues:

- In addition to completing the multi-year plan to get the City's annual contribution funded at the recommended levels, the City should create a Pension Study Commission. The Commission should evaluate the City's pension system, understand the long-term implications for City employees, the City's operating budget and the taxpayer, and develop a long-term strategy for dealing with the City's un-funded pension liability;
- Given the Public Utilities Commission (PUC) controls the rate structure of the City Water Supply Board, it is difficult for the City to realize a fair return on investment for owning such an asset. Therefore, it is recommended that the City create a Water System Commission to explore a range of options for the sale, lease or transfer of the water asset, as well as strategies to seek appropriate relief from the current regulatory scheme in place. Caution should be used in structuring this concept given that the water supply is clearly the City's most valuable asset;
- The provision of health care and related benefits continues to be a pressing matter for the City's operating budget. Health care costs are now growing annually by at least 18.0 percent, making it increasingly difficult to meet the needs of the City's workforce. The City must remain vigilant in monitoring the industry, and must pursue alternative health care plans or programs that may provide some budget relief in the coming fiscal years;
- The City's various non-profit institutions play a critical role in the City's economy as well as the entire State. Many serve as major employers and anchors to the different neighborhoods, while others provide local services to City residents. Their investments in commercial and residential areas provide needed capital to preserve the City's physical assets and character.

However, the City's property tax base is adversely affected by the presence of non-profit entities, in that they occupy over 25.0 percent of the City's property tax base, but are not assessed property taxes. Therefore, the City must develop an on-going dialogue with representatives from these institutions to understand the impact these institutions have on the City, what role they could play in the future, and the range of services the City provides them.

Issue: Providence FY 2003 and FY 2004 Operating Budgets

Summary:

The City of Providence has a budget of \$514.7 million in FY 2003, representing a 6.0 percent increase over its FY 2002 level of expenditures (\$485.8 million). The City of Providence is a full-service City, providing police, fire, education and a range of public works services to its residents and business community. The City provides service to nearly 175,000 residents as well as a range of businesses and commuters.

Background:

The City has a total operating budget of \$514.7 million in FY 2003, the largest municipal budget in the State of Rhode Island. The FY 2003 budget represents an \$158.1 million increase in spending since FY 1998 – a 44.3 percent increase in the span of five years. This translates to an average annual growth rate of 8.9 percent during this period. As the summary table shows, the rate of growth in the City’s budget has slowed since FY 2001. This is principally due to the reduced rate of growth in the State’s state aid program. If one adjusts the City’s budget since FY 1998 to estimated 2003 dollars, it is clear that City spending has exceeded the rate of inflation (approximately 2.5 percent annually). Spending increased by \$110.9 million, or 27.5 percent from FY 1998 to FY 2003. This translates to an average annual growth rate (in adjusted dollars) of approximately 5.5 percent.

The City allocates approximately 52.0 percent of its budget to support public education. Public safety expenditures, including police, fire and related services, represent nearly 16.0 percent of the City’s budget. The City’s contribution to the pension system (\$27.3 million) and the City’s medical insurance costs (\$29.7 million) represent nearly 11.0 percent of City spending (Does not include School Department of Water Supply Board). Debt service payments, totaling \$42.6 million in FY 2003, represent approximately 8.3 percent of the City’s FY 2003 Budget. The 12.7 percent balance of the City’s budget goes to support a range of services, such as public works, planning and development and the parks department.

The School budget represents the single largest expenditure item for the City, increasing from \$182.5 million in FY 1998 to \$268.2 million in FY 2003. This translates into an \$85.7 million increase in spending over this period of time – a 47.0 percent increase. The \$85.7 million in growth represents 54.0 percent of the total growth in the City’s budget over this period of time - \$158.1 million. Adjusting the school spending program for inflation reveals that spending managed to outpace inflation, with the City spending at an average annual rate of 6.0 percent – increasing its real expenditures by nearly a third during this period. One should note that the total spending for the school district is understated due to the budget not including Federal and foundation funding that is used to supplement City spending.

Clearly, a significant increase in the budget has been due to education spending growth. However, there are a number of other areas in spending that have experienced growth during this period. The City's debt service expenditures, for example, have increased from \$25.1 million in FY 1998 to \$42.6 million in FY 2003 – a 70.0 percent increase in this period of time. Interest on the City's debt has more than doubled during this time. The increase in debt service is due to additional bond spending, such as the two \$50.0 million in bonds for neighborhood projects and \$68.0 million for the new public safety building.

In addition, the City has embarked on a multi-year program to increase its contribution to the Pension Fund. The City's contribution has increased from approximately \$16.0 million in FY 1998 to nearly \$27.3 million in FY 2003. This has represented a 71.0 percent increase during this period. The FY 2003 level of funding represents 80.0 percent of the recommended actuarial funding level. The City's obligations for health care have also increased dramatically during this period. The City had paid approximately \$18.1 million for health care in FY 1998. This has since increased to \$29.7 million in FY 2003 – a 63.7 percent increase during this period. It should be noted that RIPEC projects health care expenditures to grow annually by at least 18.0 percent in FY 2003 and in FY 2004. Adjusting for normal inflation, City spending for health care costs increased by nearly 45.0 percent during this five-year period.

**City of Providence Operating Budget
By Major Expenditure**

Expenditure Category	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Budget	2003 Budget
Education	\$182,504,730	\$200,930,483	\$220,809,209	\$236,486,643	\$254,503,475	\$268,215,988
Police Department	27,980,440	32,454,862	31,988,231	35,634,274	35,594,191	37,378,509
Fire Department	28,145,391	34,065,941	31,456,596	34,119,383	34,348,297	35,686,170
Medical Insurance	18,141,868	18,504,719	21,663,875	24,267,278	25,534,000	29,691,000
Retirement	15,964,345	16,016,216	16,902,597	20,023,796	23,001,771	27,257,365
Debt Service Principal	17,500,019	18,875,138	20,397,429	19,627,376	24,814,640	23,775,217
Debt Service Interest	7,648,165	7,945,551	12,297,107	11,932,877	15,123,351	18,824,064
Public Works	9,079,926	10,148,423	10,281,567	12,239,849	13,093,425	13,118,464
Parks Department	6,989,474	7,464,010	7,714,509	8,337,410	8,638,682	9,093,576
Other Public Safety	6,194,932	5,903,252	6,115,082	6,645,392	7,176,811	7,320,514
Executive, Legislative & Judicial	4,791,213	4,629,571	6,476,779	14,145,997	7,769,898	7,074,308
Heat Light and Power	3,350,690	3,225,651	3,980,258	4,230,885	4,600,000	4,665,000
FICA	2,776,681	3,012,748	3,181,286	3,388,791	3,450,000	3,650,000
Planning and Development	2,055,198	2,348,423	2,550,035	2,814,996	2,542,560	2,646,542
Other City Expenditures	23,448,594	23,815,091	24,723,455	25,621,662	25,581,759	26,283,221
Total Budget	\$356,571,666	\$389,340,079	\$420,538,015	\$459,516,609	\$485,772,860	\$514,679,938
Change	\$26,329,014	\$32,768,413	\$31,197,936	\$38,978,594	\$26,256,251	\$28,907,078
Percent Change	8.0%	9.2%	8.0%	9.3%	5.7%	6.0%
<i>Adjusted Budget (2003 dollars):</i>	<i>\$403,822,881</i>	<i>\$431,405,634</i>	<i>\$450,820,660</i>	<i>\$478,976,637</i>	<i>\$497,910,438</i>	<i>\$514,679,938</i>
<i>Percent Change</i>	<i>6.3%</i>	<i>6.8%</i>	<i>4.5%</i>	<i>6.2%</i>	<i>4.0%</i>	<i>3.4%</i>

Source: City of Providence Budget Documents and RIPEC Calculations

Expenditure growth related to the Executive, Legislative and Judicial functions have outpaced the City's average annual rate of growth. These functions have grown at an average annual rate of 9.5 percent, while expenditures citywide have grown at 8.9 percent. The balance of the City's expenditures have demonstrated a slight decline in spending when adjusted to 2003 dollars. Note that in FY 2001, the City established a claims account for future City liabilities.

There are a number of issues relative to the City's Budget that require additional attention. Some are not necessarily apparent when reading the City's budget documents. RIPEC encourages those interested in the City's finances to also pay close attention to the City's financial audit reports, as well as its Official Statement – when the City seeks to sell bonds.

City Cumulative Surplus Changes: At the close of FY 2001, the City had built up an unrestricted fund balance of \$7.3 million. In FY 2002, the City was expected to close the year with an unrestricted fund balance of \$17.2 million. However, the City experienced a significant drop in anticipated State Aid in FY 2003, thereby requiring the City to use approximately \$9.6 million to balance the FY 2003 City Budget. Therefore, the City is expected to close the FY 2002 budget with an \$8.2 million unrestricted fund balance. In addition, the City has used \$1.2 million from its legal accrual to assist in balancing the FY 2003 budget. The accrual is now expected to have approximately a \$6.1 million balance at the close of FY 2002. This was established for additional budget flexibility for potential litigation against the City.

Providence Retirement Contribution: While the Pension Fund is discussed in greater detail later in this report, there are some noteworthy issues to raise. As a result of several court decisions, under-appropriations in the past, interest rates and recent market performance, the City has accumulated an un-funded pension liability of \$479.4 million (as of June 30, 2001). In order to fund its annual contribution at the recommended level, the City has embarked on a multi-year plan to annually increase its appropriation to meet this need. In FY 1998, the City appropriated nearly \$16.0 million in its retirement contribution. This has since increased to \$27.3 million in FY 2003. The City's multi-year program calls for funding the City's annual pension contribution at the actuarial recommended level in FY 2005 and thereafter. This will require an additional \$10.0 to \$15.0 million to be added to the City's contribution during this period.

Funding the normal costs associated with this obligation is a critical component of the City's budget. The City currently does not meet its annual obligations to the Pension Fund. This, combined with current interest rates and recent economic performance has likely increased the un-funded liability to over \$500 million. While the liability currently represents approximately 7.0 percent of the City's full market value of property, the liability is 8.0 percent of its assessed value. The pension contribution represents 5.0 percent of the operating budget. While this may at first not appear significant, these are fixed costs that are expected to continue to grow at a faster rate than the City's revenues from its property tax base. Therefore, this aspect of the budget continues to constrain the City's ability to reduce property taxes or invest in other services.

Medical Insurance: The City contracts with Blue Cross/Blue Shield to provide medical insurance to City employees and retirees. According to the Department of Finance, there are nearly 10,000 City contracts (police, fire, schools and the water department) with Blue Cross/Blue Shield. The City switched from a traditional premium-based program to a self-insured program in the mid-1990s. Rather than paying a premium, the City reimburses Blue Cross for claims paid related to the City workforce. The City does have a stop-loss provision, capped at \$225,000. Blue Cross imposes a 10.5 percent administrative fee for the program. The City engages an independent monitoring firm, to ensure accurate claims from Blue Cross. The City has also shifted from Classic Blue Coverage to Health-mate Coast to Coast, providing some incentives for using network providers. Total costs for the Medical Insurance programs are expected to reach \$60.0 million in FY 2003 – including the schools, the Water Board and the Civic Center.

Findings:

FY 2003 Operating Budget:

In reviewing actual experience compared to the FY 2003 Budget, it appears that the City may be exposed to an operating deficit of approximately \$3.5 million. This will require a number of decisions related to staffing, revenues and City assets. There are a number of key points in the FY 2003 budget to keep in mind, especially as one turns to developing the FY 2004 budget.

- The City used approximately \$9.6 million of its FY 2002 operating surplus to fund the FY 2003 City Budget. Depending on audited figures, this will leave approximately \$8.2 million in the Fund balance;
- As of November, 2002, the City may not meet its \$2.0 million target in savings from attrition and vacancies – it is approximately \$1.1 million short of this goal; and
- The City's self-insurance medical program budget appears to be under-funded by at least \$1.2 million.

FY 2004 Budget Issues:

The FY 2004 budget will be based on what the City expects to happen in the FY 2003 budget. However, there are a number of issues that are worth noting.

- As noted above, the City used \$9.6 million of its operating surplus to fund FY 2003 operating expenditures. These funds are not available for FY 2004. One should note the City's estimated unreserved fund balance is approximately \$8.3 million;
- The City does not fund its annual actuarial normal cost of its pension contribution, and is not projected to do so in FY 2004. The City is implementing a multi-year program to fully-fund the pension contribution by FY 2005;
- Assuming the City was to hold property taxes constant, RIPEC estimates that the City will have an operating deficit of at least \$33.8 million. Note that the City's five-year forecast projects a deficit of \$21.2 million in FY 2004. A discussion of the differences follows;

- Closing the FY 2004 gap will require actions in FY 2003 in order to reap the maximum budget impact in FY 2004 – such as personnel actions required to balance the budget;
- Given the State’s fiscal condition, the City should not expect significant State aid to close the City’s budget gap;
- Given the potential gap, the City’s program to actuarially funding its annual contribution to the Pension Fund is at risk, which has significant long-term implications for the City;
- Given the rate of growth in the costs to provide health care, the City should expect a \$6.0-\$8.0 million increase in health care costs in FY 2004;
- The City currently relies on over \$7.7 million in revenues from the tax treaty between the City and the Manchester Street Power Plant. This treaty is expiring and it is unclear how this revenue source/tax treaty will evolve; and
- Given the increasing debt service obligations contained in the budget, additional debt issuance may limit the City’s ability to balance the operating budget.

Recommended Actions:

The City has a number of critical budget drivers that need immediate attention. Some of the actions will require negotiations and agreement with the labor unions, but are essential for the long-term fiscal health of the City. The following highlights the critical areas that require attention:

1. The City must complete its program to fund its Pension obligations at the annual actuarially recommended levels. This will require an additional \$5.0 - \$6.0 million in FY 2004.
2. Negotiate employee co-pays for health care costs to begin addressing the expected 18.0 percent annual growth in Medical Insurance. In addition, the City and employee unions should evaluate health insurance plan design and other potential providers to pursue additional cost savings. Medical Insurance costs are the fastest growing budget driver for the City.
3. The Providence School Department should submit an all funds budget to display the various resources available to finance education. This includes Federal and foundation funds. This will permit the City to better understand the available resources to the school department and evaluate its contribution to the school budget.
4. The expiring property tax treaty with the Manchester Street Power Plant raises a serious issue with the City’s expected revenue stream in FY 2004 and beyond. The City will need to acquire an accurate appraisal of the Plant’s value and work with U.S. Gen New England to either put the Plant on the tax roll or to create a new tax treaty that fairly represents the Plant’s value.

5. The City should continue to pursue revenue diversification given the City's over-dependence on property taxes. For example, the City should update municipal fees and charges to reflect rate schedules more responsive to the actual costs to perform related City services. Once modernized, the City should index municipal fees and charges to the consumer price index. Note that some changes may require State approval.
6. As part of the implementation of the Statistical Update, consideration should be given to further reducing the homestead provision for non-owner-occupied residential property.
7. As part of its workforce analysis recommended in the Human Resources Analysis Section of this report, the City needs to design a long-term staffing strategy so that it can plan for attrition, staffing needs and budget impacts. The concern in the FY 2003 budget is the targeted savings of \$2.0 million in attrition and vacancies. This level of budgeted breakage is significantly higher than what has been budgeted in the past three to four City budgets. It appears that the \$2.0 million in breakage may not be met, and this may be in part due to the City's limited workforce planning capacity. This will have an impact on the FY 2004 budget.
8. Recommend the creation of an Emergency Hiring Council, made up of the Director of Human Resources, the Director of Administration and the Chief of Staff, to immediately manage staffing needs for the City;
9. The City used \$9.6 million of its opening surplus from FY 2002 to support the FY 2003 budget. The City should be working towards establishing a cumulative fund balance of nearly \$25.0 million (5.0 percent of operating expenditures).

Other Long-Term Issues:

- In addition to completing the multi-year plan to get the City's annual contribution funded at the recommended levels, the City should create a Pension Study Commission. The Commission, representing the City and a range of financial expertise, should evaluate the City's pension system, understand the long term implications for City employees, the City's operating budget and the taxpayer, and develop a long-term strategy for dealing with the City's un-funded pension liability.
- The City operates the Water Supply Board, which is regulated by the Public Utilities Commission. Given that the PUC controls the rate structure, it is difficult for the City to realize a return on investment for owning such an asset. While it invests in the infrastructure, it cannot obtain a return on its investment given the current regulatory environment. Therefore, it is recommended that the City create a Water System Commission to explore a range of options for the sale, lease or transfer of the water asset, as well as strategies to seek appropriate relief from the current regulatory scheme in place. Caution should be used in structuring this concept given that the water supply is clearly the City's most valuable asset.

- The provision of health care and related benefits continues to be a pressing matter for the City's operating budget. Health care costs are now growing annually by 18 percent, making it increasingly difficult to meet the needs of the City's workforce. The City must remain vigilant in monitoring the industry, and must pursue alternative health care plans, providers and/or programs that may provide some budget relief in the coming fiscal years.
- The City's various non-profit institutions play a critical role in the State and City's economy. Many serve as major employers and anchors to the different neighborhoods, while others provide local services to City residents. Their investments in commercial and residential areas provide needed capital to preserve the City's physical assets and character.

However, the City's property tax base is affected by the presence of non-profit entities, in that they occupy over 25.0 percent of the City's property tax base, but are not assessed property taxes. Therefore, the City must develop an on-going dialogue with representatives from these institutions to understand the impact these institutions have on the City, what role they could play in the future, and the range of services the City provides them.

Issue: Providence Five-Year Operating Budget Forecast

Summary:

RIPEC projects operating deficits for the City - ranging from \$33.8 million in FY 2004 to \$118.9 million in FY 2008. The City's Finance Department prepares a five-year forecast each year based on the approved budget. The City recently estimated a \$21.2 million operating deficit in FY 2004, and expects the deficit to grow to \$59.9 million in FY 2007 (the latest forecast does not include FY 2008). There are a number of differences in the assumptions built into this forecast when compared to the one prepared RIPEC for this report. The following highlight the major differences in the forecast assumptions:

- The City's forecast assumed that the City would annually increase property taxes at the maximum allowable rate of growth – 5.5 percent annual increase in the local levy. The City also included the estimated property values related to the Manchester Street Power Plant. The RIPEC forecast assumes neither a tax increase nor the value of the Power Plant during the forecast period;
- The City assumes a 15.0 percent growth rate in Medical Insurance through FY 2005, and 10.0 percent growth thereafter. In addition, the City assumes an employee co-pay beginning in FY 2005. RIPEC assumed an 18.0 percent annual growth rate in health care costs with no co-pay, given it would require negotiation;
- The City has assumed no salary increases in FY 2005 and then 3.0 percent annually thereafter. RIPEC only programmed agreed upon salary increases in FY 2004 and no increases thereafter; and
- The City assumed an 8.0 percent increase in school spending in FY 2004 and 7.0 percent thereafter. The RIPEC forecast assumes 7.0 percent annual growth beginning in FY 2004.

Background:

The City of Providence's finances generally show a community that continues to demonstrate some improvement in its financial condition as well as improvements in the financial reporting from the City. However, there are areas of growing concern that require City policymakers and taxpayers' immediate attention. These include a sizable and growing un-funded pension liability, rising health care costs, and a tax base that is beginning to demonstrate limited capacity to sustain the level of spending in the City's budget. In addition, given the high level of dependence on State aid to support general operations for the City and school system, the City is vulnerable to State aid distributions. These issues will continue to put pressure on City officials and taxpayers as they develop the City's financial and programmatic priorities over the next five years, and if not addressed, could result in the projected operating deficits described below.

The following section is a five-year financial projection to provide City policymakers a tool to identify issues that may arise in the near future. A forecast is designed to provide a baseline fiscal outlook for Providence taxpayers. While a forecast is a useful benchmark to assess various policy options, one should use caution when interpreting the data presented. **A forecast is only as good as the assumptions it is built upon.**

One should consider the following risks when developing a forecast – the economic outlook, external actions taken (State tax policy, non-local aid distributions and school funding decisions), and City policies (Contract negotiations and debt management). Clearly the economy is a moving target in that changes occur often. A forecast cannot anticipate future actions taken by the State or Federal government or how they might affect Providence revenues and expenditures. Therefore, the forecast assumes current law. Finally, the City could enact policies or redirect resources to a range of priorities. Contract agreements and bond proposals will also impact the City's overall financial position.

The following analysis forecasts a number of key variables to develop a more comprehensive picture of the City's revenue and expenditure structure. Some of the data relied upon is based on data reported by the City, while others are RIPEC estimates. It should be noted that the RIPEC estimate was designed to be somewhat conservative in nature in that there are a wide range of variables that are difficult to forecast. The following outlines some assumptions and related data used in the forecast:

Revenue Structure: The following estimates various components of the City's revenue structure in order to build a forecast for policy decisions. Again, this only represents an estimate of the City's resources over the next five years. Changes in the economy and/or State and local policy could have a significant impact on this analysis. The following discusses in detail the assumptions used in developing the forecast.

Property Taxes: Property taxes will continue to be the largest single-source of revenue for the City. Net property taxes are estimated to increase by 1.0 percent annually over the forecast period. Given the uncertainty of how the City will relate to the Manchester Street Power Plant, the estimated value of this plant is not included in the City's tax roll. The estimate is the net effect of growth in estimated property tax revenues and the State's program to phase-out the inventory tax on wholesale and retail inventories. The analysis takes into account exemptions and uncollected taxes but does not assume any increases in property tax rates for any class of property.

It should be noted that FY 2005 property tax revenues may be affected by the statistical update scheduled for completion for that fiscal year. While current trends in the real estate market demonstrate growth, one cannot assume that these trends will continue. Therefore, the estimate does not assume any net growth in the assessed value for the City as a result of the Update. One could argue that should the values change through the implementation of the Update, the City should adjust its tax rates to be revenue neutral. However, it is unknown what policy choices will be made when the Update is implemented.

State Aid to the City of Providence – the following discusses each of the major categories of state aid. For more detail, please refer to the section of this report related to State Aid.

Public Service Corporation Tax – The City receives 16.6 percent of every dollar distributed through this program. The program has experienced significant growth over the past five years, growing at an average annual rate of nearly 13.0 percent. However, it is unclear what the expected growth of the program will be over the next five years. If the revenues generated from this state aid program maintain this level of growth, the City can continue to share in the funds based on its population. Therefore, The City will collect approximately \$0.6 million more each year throughout the five-year forecast.

General Revenue Sharing – The City receives 24.0 percent of the total General Revenue Sharing distributed by the State. This program continues to grow due to the State initiative to reimburse communities for the phase-out of the inventory tax. Based on historical performance and continued phase-out of the inventory tax, revenues from this program could grow by nearly 10.0 percent a year. Therefore, the City could collect an additional \$1.5 million annually, with the City's general revenue sharing increasing from \$12.7 million in FY 2004 to \$18.7 million in FY 2008.

Motor Vehicles Excise Tax - The City receives approximately 18.0 percent of every dollar distributed through the program. However, the State has suspended the program, funding the phase-out at the \$4,500 value exemption. The State still plans on adjusting the annual appropriation by the inflation factor, as well as updating the tax rolls from which the values are determined. Given the two factors for adjusting the program, it is expected the program's appropriation will increase by approximately 5.0 percent. It should be noted that the City collected more from the State's phase-out of the excise tax on motor vehicles than it would have if the City continued to levy the tax. This was due to the State reimbursing each community as though they were collecting 100 percent of the tax. In addition, the State has included an annual adjustment for inflation.

Distressed Community Relief Fund – The City receives approximately 55.0 percent of each dollar distributed under the program. There is little growth in the amount of funding allocated to this program. Based on historical performance, one could expect little growth in the program, with no more than a 1.5 percent growth rate. Therefore, while the City receives the majority of the funds under the program, the State has not increased the program other than technical adjustments.

PILOT – The City received nearly \$12.7 million under the PILOT program. This represented approximately 70.0 percent of all the funds allocated to this program. It is unlikely that the City's share will change during the next five years. The State did not fully-fund the program in FY 2003. However, one can anticipate that the State will at least maintain the same reimbursement rate. The PILOT program would then be expected to grow by approximately 3.5 percent Statewide, with the City sharing in 70.0 percent of the growth. Should the State return to funding the program at the 27.0 percent rate of reimbursement, the City's State Aid base under PILOT would increase by nearly \$1.8 million. However, one cannot assume the State will reinstate that level of funding.

Direct Education Aid - How the State will handle school aid in the near future is difficult to forecast. Since FY 1995, the State has distributed school aid on an annual, ad-hoc basis, with little predictability in the amount and method for distribution. While the State has increased State aid over the past decade by more than \$300.0 million, the rate of increase has begun to decline. In FY 2003, the State increased aid by 4.3 percent. This represents the smallest rate of increase since FY 1997. Given estimated operating deficits at the State level of nearly \$150.0 million for FY 2004, it is unlikely that the State will direct significant new revenues to the cities and towns.

The following forecast assumes that the State will increase State education aid at an average annual rate of 3.5 percent, as represented in the State's five-year forecast. Generally speaking, the City receives approximately 29.0 percent of all State education aid. However, the City may receive slightly more of the annual increase due to the State's initiatives to target education resources to urban communities. The City has received nearly 40.0 percent of every new dollar distributed in school aid since FY 1995.

Other State Aid - The forecast assumes that the remaining State Aid programs grow at the rate of inflation, using the Consumer Price Index as a proxy for inflation.

Manchester Street Power Plant: The City has a property tax treaty relating to the Manchester Street Power Plant (U.S. Gen New England, Inc.) that expiring at the close of FY 2003. The City should reestablish a new tax arrangement. However, there appears to be significant disparity in estimated value of the facility. Therefore, since there are no agreements in place, the forecast must assume that the Power Plant will no longer make a payment in lieu of property taxes.

Fund Equity: At the close of FY 2001, the City had built up an unrestricted fund balance of \$7.3 million. In FY 2002, the City was expected to close the year with a fund balance of \$17.2 million. However, the City experienced a significant drop in anticipated State Aid, thereby requiring the City to use approximately \$9.0 million to balance the FY 2003 Budget. Therefore, the City is expected to close FY 2002 with an \$8.2 million fund balance. In addition, the City used \$1.2 million from the City's legal accrual to balance the FY 2003 Budget, thereby reducing the accrual to approximately a \$6.1 million.

Expenditure Structure: Estimating City expenditures is a difficult process. However, it is a worthwhile exercise in order to get a feel for the impact financial decisions today will have on the City's fiscal health tomorrow. The following are some general assumptions that one should be aware of when reviewing this forecast:

Contract Negotiations: The City will be negotiating contract provisions over the next 18 months. The firefighter contract is the only contract currently outstanding. The remaining contracts are scheduled to expire June 30, 2004. Contracts impact salaries, medical benefits, pension obligations and other related costs. Given that it is impossible to know what will be agreed upon during this process, the forecast does not take into account potential changes in compensation agreed to in contract negotiations.

For example, the forecast includes contracted obligations to increases in pay for FY 2004. However, there are no additional pay increases included in the forecast. If one assumed that the City salaries increased by projected inflation, the operating deficits would increase by approximately \$2.7 million in FY 2005 and would increase the FY 2008 operating deficit to \$129.8 million – a \$10.9 million increase.

The City faces two immediate financial challenges – funding Medical Insurance and the un-funded pension liability. Medical Insurance reflects the largest single budget driver in the City’s budget in terms of growth. Medical care costs are assumed to grow at 18.0 percent annually throughout this period, and therefore the forecast reflects this growth. This assumption does not include any changes in the scope of benefits, nor does it assume any changes in the funding of the benefits, such as co-pays from employees.

With an estimated \$479.4 million un-funded liability (as of June 30, 2001), the City continues to experience significant budgetary pressure from meeting its pension obligations. Earlier in this report, it was noted that in order for the City to actuarially fund its annual pension contribution, the total contribution to the pension system should total at least \$40.0 million. The forecast includes an assumption that the City will continue implementing its multi-year program to fund its contribution to the Pension Fund at the actuarial recommended level. This requires additional appropriations of nearly \$4.0 million in FY 2004 and an additional \$6.2 million in FY 2005. Should the City actuarially fund its annual pension obligation in FY 2004, the City’s projected operating deficit would climb an additional \$5.0 million.

Education Expenditures: Education expenditures are clearly the largest portion of the City’s budget – representing 52.0 percent of all City spending. The changes made in this function of City government play the greatest role in how the City manages its finances. Given the school system is funded with property taxes and State aid, how the City’s property tax base performs and how the State’s overall fiscal health evolves will be critical. The following forecast assumes that Providence education expenditures will increase by 7.0 percent annually. This is based on historical spending patterns.

Debt Service: The forecast assumes that the City will not issue additional debt during this period. Should the City issue additional debt, there will certainly be additional debt service obligations. The forecast reflects scheduled payments.

Annual Spending Choices: The City Administration, City Council and School committee make decisions annually that impact future finances of the City. These can range from certain capital projects, school operations or facilities and other issues that are deemed appropriate. Therefore, there are no assumptions regarding any changes in City or school district policy in spending priorities.

Therefore, expenditures (non-personnel) related to police, fire and other non-education services was estimated to grow at a rate based on the consumer price index estimates the consumer price index (CPI) estimated by the State’s Semi-annual caseload estimating conference.

Findings:

- The City faces operating deficits in all five years forecasted. Over this five-year period, the operating deficit ranges from \$33.8 million in FY 2004 to \$118.9 million in FY 2008. The FY 2004 operating deficit would represent 6.5 percent of the estimated revenue stream, while in FY 2008, the estimated operating deficit is expected to grow to 21.0 percent of total revenues in FY 2008. Should the City fund its annual pension obligation at the actuarial recommended level in FY 2004, the City's projected operating deficit would climb an additional \$5.0 to \$7.0 million to approximately \$39.0 million.
- Over this five-year period (FY 2004 – FY 2008), overall revenues are expected to increase from \$518.3 million to \$573.2 million – a 10.6 percent increase. Expenditures are expected to increase from \$552.2 million in FY 2004 to \$710.0 million in FY 2008, representing a 29.0 percent increase over this period of time. Therefore, it is clear that expenditure patterns will continue to outpace projected revenues during this five-year period.

Estimated Forecast of Providence Revenues						
Expenditure Items	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Local Property Taxes:	\$222,246,570	\$224,469,036	\$226,713,726	\$228,980,863	\$231,270,672	\$233,583,379
State Aid						
- Public Svs Corp Tax	2,986,596	2,869,671	2,970,110	3,074,063	3,181,656	3,293,014
- Distressed Cities	4,162,348	4,298,525	4,363,003	4,428,448	4,494,875	4,562,298
- Reimbursement Auto Tax	17,890,689	17,910,981	18,806,530	19,746,857	20,734,200	21,770,910
- State Aid - Education	171,069,387	186,613,412	193,144,881	199,904,952	206,901,626	214,143,183
- General Revenue Sharing	11,595,992	12,748,014	14,022,815	15,425,097	16,967,606	18,664,367
- Payment in Lieu of Taxes	12,688,288	13,150,763	13,611,040	14,087,426	14,580,486	15,090,803
- School Debt Construction	11,548,000	11,836,700	12,132,618	12,435,933	12,746,831	13,052,755
- School Indirect Cost Reimburse	750,000	768,750	787,969	807,668	827,860	847,728
- DCYF Payments	300,000	307,500	315,188	323,067	331,144	339,091
- General Public Assistance	10,000	10,250	10,506	10,769	11,038	11,303
- Hurrican Barrier Reimbursement	50,000	51,250	52,531	53,845	55,191	56,515
- Medicaid Reimbursement	5,200,000	5,330,000	5,463,250	5,599,831	5,739,827	5,877,583
Other Revenues						
Donations	5,000	5,125	5,253	5,384	5,519	5,652
Rents & Interest	7,350,000	7,533,750	7,722,094	7,915,146	8,113,025	8,307,737
General Departments	20,071,657	20,573,448	21,087,785	21,614,979	22,155,354	22,687,082
Special Revenue/Trust	2,386,000	2,445,650	2,506,791	2,569,461	2,633,698	2,696,906
Payment Narr. Electric	7,746,000	0	0	0	0	0
Business & Non-Business	3,020,500	3,096,013	3,173,413	3,252,748	3,334,067	3,414,084
Fines & Forfeits	4,225,000	4,330,625	4,438,891	4,549,863	4,663,609	4,775,536
Special Funds/Fund Balance						
Fund Equity/Tax Appeals	9,600,000	0	0	0	0	0
Total	\$514,902,027	\$518,349,463	\$531,328,393	\$544,786,402	\$558,748,282	\$573,179,927
Expenditures	\$514,679,938	\$552,153,169	\$587,797,230	\$619,522,864	\$653,770,761	\$692,065,150
Variance	\$222,089	(\$33,803,706)	(\$56,468,837)	(\$74,736,462)	(\$95,022,479)	(\$118,885,223)

Source: RIPEC Calculations Based on FY 2003 City of Providence Budget as Enacted

Recommended Actions:

Given these findings, it is clear that the City has a number of issues that it will be facing. These issues include, but are not limited to: dealing with the projected operating deficits; meeting contract, health care and pension obligations; and funding the priorities identified by the City's leadership.

The forecast may be impacted by additional gains in property tax collections and State aid than projected. However, the City is also facing additional spending pressure from a range of constituencies. However, the projected deficits will require the City to address its own revenue structure, identify techniques that will induce economies, and develop strategies to slow expenditure growth.

Appendix:

Additional Details on Assumptions:

Revenue Assumptions						
Expenditure Items	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Property Taxes	\$222,246,570	1.0%	1.0%	1.0%	1.0%	1.0%
<u>State Aid</u>						
State Public Service Corp Tax (3.5%)	16,702,585	17,287,175	17,892,227	18,518,455	19,166,600	19,837,431
- Providence Share	16.6%	2,869,671	2,970,110	3,074,063	3,181,656	3,293,014
General Revenue Sharing (10.0%)	48,287,931	53,116,724	58,428,397	64,271,236	70,698,360	77,768,196
- Providence Share	24.0%	12,748,014	14,022,815	15,425,097	16,967,606	18,664,367
PILOT (3.5%)	18,151,502	18,786,805	19,444,343	20,124,895	20,829,266	21,558,290
- Providence Share	70.0%	13,150,763	13,611,040	14,087,426	14,580,486	15,090,803
Distressed Aid (1.5%)	7,700,000	7,815,500	7,932,733	8,051,723	8,172,499	8,295,087
- Providence Share	55.0%	4,298,525	4,363,003	4,428,448	4,494,875	4,562,298
Auto Tax Phase Out (5.0%)	94,767,097	99,505,452	104,480,724	109,704,761	115,189,999	120,949,499
- Providence Share	18.0%	17,910,981	18,806,530	19,746,857	20,734,200	21,770,910
Direct Education Aid (3.5%)	621,733,840	643,494,524	666,016,833	689,327,422	713,453,882	738,424,768
- Providence Share (of increase)	29.0%	186,613,412	193,144,881	199,904,952	206,901,626	214,143,183
All Other Aid		2.5%	2.5%	2.5%	2.5%	2.4%

Expenditure Assumptions						
Expenditure Items	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
<u>Salaries</u>						
- Police		3.0%	0.0%	0.0%	0.0%	0.0%
- Fire		3.0%	0.0%	0.0%	0.0%	0.0%
- All Other		4.0%	0.0%	0.0%	0.0%	0.0%
<u>Other Personnel</u>						
- Medical		18.0%	18.0%	18.0%	18.0%	18.0%
- Retirement		32,060,161	38,337,476	39,870,975	41,465,814	42,460,994
<u>Debt Service</u>						
- Principal		26,487,775	29,773,176	30,026,427	30,361,924	31,090,610
- Interest		20,124,609	18,678,698	18,520,635	17,868,088	18,296,922
<u>School Department</u>						
		7.0%	7.0%	7.0%	7.0%	7.0%
<u>Other Expenditures</u>						
- CPI		2.5%	2.5%	2.5%	2.5%	2.4%

Issue: Finance Department and Budget Documents

Background:

The City's Finance Department is charged with managing the City's expenditures, collecting revenues, and ensuring compliance with General Accounting Standards. The Finance Department develops, prepares and publishes the City's annual budget, maintains the accounting, payroll and financial reporting systems for the City, and works towards improving the City's Bond rating. The Department develops budget instructions, prepares the five-year financial forecast, assists in the development of the Offering Circulars on debt issues, and operates the assessor's office, the controller's office, the tax collector's office and data processing.

The City currently has a Baa1 bond rating from Moody's Investment Service. Moody's has noted the City has demonstrated trends of stability with narrow levels of financial flexibility. While Moody's noted that the City's efforts to increase its annual pension contributions is positive, it remained concerned that the City's un-funded pension liability, coupled with the City's debt service obligations, represents a sizable and growing demand on total General Fund expenditures.

The City has managed to continue building its unreserved general fund balance, totaling nearly \$8.2 million in FY 2002 (approximately 1.6 percent of revenues). While this is crucial to ensuring flexibility, the City should continue to work towards a Fund Balance that represents approximately 5.0 percent of total revenues, which would be consistent with current industry standards.

The Auditor's Report on Compliance and Internal Controls for Year Ending June 30, 2001 noted that the City's financial accounting and reporting processes demonstrated significant improvements, particularly given the complexity of the City's finances and audit requirements. The City has complied with the State's audit reporting deadline for the last three fiscal years, and the Department's personnel have begun performing a range of analyses on the City's general ledger accounts, which has translated into higher quality management information.

Findings:

- Despite a modest complement of staff, the City's finance function has performed admirably, improving a range of internal financial reporting processes and adapting to a fluid revenue environment that relies heavily on State aid.
- The City's Assessor's Office is in need of serious attention. There are several professional positions that remain vacant at a time when the City must certify its tax roll and implement a Statistical Update of its property values.

- The City’s budget document, while serving as a very useful tool to policymakers, could be improved with additional expenditure summary data and consolidations of certain line items. The City also has an opportunity to allocate turnover savings by department and agency, thereby shifting some responsibility and authority to department heads for their budgets.
- The City Budget only reflects the General fund. There are a number of instances where programs and services are also supported with Federal or foundation resources, such as the School Department or the Department of Planning.
- The Finance Director expends a lot of time managing the daily progress of the new software implementation and many of the day to day IT activities. While it is important to ensure that the fundamental components are done correctly and smoothly, this diverts considerable attention away from other necessary duties.

Recommended Actions:

Finance Department – Staffing: The Finance Department has made considerable progress in developing appropriate financial reporting processes, implementing new financial management software, and improving the City’s collection rates. This is despite a relatively small staff compared to similarly sized cities. However, there are gaps in several areas of the Department. Assessment, internal reporting, revenue collections and overall budget management require additional attention. There are opportunities to build on the successes of the finance team through addressing some of the gaps that currently exist within the Department.

1. Fill the Deputy Director of Finance position with a qualified individual. This position can fill a vital role in assisting in budget development. If the City is going to build a more formal budget development process, the Deputy will need to assist agencies and departments with creating and maintaining budgets. In addition, given that this RIPEC report recommends a greater role in capital budgeting, the Deputy position could play a critical role in developing, analyzing and monitoring the City’s capital plan.
2. Create at least one additional Budget Analyst Position. It is recommended that the City create a Budget Analyst position to assist in preparing written analyses which summarize each agency’s history, responsibilities, statutes, trends and issues as well as makes recommendations for each budget issue facing the agency or department.
3. As discussed in greater detail in the Statistical Update section of this report, the Assessor’s office is in need of a complete overhaul. The City should do a national search to fill the City Assessor position. The City must recruit effectively to fill the two commercial appraiser positions as well as the residential appraiser position. The Office is not in an optimum position to effectively complete and certify its annual tax roll or the coming Statistical Update.

4. Within the Collector's Office, there may be an opportunity to reduce outside contracting for collection activities. The Collector has one Revenue Collection Agent position vacant. The Finance Director should develop a cost-benefit analysis for filling the position to demonstrate that the costs of filling the position are recovered by collection efforts and that the City would be able to reduce its \$1.0 million budget for outside collection efforts.
5. Create the position of Director of Information Services (DIS). The Director of Finance has been serving as the City's DIS. While the Director has done an admirable job in keeping the City's technology services functional as well as implementing comprehensive software for the City, these activities have diverted his attention from his principal duties as Finance Director. In addition, the City would benefit from a DIS that has the education and training background to develop, implement and maintain the City's IT functions.

Finance Department - Budget Documents – The City's budget document is a good representation of the City's financial plan. It provides a range of information regarding the City's revenue structure and the direction of the City's finances. However, there are some changes that may improve the presentation and depth of the City's annual budget document. The following are examples of these changes:

1. The Budget Document needs a summary of spending by all departments. This summary should break the budget down by major function as well as category of expenditure.
2. The Budget Document should classify expenditures more discreetly, in that there should be summary information on personnel costs, general operating costs, grants to organizations and Capital costs. For example, the "other" category includes a range of spending, including the City's pension contributions and its medical insurance payments. These expenditures should be reflected as part of a personnel budget.
3. In order to provide managers and department heads with additional flexibility in meeting their budgets, the City should consider consolidating some budget line items. For example, there are multiple lines for various ceremonies and related grants. These can be consolidated into one fund. The Inspections and Standards function is another example where budget flexibility, coupled with internal controls, could be reflected differently in the City Budget. The City should continue to track where the funds are intended to go, but there is no need for additional line items in the budget.
4. In return, the City should consider allocating expected savings in turnover by department or agency rather than as bottom-line savings, and require the department heads to manage towards those savings. This will shift more authority and accountability to the individual agencies and departments. Current practice is to provide some central control in implementing breakage and other city-wide savings initiatives

5. RIPEC recommends reflecting an all-funds budget. For example, the School Department's budget within the City's Budget Document only represents the portion funded with City and State funds. The School Department receives additional funding from the Federal Government as well as a number of Foundations.
6. The City should submit its five-year forecast with the annual operating budget. The City currently submits a five-year forecast separate from the Annual Budget. This will provide a baseline fiscal outlook for the City. The Finance Office prepares a comprehensive forecast, and it should be used as a planning tool for the City. The Mayor and the City Council should discuss the assumptions and identify solutions to forecasts that reflect operating deficits as part of the annual budget debate.

Issue: Capital Budget Planning

Summary:

The City annually publishes a five-year Capital Improvement Plan (CIP). The City Plan Commission and the Providence Department of Planning develop the CIP. The following outlines the CIP process and how it is integrated into the City's overall financial plan.

Background:

The City of Providence uses a range of debt financing tools to invest in infrastructure needs throughout the City. The City Plan Commission, created by Charter, is responsible for developing and recommending a capital improvement plan. The Commission is made up of seven members, five of which are appointed by the Mayor (with City Council approval). The Mayor and the President of the City Council serve ex officio.

The City's Capital Improvement Program (CIP) actually represents a five-year capital budget request developed by the City Plan Commission. In its present form, the CIP is a compilation of various capital requests from agencies and departments throughout the City, including the Providence Water Supply Board. The CIP is updated annually.

The City's capital program has typically used the Providence Public Building Authority's bonding authority for new construction and major improvements to public buildings, such as schools. The City uses voter-approved bonded authority for roads, sidewalks and sewers, and infrastructure improvements related to the Providence Water Supply Board are funded through PUC-regulated water revenue accounts.

The Commission matches its timetable with the City Budget, thereby developing a final report in conjunction with the budget submission in May of each year. The Department of Planning requests proposals from departments and agencies for the five-year period and reviews the projects with members of the Commission. The Commission will seek supplemental information from the departments prior to submitting the requests to the Finance Director for inclusion in the budget.

Findings:

The CIP provides limited information regarding requested capital improvements. While it certainly provides the City Council and the Mayor an opportunity to review all capital requests, it does not provide a sense of priority to the proposals across department requests or how they fit in the City's financial plan. There are no recommendations provided in the CIP. The proposals have little information as to how the estimated cost was developed, whether the investment may require operating expenditures to meet the daily demands of the investment, how the capital improvement will be maintained, and whether the investment is related to other expenditures already made by the City. The capital requests do present an estimated cost as it relates to City resources, but the document is limited in describing projects and how each project will be financed.

In addition, the Capital Improvement Plan does not provide summaries of existing long-term obligations of the City, their status and the schedules of payments. The Plan also does not project the potential impact on the City's debt service payments, its debt load, and whether the projects are scheduled appropriately to minimize their impact on financing. The CIP does not provide guidance as to how the plan relates to the City's long-term goals, nor does it integrate capital expenditures that are incorporated into the City's operating budget through master lease arrangements.

Finally, while the make-up of the Commission makes sense and is dictated by the Charter, there is a need to have greater participation and guidance from the Finance Director. Current practice is to request guidance from the Director as to the different financing techniques available for capital investments. However, the leadership of the Finance Director is critical so that the impact capital expenditure decisions have on the City's operating budget and ability to borrow in the future are understood.

The annual operating budget provides more detail regarding the CIP than the CIP, in that the operating budget articulates some of the major projects underway. It also provides a series of long-term debt schedules and discusses the different sources of funding for capital improvements. While this is a very valuable component of the operating budget, it would be just as useful if it were a central component of the Capital Improvement Plan.

Recommended Actions:

A five-year Capital Improvement Program is a plan to identify capital projects to be funded during the planning period. It also represents the vehicle by which the City expresses its capital budgeting goals, its timetables, the criteria used to determine eligible projects, and the financial plan for implementing the plan.

The CIP is not the same as the capital budget. The budget represents the first year in the five-year plan. The first year represents specific projects authorized for expenditure, where the out-years of the plan are subject to change.

The Charter does not limit the scope of the Capital Improvement Program for the City. Rather, it only charges the Department of Planning and the Commission to develop and submit a Capital Improvement Plan to the City Council. Therefore, there is a real opportunity to make great strides in the City's capital planning process and debt management processes through a significant reform of its capital improvement program.

1. Ensure that the Finance Director is a co-equal in the Capital Budget Development Process. While the Commission should continue to serve as the oversight function in the development of the CIP and its recommendations, the Finance Director (and related staff), with the support and expertise of the Department of Planning, should serve as staff during the process. The Department of Planning should continue to play a central role in the process, assisting in the collection and evaluation of the proposed projects.

2. As part of this change in responsibility, the City Plan Commission should assign the Director of Finance the duty of developing and maintaining debt schedules and debt service payments as part of the CIP submission. This will enhance the depth of information available to decision-makers when reviewing the plan.
3. In order to have a document with direction to policy makers, the City Plan Commission should evaluate and recommend specific capital improvements based on short and long-term debt management goals and City needs. This will require eliminating requests that are of low priority and developing appropriate funding sources and schedules for proposed projects
4. While the operating budget articulates some of the City's long-term debt management goals, the goals need to be incorporated into the CIP itself. The goals should be under continued review to ensure they are relevant and meet the needs of the City. Additional examples of goals include:
 - Ensure that the City's annual capital budget and five-year capital improvement plan is affordable and finances only necessary investments;
 - Create a fair, open and object process to ensure informed capital investment decisions;
 - Enhance long-term planning by linking capital and operating budgets;
 - Increase accountability by annually publishing a CIP that identifies and details individual projects to be funded; and
 - Limit debt use for long-term projects to decrease the reliance on debt to ensure flexibility in difficult economic times.
5. The City should establish targets or ceilings for city debt levels and develop and monitor appropriate debt management measures. There are numerous standards by which to measure the City's indebtedness, and the City should establish parameters regarding its debt policies. Examples include debt per capita, debt as a percentage of full market value of property, and debt service as a percent of the City's general fund.
6. Revise the capital budgeting instructions to clearly indicate the value of the capital budget, the need for accurate and detailed submissions, etc. This should also include the status of ongoing capital projects, such as revisions to timetables, funding requirements, and scope changes.

Create a more detailed timeline for the capital budgeting process. For example, Capital Budget requests should be submitted for review no later than July of the prior year. There should be a schedule for reviewing the requests, developing recommendations and providing agencies the opportunity to appeal or modify Committee recommendations. Submitting capital requests earlier will permit time for staff to effectively evaluate the requests and to pursue supplemental information to enhance the decision process, and provides adequate time for the process to be completed within the operating budget time constraints.

Issue: City Pension System

Summary:

The City of Providence is involved in two major pension systems for its employees:

- Employees' Retirement System of the City of Providence (a single employer plan);
- Employees' Retirement System of the State of Rhode Island (a cost sharing multiple employer plan).

The City has a \$479.4 million un-funded pension liability as of June 30, 2001. The City currently does not fully fund its annual pension contribution, but is implementing a multi-year program to meet that obligation by FY 2005.

Background:

Employees' Retirement System of the City of Providence: As of June 30, 2001, there are approximately 2,825 retirees/beneficiaries receiving benefits, and approximately 3,350 active plan members (half of which are vested). Therefore, there are approximately 6,200 members in the Employees' Retirement System of the City of Providence.

The Employees' Retirement System of the City of Providence is a defined benefit pension plan that covers most City employees, except teachers and employees of the Civic Center Authority. The Plan provides retirement, disability and death benefits, with a series of cost-of-living adjustments provided up to 6.0 percent.

Employee contributions fall under two classes. Class A members (including police) are required to contribute 8.0 percent of their salary to the Plan, while Class B members (fire fighters) are required to contribute 9.5 percent of their salary. The City is supposed to contribute the balance to fund the system.

The City has increased its pension contribution over the past several years as part of a multi-year program to fund the pension at the recommended actuarial requirement. In FY 2000, the city had contributed \$16.9 million. The city has since increased the contribution to \$27.3 million in FY 2003.

In addition, the City is required to make an annual contribution of \$1.5 million to amortize a deferred contribution from June 30, 1996. In addition, the City is required to make contributions to the national Pension Plan of the Laborers' International Union of North America, the Rhode Island Legal Service Trust and certain benefits to retired public safety personnel not covered by the Employees' Retirement System of the City of Providence. This annual contribution is approximately \$1.3 million. It should be noted that the City pays for health care benefits for certain retired employees, requiring nearly \$10.0 - \$15.0 million in FY 2002.

Major Changes in Pension Program (COLA, Consent Decree): The City's Retirement Board approved a series of actions that significantly impacted the city's liabilities. These actions included:

- Cost of Living Adjustments (COLAs) to pensions;
- Increases in minimum monthly pensions to certain retirees;
- Longevity Adjustments (10.0 percent) for 42 police and fire department retirees;
- Retroactive City retirement contributions to certain retirees; and
- Lower minimum service requirement for certain employees from 25 to 20 years.

The Retirement Board's actuarial consultant, Buck Consultants, Inc., estimated that the changes noted above would have required additional annual City contributions in excess of \$20.0 million dollars. After the City filed several legal actions, the City and the Employee Retirement Board entered into a consent decree. The Consent decree established a minimum retirement allowance of five hundred dollars (\$500.00) per month (effective January 1, 1992) and six hundred dollars (\$600.00) per month (effective January 1, 1993) for all pensioners who had completed twenty-five years of service. In addition, all police and firefighter pensioners would receive an annual COLA of 5.0 percent (effective January 1, 1992), increasing to 6.0 per cent (effective January 1, 1994). All other municipal pensioners would receive an annual COLA of 3.0 percent (effective January 1, 1992).

City of Providence Pension Obligations

Year Ended 30-Jun	Estimated Value of Assets	Estimated Accrued Liability	Estimated Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as % of Payroll
1991	\$246,159	\$431,936	\$185,777	56.99%	\$74,075	250.80%
1992	266,166	403,404	137,238	65.98%	78,347	175.17%
1993	278,544	465,943	187,399	59.78%	78,200	239.64%
1994	286,956	500,119	213,163	57.38%	84,176	253.23%
1995	293,454	460,567	167,113	63.72%	88,335	189.18%
1996	287,320	699,265	411,945	41.09%	84,178	489.37%
1997	288,800	732,373	443,573	39.43%	88,959	498.63%
1998	315,000	732,775	417,775	42.99%	99,182	421.22%
1999	325,576	746,264	420,688	43.63%	106,717	394.21%
2000	341,817	798,292	456,475	42.82%	114,164	399.84%
2001	341,986	821,363	479,377	41.64%	116,493	411.51%

Source: Buck Consultants, Inc. 74th Valuation of Employees' Retirement System as of June 30, 2001

The City challenged the consent decree, but the Rhode Island Superior Court determined the Consent Decree final and binding (February 20, 1996). After several attempts by the City Council to roll back the COLA provisions of the Consent Decree, the State Supreme Court found that the previous court judgment was valid (April 2000). However, the Court found that the City's retired employee pension provisions are applicable only to City of Providence employees who retired on or before December 18, 1991 and to those nineteen employees who retired effective that date, and to no others.

The City's actuary estimated the Supreme Court decision would require the City to increase its pension contribution by nearly \$16.0 million. The City subsequently embarked on a four-year budget initiative to fully fund the system at the recommended actuarial requirement.

Employees' Retirement System of the State of Rhode Island: All fulltime teachers, superintendents, principals and certain other school officials within the Providence School Department participate in the Employees' Retirement System of the State of Rhode Island. This is a cost-sharing, multiple-employer public retirement program. The State Retirement Board administers the system and the State Treasurer holds the assets for the system.

Employees contribute 9.5 percent of their salary to the Fund. The State and the City share in the employer contribution portion for the Fund. The split between State and Municipality is specified in the statute. The school department contributions are based on a percentage of annual compensation, half of which is payable by the State.

Findings:

There are a number of issues related to the City's pension system that are worth noting.

- According to the *Report on the Seventy-Fourth Valuation of the Employees' Retirement System of the City of Providence* prepared by Buck Consultants (November 2001), the City's pension assets' market value totaled \$322.0 million, and the estimated un-funded accrued liability totaled \$479.4 million (as of June 30, 2001). Given market performance, the City's un-funded liability could now exceed \$500.0 million.
- The estimated un-funded accrued liability totaled \$479.4 million (as of June 30, 2001) is nearly 7.0 percent of the City's estimated full market value of property. The liability is 8.0 percent of the City's net assessed value.
- The City's pension system, given its assets and liabilities, is estimated to be 41.6 percent funded.
- As of June 30, 2001, the contribution to the pension represented approximately 60.0 percent of what was recommended to meet the actuarial level. Given the program that is increasing the City contribution, it is estimated that the City contribution for FY 2002 will be nearly 80.0 percent of the recommended level.
- The actuary recommended contribution rates of 23.44 percent for Class A members, 56.39 percent for firefighters and 48.47 percent for police officers. The recommended rates were based on amortizing the un-funded accrued liability (as of June 30, 2001) on a level percentage basis over 29 years.

Recommended Actions:

Clearly the City will need to develop a long-term program to begin addressing the pension liability it currently faces. The City should be commended for staying the course and appropriating increasing amounts to its pension contribution and moving towards the actuarial recommended funding level given existing obligations.

In addition to completing the multi-year plan to get the City's annual contribution funded at the recommended levels, the City should create a Pension Study Commission. The Commission, representing the City and a range of financial expertise, should be charged with evaluating the City's pension system, understanding the long term implications for City employees, the City's operating budget and the taxpayer, and developing a long-term strategy for dealing with the City's un-funded pension liability.

Issue: Providence Property Tax Base

Summary:

Changes in values across classes of property can have significant implications for the City. In Providence, there have been major changes in its property tax base over the last few decades. The following analysis provides an overview of property tax trends and the implications going forward.

Background:

Statewide Property Value: If tax rates remain constant, growth in property tax revenue can result from increased property values on existing land and structures due to market changes within the jurisdiction and/or new construction that adds value to the tax base. One should note that the State Office of Municipal Affairs (OMA) calculates full value of property in each community based on recent sales data and market conditions. As required by law, the OMA calculates full value based on data three years prior as part of the State aid to education formula, which means the latest available is for FY 2002. Therefore, RIPEC estimated full value based on the most recent ratios of assessment available, general market trends, and recent revaluations and statistical updates.

Local Property Value in Rhode Island (FY 1992 - FY 2002)

Fiscal Year	Certified Full Value (2)	Change in Value	Adjusted Full Value (3)	Change in Value	Percent Urban	Percent Non-Urban
1992	\$63,939,332,733	1.1	\$82,077,504,100	-1.9%	50.6%	49.4%
1993	61,111,531,669	-4.4	76,167,383,070	-7.2%	49.7%	50.3%
1994	58,648,186,928	-4.0	71,272,189,377	-6.4%	49.2%	50.8%
1995	56,609,728,052	-3.5	66,899,029,017	-6.1%	48.4%	51.6%
1996	56,243,575,821	-0.6	64,560,025,528	-3.5%	47.7%	52.3%
1997	56,263,370,147	0.0	63,134,161,766	-2.2%	47.1%	52.9%
1998	56,465,184,556	0.4	62,388,832,752	-1.2%	46.6%	53.4%
1999	57,510,867,596	1.9	62,171,111,969	-0.3%	46.3%	53.7%
2000	59,881,664,473	4.1	62,628,848,848	0.7%	45.1%	54.9%
2001	61,421,678,289	2.6	62,462,135,855	-0.3%	45.4%	54.6%
2002	65,383,760,179	6.5	65,383,760,179	4.7%	44.5%	55.5%
1992-2002	\$1,444,427,446	2.3%	(\$16,693,743,921)	-20.3%		

1) Certified Full Value provided by RI Office of Municipal Affairs

2) Certified Full Value is calculated by the OMA. FY 2001 and FY 2002 full value figures are RIPEC estimates based on recent data and revaluations/updates.

3) Adjusted based on CPI Data presented by the Bureau of Labor Statistics

From FY 1992 to FY 2002 estimated full value increased by 2.3 percent (\$1.4 billion). If one adjusts full value by inflation (2002 dollars), there was a 20.3 percent decrease in property value over this ten-year period. This translates into a \$16.7 billion decrease statewide in adjusted full value (2002 dollars). During this ten-year period, the State experienced its largest decrease in adjusted full value between FY 1992 and FY 1993.

While both urban and non-urban communities experienced declines in the overall tax-base, the rate of decline has resulted in a shift in the location of net property wealth in the State. In FY 1992, approximately 50.6 percent of the total value was located in the State's ten urban communities and the 49.4 percent balance was in the 29 non-urban communities. In FY 2002, 44.5 percent of the statewide-full value is estimated to be located in the urban communities and 55.5 percent in non-urban communities.

The City of Providence's estimated full value decreased by 3.0 percent (\$221.6 million). The early 1990s demonstrated the greatest declines in values for the City. The FY 2002 implementation of the revaluation resulted in a 15.0 percent increase in its property value from FY 2001, but it has yet to return to its FY 1992 level of \$7.3 billion. If one adjusts the City's full value by inflation (2002 dollars), there was a 24.5 percent decrease in property value over this ten-year period. This translates into a \$2.3 billion decrease in adjusted full value of property in Providence (2002 dollars). In other words, the City's overall property wealth has eroded by one-fourth.

Local Property Value in Providence (FY 1992 - FY 2002)				
Fiscal Year	Certified Full Value (2)	Change in Value	Adjusted Full Value (3)	Change in Value
1992	\$7,323,755,534	-2.8	\$9,401,342,635	-5.6%
1993	6,724,578,143	-8.2	8,381,290,820	-10.9%
1994	6,450,503,649	-4.1	7,838,972,383	-6.5%
1995	5,931,873,528	-8.0	7,010,042,142	-10.6%
1996	5,754,317,790	-3.0	6,605,179,312	-5.8%
1997	5,699,785,157	-0.9	6,395,833,687	-3.2%
1998	5,755,602,836	1.0	6,359,411,477	-0.6%
1999	5,974,250,431	3.8	6,458,358,359	1.6%
2000	6,171,350,211	3.3	6,454,472,549	-0.1%
2001	6,174,522,776	0.1	6,279,116,611	-2.7%
2002	7,102,130,200	15.0	7,102,130,200	13.1%
1992-2002	(\$221,625,334)	-3.0%	(\$2,299,212,435)	-24.5%

1) Certified Full Value provided by RI Office of Municipal Affairs
2) Certified Full Value is calculated by the OMA. FY 2001/02 full value figures are RIPEC estimates
3) Adjusted based on CPI Data presented by the Bureau of Labor Statistics

Providence's FY 1992 property tax base represented 11.4 percent of the State's total property tax base. This has since decreased to 10.9 percent in FY 2002. However, the State's property values have shifted away from commercial and industrial values to residential values. For example, in FY 1992, Rhode Island communities had approximately 65.7 percent of their property tax base made up of residential property, 18.7 percent commercial, 4.3 percent industrial, and 11.3 percent in other values, such as motor vehicles and utilities. In FY 2002, residential property values now represent approximately 70.3 percent of the State's property tax base, while commercial properties represent 16.1 percent of the base. Industrial properties represent 3.0 percent of the base and the balance (10.6 percent) is made up of vehicles, utilities and other property.

Little has changed in the share of the property tax base in Providence. In FY 1992, approximately 58.2 percent of the Providence property tax base was made up of residential property, 27.9 percent commercial, 5.8 percent industrial and the remaining 8.1 percent was all other classes of property. Approximately 57.6 percent of the tax base is residential, 30.4 percent is commercial, 4.6 percent is industrial and the remaining 7.0 percent is made up of vehicles and other property.

Statewide Property Tax Levy: The following table shows the statewide tax levy needed to support local programs. The table does not include levies associated with special purpose districts (fire, water, etc.). Therefore, the property tax levy shown understates property taxes actually paid by some Rhode Island property owners.

Local Property Tax Levies in Rhode Island (FY 1992 - FY 2002)						
Fiscal Year	Certified Tax Levy	Change in Levy	Adjusted Levy	Change in Levy	Percent Education	Percent Municipal
1992	\$990,116,820	8.1	\$1,270,991,014	4.9	52.3%	47.7%
1993	1,012,819,157	2.3	1,262,344,153	-0.7	53.3%	46.7%
1994	1,059,370,156	4.6	1,287,399,225	2.0	54.3%	45.7%
1995	1,100,528,715	3.9	1,300,559,197	1.0	51.6%	48.4%
1996	1,151,142,463	4.6	1,321,356,008	1.6	51.7%	48.3%
1997	1,204,184,172	4.6	1,351,237,192	2.3	52.6%	47.4%
1998	1,250,577,827	3.9	1,381,773,415	2.3	52.3%	47.7%
1999	1,299,138,674	3.9	1,404,411,016	1.6	52.7%	47.3%
2000	1,335,565,299	2.8	1,396,836,878	-0.5	53.5%	46.5%
2001	1,368,144,745	2.4	1,391,320,545	-0.4	54.3%	45.7%
2002	1,428,574,477	4.4	1,428,574,477	2.7	54.7%	45.3%
1992-2002	\$438,457,657	44.3%	\$157,583,463	12.4%		

1) Does not include ad valorem taxes levied by special districts.
2) Certified Tax Levy is the tax roll reported by municipalities as of December 31 of each year.
3) Adjusted Levy is a RIPEC calculation adjusting the Certified Tax Levy by inflation (2002 dollars)

Source: Compiled by RIPEC based on Office of Municipal Affairs Data

From FY 1992 to FY 2002, the statewide levy increased by 44.3 percent (\$438.5 million). However, adjusting for inflation (2002 dollars), property tax levies increased by 12.4 percent (\$157.6 million) during this ten-year period. What is interesting is that the State's overall property tax levy has continued to grow while the property tax base (adjusted for inflation) has experienced real declines during the same period.

In 1992 approximately 52.3 percent of the property tax levy statewide was allocated to support schools and the 47.7 percent balance supported municipal services. However, in FY 2002 there has been a slight shift in how the local property tax levy is allocated. Nearly 55.0 percent of the FY 2002 local property tax levy was allocated to support schools and the 45.0 percent balance was allocated to support municipal services.

Local Property Tax Levies in Providence (FY 1992 - FY 2002)						
Fiscal Year	Certified Tax Levy	Change in Levy	Adjusted Levy	Change in Levy	Percent Education	Percent Municipal
1992	\$173,284,598	9.3	\$222,441,597	6.1	43.0%	57.0%
1993	169,196,630	-2.4	210,881,059	-5.2	45.6%	54.4%
1994	168,661,098	-0.3	204,965,342	-2.8	45.4%	54.6%
1995	170,580,655	1.1	201,585,144	-1.6	30.1%	69.9%
1996	170,882,013	0.2	196,149,462	-2.7	30.1%	69.9%
1997	187,423,362	9.7	210,311,199	7.2	34.8%	65.2%
1998	201,227,801	7.4	222,338,202	5.7	31.4%	68.6%
1999	202,388,512	0.6	218,788,541	-1.6	31.4%	68.6%
2000	210,179,779	3.8	219,822,173	0.5	29.4%	70.6%
2001	216,891,841	3.2	220,565,898	0.3	28.0%	72.0%
2002	225,626,210	4.0	225,626,210	2.3	26.9%	73.1%
1992-2002	\$52,341,612	30.2%	\$3,184,613	1.4%		

1) Does not include ad valorem taxes levied by special districts.
 2) Certified Tax Levy is the tax roll reported by municipalities as of December 31 of each year.
 3) Adjusted Levy is a RIPEC calculation adjusting the Certified Tax Levy by inflation (2002 dollars)

Source: Compiled by RIPEC based on Office of Municipal Affairs Data

In Providence, the certified property tax levy has increased by \$52.3 million, or 30.2 percent during this ten-year period. When adjusting for inflation, the City's property tax levy increased by \$3.2 million – or 1.4 percent. The City allocated 43.0 percent of its property tax levy to support schools in FY 1992. This has since declined to 27.0 percent in FY 2002, partially due to the influx of significant State education aid.

Property Tax Levy as a Percent of Full Value: As one can imagine, the City's property tax levy as a percent of full value has undergone significant change over the past decade given the trends noted above. In FY 1992, the City's property tax levy represented 2.4 percent of its full value of property. This has since increased to approximately 3.2

percent in FY 2002. The property revaluation recently reduced this from 3.5 percent in FY 2001. Statewide, the average property tax levy as a percent of full market value was 1.5 percent in FY 1992 and has since increased to 2.2 percent in FY 2002. Clearly Providence's relative burden on its property tax base exceeds the State average. If one were to use the Massachusetts' standard of Proposition 2½, most communities in Rhode Island do not have their property tax levies 2½ percent of the full and fair cash value of the local tax base. However, the City of Providence exceeds the 2½ percent standard, West Warwick, Central Falls, Pawtucket, Woonsocket and Warwick joining them in this group. The City of Providence's levy as a percentage of full value (3.2 percent) is the highest among the 39 cities and towns.

Estimated Levy as a Percent of Full Value				
Fiscal Year	Providence Tax Base	Providence Tax Levy	Percent of Levy	State Percent
1992	\$7,323,755,534	\$173,284,598	2.4%	1.5%
1993	6,724,578,143	169,196,630	2.5%	1.7%
1994	6,450,503,649	168,661,098	2.6%	1.8%
1995	5,931,873,528	170,580,655	2.9%	1.9%
1996	5,754,317,790	170,882,013	3.0%	2.0%
1997	5,699,785,157	187,423,362	3.3%	2.1%
1998	5,755,602,836	201,227,801	3.5%	2.2%
1999	5,974,250,431	202,388,512	3.4%	2.3%
2000	6,171,350,211	210,179,779	3.4%	2.2%
2001	6,174,522,776	216,891,841	3.5%	2.2%
2002	7,102,130,200	225,626,210	3.2%	2.2%

Source: RIPEC calculations based on OMA data

Findings:

The City of Providence recently conducted a revaluation of real estate values, which was used for the FY 2002 budget. This revaluation increased the City's real estate values by nearly \$900 million. However, the revaluation of property returned the City's estimated full market value of property to a similar level in FY 1992.

- With \$7.1 billion in full market value, the City of Providence's FY 2002 property tax base represents a return to the same levels of value in FY 1992.
- Adjusted for inflation, however, the City has actually experienced a 24.5 percent decline in its market value, losing nearly \$2.3 billion in value since FY 1992 (2002 dollars).

- Providence's property tax base has declined as a share of the State's total base – from 11.4 percent in FY 1992 to 10.9 percent in FY 2002. The City's decline in real value represented 13.8 percent of the total decline in values statewide during this period.
- The recent revaluation of property added nearly \$900 million to the City's market value, representing a 13.1 percent increase in its base from FY 2001 to FY 2002.
- The City's property tax levy as a percent of its full value has increased from 2.4 percent in FY 1992 to 3.2 percent in FY 2002 – significantly higher than the State average of 2.2 percent.

Recommended Actions:

There are two essential activities when it comes to the City's property tax base. First, the City must continue to keep property values up-to-date. Revaluations and subsequent statistical updates must be conducted on time and they should represent a fair and accurate representation of the real estate market. Second, the City must actively develop and pursue long-term business growth and retention strategies that do not require significant property tax treaties.

Issue: Property Revaluation and Statistical Updates

Summary:

The City of Providence is scheduled to conduct and implement a statistical update of its real property values by December 31, 2003 for its FY 2005 Budget.

Background:

The State enacted a nine-year revaluation cycle that requires two statistical updates in-between the nine-year revaluations. No community has been required to move up or delay its next scheduled ten-year revaluation. Once each community implements its next revaluation, the new nine-year cycle will be in effect. The State outlined a State/local cost-sharing program, and identifies a method to ensure updates are done on time.

The General Laws define a statistical update as an analysis of sales, updated land value and depreciation tables, and cost tables for all improvements. The General Laws also outline acceptable methodologies for conducting the update, such as sales/assessment ratio and data quality studies.

To ensure a smooth transition to the new revaluation schedule, the General Laws outline a schedule for the nine-year revaluation and statistical updates. The attached table details each community's proposed revaluation schedule as outlined in the proposed legislation. This table represents a change in the city of Providence's schedule given it delayed the implementation of its revaluation which was finally conducted for FY 2002.

Financing the Statistical Updates: Moving the revaluation up from ten years to nine years has not adversely impact municipalities' ability to continue funding the full revaluation. Communities need to anticipate the change in their long-term budgeting to ensure that adequate funds are set aside earlier to prepare for the nine-year revaluation cycle.

However, the new requirement to conduct two statistical revaluations between the nine-year revaluations may initially place additional burdens on the local communities such as the need for consultants, seasonal, temporary, or permanent staff. In addition, training and technology investments may be needed, which in turn, may also minimize costs over the long term. Therefore, the State outlined a State-local cost-sharing program as follows:

- The first Update is 100 percent State funded, up to \$20.00 per parcel.
- The second statistical update is 80 percent State funded, up to \$16.00 per parcel. Local communities make up the balance.
- The third statistical update and those thereafter are 60 percent State funded, up to \$12.00 per parcel. Local communities make up the balance. Communities that qualify as distressed communities (under R.I.G.L. 45-13-12) would still receive 80 percent from the State to conduct statistical updates in the third year and thereafter (no more than \$12.00 per parcel).

Given that there are approximately 45,000 parcels of real and tangible parcels of property, the City can expect to receive approximately \$900,000 (\$20.00 per parcel) in State aid to complete its first statistical update, which will be completed by December 31, 2003 for the FY 2005 City Budget.

Compliance: Ensuring compliance to the new revaluation cycle is essential. In the past, communities have postponed revaluations for both economic and political reasons. The General Laws states that when a city or town fails to comply, it will experience a reduction in State aid equivalent to the cost of conducting the statistical update. If the State does not appropriate its share of the costs associated with the statistical updates, those communities scheduled to conduct the update in that year are not required to do so until such State resources are appropriated.

Extensions: The further away from the new revaluation cycle, the more disruptive it will be to property tax administration and the integrity of assessed values. Therefore, the need to limit extensions to the revaluation cycle cannot be emphasized enough. To date, every request for an extension to the current ten-year revaluation cycle has been granted. Under current law, a community is granted an extension by simple majority from both Chambers of the General Assembly. However, the proposed legislation requires that a bill or resolution that extends the dates for a city or town to conduct an update or revaluation must be approved by a 2/3 majority of both Chambers of the General Assembly.

Findings:

Increasing the frequency of property revaluation will have a number of positive impacts on cities and towns and their taxpayers. Revaluation is necessary because property values change over time. More frequent revaluation will result in greater equity within and among jurisdictions, ensuring that assessed values reflect the current market. For example, take neighborhood "A", experiencing declining values, and neighborhood "B", only a few blocks away, experiencing increasing values. Until a revaluation is conducted, those living in neighborhood "A" would be paying more than their fair share. Conversely, those living in neighborhood "B" would be paying less than their fair share.

Because infrequent revaluations may and often result in significant swings in estimated property values, local taxpayers experience "sticker shock" when the updated property values are reported. To avoid these shifts, communities have turned to tax classification systems without understanding the potential economic consequences of these tax programs. In addition, up-to-date property values will help to stabilize the local budget process over time.

Current property values will provide bond rating agencies with more accurate and reliable data. Moody's Investors Service uses property valuation data to help evaluate a locality's revenue base, economic condition and debt position.

More up-to-date property values will provide State and local policymakers with current and accurate data for use to improve the State's local aid programs. For example, as State officials continue to discuss changes to education aid formulas, it is necessary that they have reliable data that accurately reflects the property values in each community.

More frequent revaluation will result in a fairer tax system - not property tax increases. The taxpayer's property tax bill is determined by several factors - assessed value, the local budget and the tax rate. Although revaluations of property affect each taxpayer's property value differently, it is the budgetary decisions, not revaluations, that impact the total property taxes collected from taxpayers. In other words, revaluation only adjusts property values to current market values. Budget decisions related to municipal and educational services and contract negotiations impact the total property tax levy needed to fund services, which in turn results in a certain tax rate to generate sufficient resources.

More frequent revaluations are necessary to ensure that property values are kept up to date. RIPEC encourages taxpayers to actively participate in the local budget decisions in order to have an impact on how much property tax revenue the local community will need to raise from the community.

The following highlights key issues related to the City of Providence:

- Providence is required to conduct its first statistical update for assessment year 2003 (December 31, 2003). This will impact the FY 2005 City Budget;
- Given that there are approximately 45,000 parcels of real and tangible parcels of property, the City can expect to receive approximately \$900,000 (\$20.00 per parcel) in State aid to complete its first statistical update, which will be completed by December 31, 2003 for the FY 2005 City Budget.
- The City has not completed its work on the tax roll for December 31, 2002, which is the baseline for the FY 2004 City Budget. The City plans to complete the certification by the end of January 2003 through the use of contracted services.
- The City's Assessor's Office is inadequately staffed to meet the complex needs of the City's tax rolls. For example, there are two vacant commercial appraisal positions that require professionally trained appraisers. In addition, while the existing staff have received some preliminary training in the field, there is little depth in the skill sets of existing staff to complete the annual tax roll, let alone a statistical update or full revaluation of property values.
- The City Assessor's Office has moved towards a new Computer Assisted Mass Appraisal software package, which is coupled with the newly installed Lawson software. The software integrated into the City's property management system during the full revaluation in 2000 has been deemed inadequate and has been replaced.

- There were a number of appeals to the most recent revaluation of property, and therefore they may have outstanding liabilities concerning the original revaluation conducted in 2000. Given that a statistical update will rely heavily on the most recent full revaluation, there will need to be additional resources targeted towards ensuring that the starting point upon which the update will be based is accurate and reliable.

Recommended Actions:

It is clear that Providence should make every effort to maintain updated property values given the rationale noted above. The City conducted a full revaluation as of December 31, 2000 for its FY 2002 City Budget. Under current law, this will require the City to perform a statistical update for December 31, 2003, which would support the FY 2005 City Budget. In order to ensure that the City meets this deadline with a quality statistical update as well as establish and maintain effective assessment administration, there are several steps the City should undertake:

1. Ensure that the City Assessor's Office is staffed with professional assessors that are familiar with recognized appraisal methodologies for the various classes of real property. The Office is in need of an overhaul. There are five professional positions within the Office, only one of which is filled with a professionally trained assessor. This should include a national search for a City Assessor that demonstrates the necessary professional training to develop and maintain a professional assessment function for the City;
2. In conducting the statistical update, the City should take an opportunity to revisit its current property tax classification system. Given there are going to be some changes and shifts in property values, the City will need to conduct an analysis of potential shifts in property tax burdens by class of property. This is an opportunity to continue reducing the City's tangible tax rate;
3. Given the number of outstanding appeals due to the revaluation in 2000, additional time and resources may be required to ensure that the data used in the statistical update reflect any revisions that may be necessary from the previous property revaluation. This is a very complicated process, and underlines the recommendations below concerning seeking outside consultation in implementing the statistical update;
4. Ensure that the appropriate computer assisted mass appraisal software is in place and that staff is familiar with its operating procedures. There is a need to ensure that staff receive the appropriate training to effectively use the software;
5. Secure a contract with a reputable mass appraisal company to assist in the planning, developing and implementation of the coming statistical update. Given the timelines for completing the update, the City may want to obtain the services of a professional firm. This will temporarily extend the skill set of the assessor's office to ensure the quality and fairness of the update; and

6. Establish a program by which the City can expedite the property tax appeal process. There is a considerable backlog of appeals from the City's most recent revaluation that require attention. Therefore, there is a need to inject a swift and fair process into the appeal process to begin addressing these appeals in a timely manner. The City should keep in mind the potential fiscal impact that assessment appeals may have on the City's operating budget. In addition, given taxpayers' concerns over the quality of the most recent revaluation, the City will need a more systematic process of reviewing appeals in place prior to implementing the Statistical Update.

Appendix:

Schedule of each community's revaluation schedule follows

Property Revaluation and Statistical Update Schedule

Community	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Barrington				UPDATE			REVAL			UPDATE		
Bristol			REVAL			UPDATE			UPDATE			REVAL
Burrillville		UPDATE			REVAL			UPDATE			UPDATE	
Central Falls		UPDATE			REVAL			UPDATE			UPDATE	
Charlestown			UPDATE			REVAL			UPDATE			UPDATE
Coventry			UPDATE			UPDATE			REVAL			UPDATE
Cranston				UPDATE			REVAL			UPDATE		
Cumberland			UPDATE			REVAL			UPDATE			UPDATE
East Greenwich				UPDATE			REVAL			UPDATE		
East Providence					UPDATE			REVAL			UPDATE	
Exeter				REVAL			UPDATE			UPDATE		
Foster	REVAL			UPDATE			UPDATE			REVAL		
Glocester			REVAL			UPDATE			UPDATE			REVAL
Hopkinton				REVAL			UPDATE			UPDATE		
Jamestown		UPDATE			REVAL			UPDATE			UPDATE	
Johnston		UPDATE			REVAL			UPDATE			UPDATE	
Lincoln		UPDATE			REVAL			UPDATE			UPDATE	
Little Compton		REVAL			UPDATE			UPDATE			REVAL	
Middletown	REVAL			UPDATE			UPDATE			REVAL		
Narragansett				REVAL			UPDATE			UPDATE		
New Shoreham				REVAL			UPDATE			UPDATE		
Newport				REVAL			UPDATE			UPDATE		
North Kingstown		UPDATE			REVAL			UPDATE			UPDATE	
North Providence			UPDATE			REVAL			UPDATE			UPDATE
North Smithfield		UPDATE			REVAL			UPDATE			UPDATE	
Pawtucket	REVAL			UPDATE			UPDATE			REVAL		
Portsmouth			UPDATE			UPDATE			REVAL			UPDATE
Providence		REVAL			UPDATE			UPDATE			REVAL	
Richmond			REVAL			UPDATE			UPDATE			REVAL
Scituate		REVAL			UPDATE			UPDATE			REVAL	
Smithfield		UPDATE			REVAL			UPDATE			UPDATE	
South Kingstown		UPDATE			REVAL			UPDATE			UPDATE	
Tiverton				REVAL			UPDATE			UPDATE		
Warren					UPDATE			REVAL			UPDATE	
Warwick					UPDATE			REVAL			UPDATE	
West Greenwich			REVAL			UPDATE			UPDATE			REVAL
West Warwick		UPDATE			REVAL			UPDATE			UPDATE	
Westerly		REVAL			UPDATE			UPDATE			REVAL	
Woonsocket	REVAL			UPDATE			UPDATE			REVAL		

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data.

Issue: Providence Property Tax Burdens

Summary:

The following provides an analysis of Providence's property tax burden compared to the rest of the State. In FY 2002, the City of Providence had the second highest overall property tax burden when using four different measures.

Background:

Property taxes serve as the largest single source of revenue for the Ocean State's municipalities, playing a critical role in financing local public services. Rhode Island's dependence on the property tax is significantly greater than most states. However, within Rhode Island, there is considerable variance among cities and towns.

Current Property Tax Rates: The following table shows which communities have homestead provisions and the FY 2002 tax rates by class of property for each community. Actual residential tax rates per \$1,000 assessed valuation ranged from \$7.01 per \$1,000 of assessed value in Little Compton to \$40.20 per \$1,000 of assessed value in Foster. Because of classification, homestead exemptions and recent initiatives to phase-out certain property taxes (motor vehicles and inventory), all 39 municipalities essentially have some form of classified property tax structure, which makes inter-jurisdictional comparison difficult.

Thirty-four municipalities apply the same property tax rate for all real property (residential, commercial and industrial). Central Falls, North Providence, Pawtucket Warwick and Woonsocket apply a different rate for commercial and industrial than for residential property. But this does not take into consideration any homestead exemption provisions in local property tax structures. A homestead exemption will essentially provide a different net tax burden on residential taxpayers than on non-residential taxpayers by lowering the taxable value of the residence prior to applying the tax rate. As of FY 2002, eight communities employ a homestead exemption as part of their property tax structure. When taking both different rates and homestead provisions into account, ten communities essentially apply a lower tax burden per \$1,000 of assessed value on residential property than on commercial or industrial real property.

The General Assembly also enacted multi-year programs to phase-out inventory and motor vehicle taxes. The ten-year phase out of the inventory tax requires each community to reduce its property tax rate on inventories by 10 percent each year until completely phased-out. The phase-out of the local motor vehicle tax requires that the tax rates imposed by communities in FY 1998 remain frozen (the reimbursement formula includes an annual adjustment on the rates for inflation). The State recently froze this program, so the impact on local communities and their motor vehicle tax rates is uncertain.

FY 2002 Rhode Island Tax Rates - By Class

Community	Homestead Provision	Tax Rates by Class				
		Residential	Commercial	Personalty	Inventory	MV
Barrington	N	\$25.40	\$25.40	\$25.40	\$15.54	\$42.00
Bristol	N	20.60	20.60	20.60	12.21	17.35
Burrillville	N	18.90	18.90	18.90	no tax	40.00
Central Falls	Yes	21.27	35.46	48.65	34.06	48.65
Charlestown	N	15.85	15.85	15.85	no tax	13.08
Coventry	N	23.22	23.22	23.22	13.56	18.75
Cranston	Yes	32.59	32.59	32.59	22.22	42.44
Cumberland	N	20.92	20.92	20.92	16.05	19.87
East Greenwich	Yes	27.59	27.59	27.59	16.59	22.88
East Providence	Yes	23.66	23.66	38.93	26.97	37.10
Exeter	N	32.82	32.82	32.82	22.25	32.59
Foster	N	40.20	40.20	40.20	25.85	36.95
Glocester	N	26.71	26.71	26.71	17.60	24.37
Hopkinton	N	22.52	22.52	22.52	14.53	21.18
Jamestown	N	12.83	12.83	12.83	10.59	14.42
Johnston	N	23.79	23.79	37.82	24.25	41.46
Lincoln	Yes	23.98	23.98	23.98	17.19	30.66
Little Compton	N	7.01	7.01	7.01	no tax	13.90
Middletown	N	20.45	20.45	20.45	11.62	16.05
Narragansett	N	18.24	18.24	18.24	11.80	16.46
New Shoreham	N	11.82	11.82	11.82	no tax	9.75
Newport	N	25.10	25.10	25.10	16.58	23.45
North Kingstown	N	21.94	21.94	21.94	no tax	22.04
North Providence	Yes	29.78	31.85	45.34	30.70	41.95
North Smithfield	N	19.88	19.88	34.59	21.76	37.62
Pawtucket	N	23.80	29.75	52.09	36.46	53.30
Portsmouth	N	22.81	22.81	22.81	16.09	22.50
Providence	Yes	34.07	34.07	49.96	53.74	76.78
Richmond	N	25.13	25.13	25.13	15.92	22.64
Scituate	N	27.75	27.75	27.75	no tax	30.20
Smithfield	N	18.66	18.66	39.00	27.30	39.00
South Kingstown	N	17.90	17.90	17.90	13.57	18.71
Tiverton	N	20.34	20.34	20.34	13.40	19.14
Warren	N	23.07	23.07	23.07	13.78	26.00
Warwick	N	25.81	34.41	34.41	22.28	34.60
West Greenwich	N	21.31	21.31	21.31	13.64	19.02
West Warwick	N	30.15	30.15	30.15	20.59	28.47
Westerly	N	13.32	13.32	13.32	8.80	29.67
Woonsocket	Yes	29.00	41.50	46.58	32.61	46.58

Source: Rhode Island Office of Municipal Affairs and Tax Certification Reports

The following table provides a profile of the City of Providence's property tax classification system for FY 2002 and FY 2003. The system was adopted as part of the City's revaluation of property, conducted for the FY 2002 City budget. As the table shows, there are essentially five different tax burdens depending on class and whether the residential property is owner-occupied. As noted, the homestead exemption provided to owner-occupied property owners is 33.35 percent, while absentee-owners receive a 13.35 percent homestead on their properties. Commercial and industrial real properties do not receive any relief in the tax classification structure, paying \$35.94 per \$1,000 of value in FY 2003. The tangible property tax continues to decline in accordance with a multi-year plan to comply with State standards. The City has put in place a program to comply with the State's provisions (described below) by FY 2007 (December 31, 2005). The Appendix includes a historical view of tax rates in the City of Providence.

Providence Property Tax Classification Structure			
Class of Property	FY 2002	FY 2003	Notes
Residential			
- Owner Occupied	22.71	23.95	Represents a 33.35 percent homestead exemption
- Absentee Owner	29.52	31.14	Represents a 13.35 percent homestead exemption
Commercial/Industrial	34.07	35.94	
Personalty/Tangible	49.96	49.36	Scheduled to decline to 50% of other classes by 12/31/05
Wholesale/Retail Inventory	53.74	46.06	Reduced 10.0 percent annually per State phase-out of Tax
Motor Vehicle Excise Tax	76.78	76.78	Rate frozen in FY 1999 as part of State phase-out of Tax
Source: RIPEC calculations and City of Providence			

The City's tax classification system currently does not meet the standards set forth in State law. Under RIGL 44-5-11.8, the State outlined the parameters of tax classification plans: the number of classes of property are limited to four, the effective tax rate applicable to any class cannot exceed the rate of any other class by 50.0 percent, and any tax changes from one year to the next must be applied such that the same percentage rate change is applicable to all classes of property.

Looking at actual local property tax rates, homestead provisions and classified tax structures only provide one picture of the differences among the State's 39 cities and towns. This data, while useful, does not provide a full picture of how these differences translate into actual tax burdens, nor does the actual tax rate data clearly demonstrate the differences in the communities' tax base and ability to pay for essential services. Therefore, the remainder of the analysis looks at various ways to evaluate the differences in local property tax burdens.

Effective Property Tax Rates: Even with the changes occurring in the property tax structure, one is able to estimate the effective property tax rates for all municipalities for FY 2002. Effective tax rates reflect what each community's tax rate would have been if all property were assessed at 100 percent of its full value as estimated by RIPEC based on recent data provided by the Office of Municipal Affairs. The effective tax rate is the total

levy divided by the estimated full market value of property within the community, adjusting for various exemptions and credits provided by the community. The effective tax rate provides a tool to compare the overall property tax burden in each community.

FY 2002 Rhode Island Estimated Effective Tax Rates							
Community	Assessed Value (1)	FY 2002 Spending	Actual Rates			Effective Tax Rates	
			FY 2002	FY 2001	Change	Rate	Rank
Providence*	\$7,102,130,200	\$225,626,210	\$34.07	\$34.94	(\$0.87)	\$31.77	1
West Warwick*	1,284,743,798	36,239,314	30.15	30.15	0.00	28.21	2
Central Falls*	346,792,530	9,637,616	21.27	26.25	(4.98)	27.79	3
Pawtucket	2,459,737,262	66,252,469	23.80	23.43	0.37	26.93	4
Woonsocket	1,248,964,367	33,375,355	29.00	29.00	0.00	26.72	5
Warwick	5,455,559,299	149,304,181	25.81	24.84	0.97	25.79	6
North Providence	1,482,502,579	38,346,342	29.78	28.80	0.98	25.24	7
Johnston*	1,848,526,415	45,368,735	23.79	27.06	(3.27)	24.54	8
Cranston	4,198,109,639	105,644,501	32.59	31.74	0.85	24.25	9
Barrington	1,425,068,300	35,895,009	25.40	24.20	1.20	24.19	10
East Greenwich	1,107,787,410	28,495,352	27.59	26.79	0.80	24.13	11
East Providence	2,564,831,861	60,036,697	23.66	22.55	1.11	22.54	12
Glocester	560,460,938	13,667,435	26.71	26.12	0.59	22.11	13
Coventry	1,848,887,086	38,905,763	23.22	22.01	1.21	21.59	14
Newport	1,939,055,228	47,052,966	25.10	24.29	0.81	21.16	15
North Kingstown*	2,248,374,032	46,885,673	21.94	24.65	(2.71)	20.85	16
North Smithfield*	824,340,510	17,145,613	19.88	22.29	(2.41)	20.80	17
Hopkinton	457,970,103	9,784,131	22.52	20.91	1.61	20.40	18
Warren	638,659,913	13,985,955	23.07	22.33	0.74	20.21	19
Portsmouth	1,409,753,547	29,774,731	22.81	21.86	0.95	20.08	20
Lincoln*	1,706,267,316	33,687,061	23.98	24.55	(0.57)	19.74	21
Smithfield*	1,444,451,544	28,422,159	18.66	22.40	(3.74)	19.68	22
Middletown	1,369,541,417	26,843,349	20.45	19.40	1.05	19.60	23
West Greenwich	405,925,272	8,204,130	21.31	21.31	0.00	19.21	24
Burrillville*	851,237,534	16,033,549	18.90	22.00	(3.10)	18.84	25
Foster	179,350,661	6,619,905	40.20	37.45	2.75	18.46	26
Richmond	365,187,525	8,496,107	25.13	24.17	0.96	18.37	27
Cumberland	1,903,222,488	36,508,273	20.92	20.33	0.59	18.27	28
Exeter	241,874,625	7,480,365	32.82	31.76	1.06	18.20	29
Bristol	1,234,146,601	23,863,022	20.60	19.13	1.47	17.94	30
South Kingstown*	2,407,183,642	43,002,755	17.90	20.75	(2.85)	17.86	31
Tiverton	969,365,482	18,765,009	20.34	20.54	(0.20)	17.66	32
Narragansett	1,694,915,043	30,673,991	18.24	17.67	0.57	17.56	33
Charlestown	902,388,620	13,740,998	15.85	14.62	1.23	14.27	34
Westerly*	2,746,918,366	37,110,175	13.32	14.06	(0.74)	13.51	35
Scituate*	590,207,719	15,386,941	27.75	31.53	(3.78)	13.04	36
Jamestown*	928,542,302	11,756,189	12.83	16.25	(3.42)	12.66	37
New Shoreham	398,001,725	4,635,556	11.82	11.41	0.41	8.26	38
Little Compton*	834,781,356	5,920,595	7.01	14.55	(7.54)	7.09	39
Total (Median)	\$61,625,764,255	\$1,428,574,177	\$23.07	\$22.55	\$0.52	\$20.08	-

Notes

- (1) Assessed valuation represents values as reported in the 2001 municipal tax certifications for FY 2002 (12/31/00)
- (2) Percent of assessment to full value is based on most recent Tax Equalization study.
- (3) 2002 Effective Tax Rates - Based on Estimated full value based on 12/31/00 data and fiscal year 2002 levy.
- (4) Changes in rate may be a function of revaluation, statistical updates, and/or changes in levy.
- (5) Table 7 of this report shows each municipality's 2002 tax rate by class. *Revaluation or Statistical Update Completed

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data.

Based on the estimated full value of property and the FY 2002 levy, FY 2002 effective tax rates ranged from \$7.09 per \$1,000 of value in Little Compton to \$31.77 per \$1,000 of value in Providence. As shown on Table 3, eight of the ten urban communities are among those with the ten highest effective tax rates in the State.

Providence has continued to rank first in terms of the estimated effective property tax rate in the State. With an estimated rate of \$31.77, the City is 58.0 percent above the State's median (\$20.08). Although this data is useful in gaining a general idea of property tax burden differences among communities, it does have limited utility. The effective tax rate only compares the overall effective property tax rate by community, not taking into account the various classification systems, homestead exemptions and other taxing authorities (e.g., fire districts) levying property taxes in Rhode Island. All these factors impact property tax burden and rate comparisons among the communities.

Tax Capacity and Effort Index: Another method to evaluate relative property tax burdens is the "Equity Index" developed by the Office of Municipal Affairs, which considers the property tax base and levy of each municipality relative to the State average. The results produce an Index for each municipality.

Methodology - The Index uses the adjusted weighted equalized assessed value (EWAV includes an adjustment for Median Family Income) of each community and the gross levy reported by each community. The Index calculates the average state property tax rate and uses the rate to generate a hypothetical per capita tax yield per community and then compares it with the actual per capita property tax yield by community.

The Index then estimates the "gap" between the actual yield and the potential yield if the state average tax rate were used, based on each community's tax base. The following outlines the differences (excluding New Shoreham) in relative capacity and effort and the composite index based on these factors.

- *Tax Capacity* - In FY 2002 tax capacity ranged from a high of 376 in Little Compton to a low of 16 in Central Falls. In other words, Little Compton's relative property tax capacity is estimated to be nearly four times the State average, while Central Falls is only one-fifth of the State average. Providence's capacity is the second lowest in the State.
- *Tax Effort* - In FY 2002 tax effort among the communities ranged from a high in Providence (230) to a low in Little Compton (29). In other words, Providence makes 2.3 times the effort compared to the State average to generate local resources from the property tax while on the other end of the spectrum, Little Compton's property tax effort is 60.0 percent less than the State average.
- *Composite Equity Index* - The Index is calculated by dividing each community's relative capacity by its relative effort. In general, those communities that have an Equity Index of 1.00 or less are considered to evidence some level of fiscal stress relative to the rest of the State because of their relative fiscal capacity and tax effort.

FY 2002 - Rhode Island Tax Capacity and Tax Effort Index

Rank	Community	Adjusted EWAV	12/31/00 Levy (Gross)	State Ave Rate	Hypothetical Municipal Yield	2000 Population	Municipal Yield Per Capita	State Ave Yield Per Capita	Relative Capacity	Relative Effort	AEWAV Index	Equity Index
1	Central Falls	\$165,496,013	\$10,369,034	28.82	\$4,769,635	18,928	\$252	\$1,528	16	217	1,318	0.08
2	Providence	3,972,139,818	263,222,527	28.82	114,478,017	173,618	659	1,528	43	230	533	0.19
3	Woonsocket	995,917,055	39,178,558	28.82	28,702,567	43,224	664	1,528	43	136	314	0.32
4	Pawtucket	1,790,831,094	72,464,255	28.82	51,612,179	72,958	707	1,528	46	140	303	0.33
5	West Warwick	1,094,949,644	38,117,157	28.82	31,556,710	29,581	1,067	1,528	70	121	173	0.58
6	North Providence	1,337,487,846	47,546,855	28.82	38,546,719	32,411	1,189	1,528	78	123	158	0.63
7	Cranston	3,925,689,014	140,279,547	28.82	113,139,294	79,269	1,427	1,528	93	124	133	0.75
8	East Providence	2,278,226,125	66,421,427	28.82	65,659,021	48,688	1,349	1,528	88	101	115	0.87
9	Johnston	1,538,330,309	48,838,072	28.82	44,335,047	28,195	1,572	1,528	103	110	107	0.93
10	Coventry	1,672,610,701	44,528,430	28.82	48,205,040	33,668	1,432	1,528	94	92	99	1.01
11	Warren	589,307,678	14,850,706	28.82	16,983,988	11,360	1,495	1,528	98	87	89	1.12
12	Warwick	5,301,031,699	158,604,237	28.82	152,776,999	85,808	1,780	1,528	117	104	89	1.12
13	Hopkinton	425,684,111	10,676,027	28.82	12,268,318	7,836	1,566	1,528	102	87	85	1.18
14	Glocester	587,774,609	15,476,376	28.82	16,939,804	9,948	1,703	1,528	111	91	82	1.22
15	Burrillville	875,083,671	21,035,295	28.82	25,220,120	15,796	1,597	1,528	105	83	80	1.25
16	Bristol	1,150,744,426	25,000,937	28.82	33,164,729	22,469	1,476	1,528	97	75	78	1.28
17	Lincoln	1,513,940,861	43,923,529	28.82	43,632,137	20,898	2,088	1,528	137	101	74	1.36
18	Richmond	423,874,696	9,472,874	28.82	12,216,170	7,222	1,692	1,528	111	78	70	1.43
19	Newport	1,833,060,016	48,311,555	28.82	52,829,227	26,475	1,995	1,528	131	91	70	1.43
20	Middletown	1,119,033,184	27,456,501	28.82	32,250,803	17,334	1,861	1,528	122	85	70	1.43
21	Exeter	363,789,616	7,897,086	28.82	10,484,504	6,045	1,734	1,528	114	75	66	1.51
22	Cumberland	1,947,501,081	42,222,456	28.82	56,127,446	31,840	1,763	1,528	115	75	65	1.53
23	South Kingstown	1,898,267,029	45,007,773	28.82	54,708,509	27,921	1,959	1,528	128	82	64	1.56
24	Tiverton	957,740,945	19,980,462	28.82	27,602,323	15,260	1,809	1,528	118	72	61	1.64
25	Smithfield	1,369,684,107	30,052,215	28.82	39,474,623	20,613	1,915	1,528	125	76	61	1.65
26	North Smithfield	785,892,025	18,247,596	28.82	22,649,596	10,618	2,133	1,528	140	81	58	1.73
27	Foster	316,759,412	6,960,935	28.82	9,129,082	4,274	2,136	1,528	140	76	55	1.83
28	North Kingstown	2,111,058,361	49,347,856	28.82	60,841,206	26,326	2,311	1,528	151	81	54	1.87
29	Portsmouth	1,478,432,902	32,488,775	28.82	42,608,789	17,149	2,485	1,528	163	76	47	2.13
30	West Greenwich	412,863,839	8,410,394	28.82	11,898,834	5,085	2,340	1,528	153	71	46	2.17
31	Westerly	2,156,102,142	40,099,622	28.82	62,139,378	22,966	2,706	1,528	177	65	36	2.74
32	Barrington	1,913,306,120	38,246,260	28.82	55,141,939	16,819	3,279	1,528	215	69	32	3.09
33	Narragansett	1,698,771,925	30,945,315	28.82	48,959,012	16,361	2,992	1,528	196	63	32	3.10
34	East Greenwich	1,570,105,835	32,375,762	28.82	45,250,825	12,948	3,495	1,528	229	72	31	3.20
35	Scituate	994,647,657	16,179,445	28.82	28,665,983	10,324	2,777	1,528	182	56	31	3.22
36	Charlestown	840,309,720	14,542,226	28.82	24,217,927	7,859	3,082	1,528	202	60	30	3.36
37	Jamestown	911,614,006	11,983,246	28.82	26,272,933	5,622	4,673	1,528	306	46	15	6.71
38	Little Compton	716,330,898	6,051,807	28.82	20,644,827	3,593	5,746	1,528	376	29	8	12.83
39	New Shoreham	534,203,163	4,686,991	28.82	15,395,863	1,010	15,243	1,528	998	30	3	32.78
Total		\$55,568,593,353	1,601,500,121	28.82	1,601,500,121	1,048,319	1,528	1,528	100	100	100	1.00

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data

FY 2002 Indices ranged from 0.08 in Central Falls to 32.78 in New Shoreham. Nine communities had Indices less than 1.00, 19 communities had Indices between 1.00 and 2.00, and the remaining eleven communities had Indices of 2.00 or higher. As one will note, 7 of the 10 communities with Indices of less than 1.00 are among the State's urban communities.

Providence's overall indices ranked second lowest at 0.19, indicating significant fiscal constraints under this type of property tax burden measure. In terms of property tax effort, the City demonstrated effort that was 2.3 times the State average, and its tax capacity was only 43.0 percent of the State average. Therefore, these combined conditions – a limited tax base and a high use of that base – has resulted in a tax index that is only rivaled by Central falls.

Percent of Levy: Rhode Island's 1985 Property Tax Relief and Replacement Act was designed to restrict the growth in property taxes and to expand the State's role in funding public education. The Act placed a 5.5 percent cap on property tax levy growth in each city or town. The cap may be applied to either the actual levy or the growth in tax rates.

In 1980 Massachusetts voters approved an initiative designed to reduce property taxes by 40.0 percent. While Proposition 2½ had a number of provisions worth noting, the key to the program was to prohibit property tax levies from exceeding 2½ percent of the full and fair cash value of the local tax base. This was designed to limit the net growth in property tax levies based on the market value of property in the community. There is currently no such provision in Rhode Island's property tax cap structure.

Should such a provision exist, 17 communities would fall within 2.0 and 2.5 percent of full market value, while the remaining 16 communities will fall below 2.0 percent of full market value. Six communities would exceed the 2½ percent standard - Providence, West Warwick, Central Falls, Pawtucket, Woonsocket and Warwick

The City of Providence's levy as a percentage of full value (3.2 percent) is the highest among the 39 cities and towns. As the following table shows, this is not a one-year phenomenon. The City's levy as a percent of total market value of property has exceeded the 2.5 percent standard since its revaluation in FY 1989, and has exceeded 3.0 percent since FY 1996.

Taxpayer Profiles: In order to provide another method of determining relative property tax burden, RIPEC developed the following analysis in consultation with the Office of Municipal Affairs. The following table calculates the estimated property tax bill on a house currently valued at \$150,000. The value of the house is adjusted in each community by the ratio of assessment, which estimates what a single family home would actually be assessed at as a percentage of its actual market value (in this case \$150,000). The ratio will differ among communities principally due to the timing of the most recent revaluation of property.

FY 2002 Estimated Levy as a Percent of Full Value

Community	Estimated Full Value	FY 2002 Spending	Levy as % of Full Value	Rank
Providence	\$7,102,130,200	\$225,626,210	3.2%	1
West Warwick	1,284,743,798	36,239,314	2.8%	2
Central Falls	346,792,530	9,637,616	2.8%	3
Pawtucket	2,459,737,262	66,252,469	2.7%	4
Woonsocket	1,248,964,367	33,375,355	2.7%	5
Warwick	5,789,006,047	149,304,181	2.6%	6
North Providence	1,519,113,207	38,346,342	2.5%	7
Johnston	1,848,526,415	45,368,735	2.5%	8
Cranston	4,355,789,208	105,644,501	2.4%	9
Barrington	1,483,982,401	35,895,009	2.4%	10
East Greenwich	1,180,884,138	28,495,352	2.4%	11
East Providence	2,663,376,803	60,036,697	2.3%	12
Glocester	618,269,099	13,667,435	2.2%	13
Coventry	1,802,209,851	38,905,763	2.2%	14
Newport	2,223,942,227	47,052,966	2.1%	15
North Kingstown	2,248,374,032	46,885,673	2.1%	16
North Smithfield	824,340,510	17,145,613	2.1%	17
Hopkinton	479,499,637	9,784,131	2.0%	18
Warren	692,089,199	13,985,955	2.0%	19
Portsmouth	1,483,014,461	29,774,731	2.0%	20
Lincoln	1,706,267,316	33,687,061	2.0%	21
Smithfield	1,444,451,544	28,422,159	2.0%	22
Middletown	1,369,541,417	26,843,349	2.0%	23
West Greenwich	427,109,924	8,204,130	1.9%	24
Burrillville	851,237,534	16,033,549	1.9%	25
Foster	358,701,322	6,619,905	1.8%	26
Richmond	462,496,866	8,496,107	1.8%	27
Cumberland	1,998,343,646	36,508,273	1.8%	28
Exeter	411,071,762	7,480,365	1.8%	29
Bristol	1,330,472,834	23,863,022	1.8%	30
South Kingstown	2,407,183,642	43,002,755	1.8%	31
Tiverton	1,062,551,224	18,765,009	1.8%	32
Narragansett	1,746,434,872	30,673,991	1.8%	33
Charlestown	962,958,724	13,740,998	1.4%	34
Westerly	2,746,918,366	37,110,175	1.4%	35
Scituate	1,180,415,438	15,386,941	1.3%	36
Jamestown	928,542,302	11,756,189	1.3%	37
New Shoreham	561,356,453	4,635,556	0.8%	38
Little Compton	1,669,562,712	5,920,595	0.4%	39
Total (Median)	\$65,280,403,291	\$1,428,574,177	2.2%	-

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data.

FY 2002 Rhode Island Estimated Property Tax Burdens \$150,000 Home

Community	\$150,000 Single Family	Ratio of Assessment	Assessed Value	Homestead Exemption	Net Taxable Value	Residential Rate	Estimated Tax Burden	Rank	Estimated Fire Tax Rate	Estimated Fire Tax	Estimated Total Burden	Rank
West Warwick	\$150,000	100.00%	\$150,000	\$0	\$150,000	\$30.15	\$4,523	1	\$0.00	\$0	\$4,523	1
East Greenwich	150,000	93.81%	140,709	0	140,709	27.59	3,882	2	2.33	328	4,210	2
Coventry	150,000	102.59%	153,880	0	153,880	23.22	3,573	6	3.10	477	4,050	3
Glocester	150,000	90.68%	136,026	0	136,026	26.71	3,633	5	1.72	234	3,867	4
Barrington	150,000	96.03%	144,041	0	144,041	25.40	3,659	3	0.00	0	3,659	5
Warwick	150,000	94.24%	141,363	0	141,363	25.81	3,649	4	0.00	0	3,649	6
Pawtucket	150,000	100.00%	150,000	0	150,000	23.80	3,570	7	0.00	0	3,570	7
Johnston	150,000	100.00%	150,000	0	150,000	23.79	3,569	8	0.00	0	3,569	8
North Providence	150,000	97.59%	146,389	29,278	117,111	29.78	3,488	9	0.00	0	3,488	9
Hopkinton	150,000	95.51%	143,260	0	143,260	22.52	3,226	16	1.09	156	3,382	10
Cranston	150,000	98.38%	147,577	44,273	103,304	32.59	3,367	10	0.00	0	3,367	11
Cumberland	150,000	95.24%	142,857	0	142,857	20.92	2,989	21	2.48	354	3,343	12
Providence	150,000	100.00%	150,000	52,500	97,500	34.07	3,322	11	0.00	0	3,322	13
Portsmouth	150,000	95.08%	142,625	0	142,625	22.81	3,253	15	0.35	50	3,303	14
North Kingstown	150,000	100.00%	150,000	0	150,000	21.94	3,291	12	0.00	0	3,291	15
Newport	150,000	87.19%	130,780	0	130,780	25.10	3,283	13	0.00	0	3,283	16
Warren	150,000	92.28%	138,413	0	138,413	23.07	3,193	17	0.00	0	3,193	17
Burrillville	150,000	100.00%	150,000	0	150,000	18.90	2,835	28	1.97	296	3,131	18
Richmond	150,000	78.98%	118,477	0	118,477	25.13	2,977	23	1.22	145	3,122	19
Middletown	150,000	100.00%	150,000	0	150,000	20.45	3,068	18	0.00	0	3,068	20
West Greenwich	150,000	95.04%	142,559	0	142,559	21.31	3,038	19	0.00	0	3,038	21
Foster	150,000	50.00%	75,000	0	75,000	40.20	3,015	20	0.00	0	3,015	22
North Smithfield	150,000	100.00%	150,000	0	150,000	19.88	2,982	22	0.00	0	2,982	23
Tiverton	150,000	91.23%	136,838	0	136,838	20.34	2,783	30	1.05	144	2,927	24
East Providence	150,000	96.30%	144,445	21,667	122,778	23.66	2,905	24	0.00	0	2,905	25
Exeter	150,000	58.84%	88,253	0	88,253	32.82	2,896	25	0.00	0	2,896	26
Central Falls	150,000	100.00%	150,000	15,000	135,000	21.27	2,871	26	0.00	0	2,871	27
Bristol	150,000	92.76%	139,139	0	139,139	20.60	2,866	27	0.00	0	2,866	28
South Kingstown	150,000	100.00%	150,000	0	150,000	17.90	2,685	31	1.13	170	2,855	29
Narragansett	150,000	97.05%	145,576	0	145,576	18.24	2,655	32	1.24	181	2,836	30
Woonsocket	150,000	100.00%	150,000	52,500	97,500	29.00	2,828	14	0.00	0	2,828	31
Smithfield	150,000	100.00%	150,000	0	150,000	18.66	2,799	29	0.00	0	2,799	32
Charlestown	150,000	93.71%	140,568	0	140,568	15.85	2,228	34	3.45	485	2,713	33
Lincoln	150,000	100.00%	150,000	52,500	97,500	23.98	2,338	33	1.80	176	2,514	34
Westerly	150,000	100.00%	150,000	0	150,000	13.32	1,998	36	1.88	282	2,280	35
Scituate	150,000	50.00%	75,000	0	75,000	27.75	2,081	35	0.00	0	2,081	36
Jamestown	150,000	100.00%	150,000	0	150,000	12.83	1,925	37	0.00	0	1,925	37
New Shoreham	150,000	70.90%	106,349	0	106,349	11.82	1,257	38	0.00	0	1,257	38
Little Compton	150,000	100.00%	150,000	0	150,000	7.01	1,052	39	0.00	0	1,052	39
Estimated Average	\$150,000	92.65%	\$138,978	\$6,865	\$132,113	\$22.43	\$2,963	-	\$0.64	\$84	\$3,047	-

- (1) Assessed value of house is based on calendar year 2000 Ratio Study - Office of Municipal Affairs
- (2) Homestead provisions represent current law for FY 2002.
- (3) Estimated Fire District Tax represents the highest tax rate in the community in FY 2002.

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data.

The estimated tax on the home is calculated based on existing homestead provisions and FY 2002 residential property tax rates. For those communities that have local property taxes assessed by fire districts, the analysis uses the highest fire tax rate within the community. As the table shows, the relative burden does change when fire districts are taken into account.

RIPEC estimates that the average FY 2002 property tax bill on a \$150,000 home in the State is approximately \$3,050 – approximately 2.2 percent of net assessed value. The estimated property tax bill ranges from a high of \$4,523 in West Warwick to a low of \$1,052 in Little Compton. West Warwick’s estimated property tax bill on a home valued at \$150,000 is nearly 1.5 times the State average.

Providence homeowners actually fare well compared to previous measures of property tax burdens. The estimated burden on a \$150,000 home in Providence is \$3,322, which ranks 13th highest in the State. This tax burden is assisted by the homestead provision (approximately 35.0 percent). The tax burden is approximately 9.0 percent above the State average (\$3,049).

Findings:

- Rhode Island’s property tax collections per \$1,000 of personal income (\$46.45) ranked 6th highest in the U.S. and were 43.0 percent above the U.S. average. In addition, Rhode Island localities derived 55.6 percent of their revenues from property taxes compared with the national average of 25.3 percent;
- While adjusted statewide property value decreased from \$83.4 billion in FY 1992 to an estimated \$65.4 billion in FY 2002 (a 21.6 percent decrease), adjusted statewide property tax levies increased from \$1.3 billion to \$1.4 billion (a 10.6 percent increase);
- Nearly 73.0 percent of the property value decline occurred in urban Rhode Island, while non-urban communities experienced the 27.0 percent decline balance;
- Providence has the most complicated property tax classification system in the State, establishing six different tax burdens, depending on occupancy and class of property.
- Regardless of the measures used, the City of Providence has one of the highest property tax burdens in the State.
- Based on the State’s tax capacity and tax effort index, only the City of Central Falls demonstrates a higher level of fiscal distress.
- The City of Providence’s property tax levy as a percent of full market value (3.2 percent) exceeds all other Rhode Island communities and is 50.0 percent higher than the State average (2.2 percent).

Recommended Actions:

The City will be conducting a statistical update of its property values for its FY 2005 City budget. This will offer an opportunity to consider any refinements to the City's property tax structure, thereby creating an opportunity to attack some of the complexity of the tax structure and its impact on competitiveness. The City has already embarked on a multi-year plan to bring the tangible tax in line with other property tax burdens in the City, and this effort should be continued.

The real challenge before the next Administration is to configure the real estate property tax burdens so that they generate sufficient revenues while minimizing the disparity in burdens by class of property. Therefore, as the City prepares for the next update of property values, it is incumbent on the local leadership to consider alternatives to the existing classification scheme.

However, it is difficult to reduce the City's property tax burden without the assistance from the State. The State's program to eliminate the local inventory tax is a welcome reform to competitiveness, and the City should fare well in terms of net revenues to the City. As noted above, the future of the State's program to phase-out the excise tax on motor vehicles is uncertain, but it has served as a revenue generator for the City. Therefore, the City must pursue additional state aid in order to relieve some pressure to raise property taxes. The Administration should develop a strategy of how to replace property tax dollars should funding emerge from the State or other sources beyond what would be needed to fund existing services.

Issue: Providence Share of State Aid

Summary:

Providence relies on State Aid to fund 45.5 percent of its operating budget – approximately \$235.1 million in FY 2003. The following is an overview of the major State Aid programs and how much the City receives under each program. The analysis identifies potential changes to aid programs that would prove useful to the City.

Background:

There are seven major State Aid Programs to cities and towns in Rhode Island:

- Public Service Corporations Tax;
- Payment-in-Lieu-of Taxes (PILOT);
- General Revenue Sharing
- Distressed Community Relief Fund;
- Phase-out of the Excise Tax on Motor Vehicles;
- Direct Education Aid; and
- School Construction Aid (Housing Aid).

The state aid programs noted above distributed \$845.6 million in aid in FY 2003 statewide. The City of Providence received \$235.1 million of this aid in FY 2003 – approximately 28.0 percent of the total aid. This represents the greatest portion of State aid ever received by the City. It should be noted that there are several other State aid programs, such as library aid and the state program to assist in funding local statistical updates of real property. However, these funds represent a small portion of the State's total aid package.

Each State aid program provides a different level of support to the City of Providence due to the various formulas involved. The following highlights each of the State aid programs and how they impact Providence. For more details on each of the formulas, RIPEC recommends the House Fiscal Staff's FY 2003 publication – *Rhode Island Local Aid*. It provides additional information and insight into each of the major State aid programs. In addition, RIPEC has published several reports on education aid that may prove useful.

Public Service Corporation Tax – Tangible personal property (lines, cables, pipes and various equipment) of cable, telegraph and telecommunications corporations is exempt from local taxation but is subject to State taxation. Companies report the value of their tangible personal property to the Division of Taxation, and the are derived by using the average ratio of assessment and property tax rate in the State. The funds collected (minus a small administrative fee) are then distributed to municipalities based on the most recent Census population figures. It should be noted that these funds are not reflected in the State's annual appropriations act because it is principally a pass-through operation, but are considered state aid.

The following table provides trend data regarding the Public Service Corporation Tax. The total resources made available through this program has increased from \$8.2 million in FY 1996 to \$16.7 million in FY 2003 – an \$8.5 million increase over this period of time. The City of Providence’s share has increased from \$1.3 million to \$2.8 million over the same period. Given the slight growth in the City’s share of the State’s population, the City’s share of this program has increased slightly from 16.0 percent to 16.6 percent of the total state aid under this program.

Public Service Corporation Tax					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$1,260,197	\$7,855,760	1.5%	4.7%	16.0%
1993	1,107,968	6,917,327	-12.1%	-11.9%	16.0%
1994	1,123,963	7,017,184	1.4%	1.4%	16.0%
1995	1,155,129	7,211,751	2.8%	2.8%	16.0%
1996	1,313,656	8,201,474	13.7%	13.7%	16.0%
1997	1,347,237	8,411,129	2.6%	2.6%	16.0%
1998	1,616,986	10,095,236	20.0%	20.0%	16.0%
1999	1,802,592	11,254,020	11.5%	11.5%	16.0%
2000	2,048,444	12,788,935	13.6%	13.6%	16.0%
2001	2,196,861	13,715,534	7.2%	7.2%	16.0%
2002	2,766,209	16,702,585	25.9%	21.8%	16.6%
2003	2,766,209	16,702,585	0.0%	0.0%	16.6%
1996-03	\$1,452,553	\$8,501,111	110.6%	103.7%	17.1%

Source: RIPEC calculations based on House Fiscal Staff Data

Payment-in-lieu-of-taxes (PILOT) – The program is designed to reimburse municipalities for property taxes that would have been collected on real property owned by a variety of nonprofits. State law prohibits local communities to levy property taxes on certain properties owned by eligible nonprofits, such as higher education, state facilities and hospital institutions. The program, established in 1986, has been expanded several times in terms of the eligible properties under the program and the rate of reimbursement. In FY 1998, the rate of reimbursement was increased from 25.0 percent to 27.0 percent. In FY 2003, the State scaled back its commitment in the program, appropriating 24.8 percent instead of the 27.0 percent that was required. In other words, if the State appropriates an amount that is less than what would be required to meet the 27.0 percent requirement statewide, the amount is ratably reduced.

The State’s appropriation for PILOT has increased from \$12.2 million in FY 1996 to \$18.2 million in FY 2003 – representing a \$6.0 million increase during this period. The City of Providence received \$7.3 million in FY 1996 and \$12.7 million in FY 2003 – a \$5.4 million increase during the same period. In FY 1996, Providence received 60.1

percent of every dollar in this program. This has since increased to nearly 70.0 percent of every dollar allocated through this state aid program. Of the \$6.0 million increase in PILOT funding statewide, Providence received 90.0 percent of the growth. Given the City's share of this program, a ratable reduction due to insufficient State funding has a disproportionate impact on the City.

Payment in Lieu of Taxes (PILOT)					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$1,579,745	\$2,809,841	-18.9%	-19.7%	56.2%
1993	1,554,855	2,809,841	-1.6%	0.0%	55.3%
1994	1,558,649	2,809,841	0.2%	0.0%	55.5%
1995	7,075,254	12,200,000	353.9%	334.2%	58.0%
1996	7,334,193	12,200,000	3.7%	0.0%	60.1%
1997	7,357,260	12,200,000	0.3%	0.0%	60.3%
1998	9,219,419	14,234,360	25.3%	16.7%	64.8%
1999	10,438,204	15,852,245	13.2%	11.4%	65.8%
2000	10,543,351	16,065,588	1.0%	1.3%	65.6%
2001	11,845,126	17,614,803	12.3%	9.6%	67.2%
2002	12,440,264	18,151,503	5.0%	3.0%	68.5%
2003	12,688,288	18,151,502	2.0%	0.0%	69.9%
1996-03	\$5,354,095	\$5,951,502	73.0%	48.8%	90.0%

Source: RIPEC calculations based on House Fiscal Staff Data

General Revenue Sharing –General Revenue Sharing is a program where the State distributes a percentage of total State tax revenue from the second fiscal year prior to municipalities. Second fiscal year prior means that FY 2003 aid is based on revenues collected in FY 2001. The distribution formula is based on per capita income and local property tax burden for public purposes (excludes education related expenses). The state distributes these funds based on local tax effort and income levels.

A major initiative has had a significant impact on this program. In FY 1998, the State embarked on a 10-year program to phase-out the local tax on wholesale and retail inventories. The State froze local tax rates at the FY 1999 levels and required municipalities to reduce the rates by 10.0 percent annually. The State was unable to determine the exact amounts in wholesale and retail inventory taxes collected by municipality, so the State was unable to determine the exact amount to be reimbursed. Therefore, rather than reimburse municipalities for the lost revenue based on estimated revenues foregone, the State has provided additional funding through the General Revenue Sharing Program by increasing the percent of state tax revenues dedicated to the program. One should note this is now an 11-year phase-out – the State enacted a one-year delay for FY 2003, pushing back the schedule one year.

General Revenue Sharing					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$729,913	\$3,200,000	-80.7%	-80.6%	22.8%
1993	0	0	-100.0%	-100.0%	0.0%
1994	2,921,719	12,580,000	0.0%	0.0%	23.2%
1995	3,158,616	13,600,000	8.1%	8.1%	23.2%
1996	2,973,730	12,803,952	-5.9%	-5.9%	23.2%
1997	3,063,598	13,190,887	3.0%	3.0%	23.2%
1998	3,194,342	13,753,834	4.3%	4.3%	23.2%
1999	4,581,462	19,726,331	43.4%	43.4%	23.2%
2000	6,404,973	27,577,793	39.8%	39.8%	23.2%
2001	7,779,494	33,496,052	21.5%	21.5%	23.2%
2002	10,131,124	43,621,429	30.2%	30.2%	23.2%
2003	11,595,992	48,287,931	14.5%	10.7%	24.0%
1996-03	\$8,622,262	\$35,483,979	289.9%	277.1%	24.3%

Source: RIPEC calculations based on House Fiscal Staff Data

General Revenue Sharing funding has increased from \$12.8 million in FY 1996 to \$48.3 million in FY 2003. The State provided 1.0 percent of tax revenues from the second prior year in FY 1996, but has since increased it to 2.4 percent in FY 2003. Providence received \$3.0 million in General Revenue Sharing funding in FY 1996 – 23.2 percent of the total available in the State. Providence’s share in FY 2003 totaled \$11.6 million, receiving 24.0 percent of the funding in this program. If the State continues with the phase-out of the program, Providence can expect to receive an annual increase in its General Revenue Sharing Aid of approximately \$1.5 million.

Distressed Community Relief Fund – Established in FY 1990, the Distressed Community Relief Fund was designed to provide assistance to eligible communities that demonstrated extremely high property tax burdens relative to the rest of the state. There are four indices that are used to determine eligibility:

- Property tax levy as a percent of full market value of property;
- Full market value of property per capita;
- Income per capita; and the
- Percent of personal income to full market value of property.

Those communities that fall into the lowest 15.0 percent for at least three of the four indices are eligible to receive funding under the program. The distribution of these funds is based on the ratio of the eligible community’s tax levy to the total tax levy of all eligible communities.

The State has used general revenues, a dedicated portion of the real estate conveyance tax and revenues from video lottery terminals to support the funding of the program. In FY 1996, the State distributed \$5.8 million in distressed community relief funds. This has since increased to \$7.7 million. The increase was principally due to the State discovering an error in the amounts allocated from the real estate conveyance tax revenues. The Providence share of these resources has increased from \$3.6 million in FY 1996 to \$4.2 million in FY 2003. Providence's share of the total Fund has decreased from 57.0 percent to 54.8 percent during this period. It peaked at 59.9 percent in FY 2002. A community's relative levy as well as the number of eligible communities influence Providence's relative share of the program.

Distressed Community Relief Fund					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$0	\$1,105,938	0.0%	54.1%	0.0%
1993	393,049	1,520,247	0.0%	37.5%	25.9%
1994	2,238,150	4,163,289	469.4%	173.9%	53.8%
1995	2,863,663	7,191,669	27.9%	72.7%	39.8%
1996	3,588,614	5,812,500	25.3%	-19.2%	61.7%
1997	3,310,680	5,812,500	-7.7%	0.0%	57.0%
1998	3,510,578	6,162,500	6.0%	6.0%	57.0%
1999	3,593,882	6,162,500	2.4%	0.0%	58.3%
2000	3,841,561	6,601,863	6.9%	7.1%	58.2%
2001	4,305,554	7,293,310	12.1%	10.5%	59.0%
2002	4,611,489	7,700,000	7.1%	5.6%	59.9%
2003	4,217,248	7,700,000	-8.5%	0.0%	54.8%
1996-03	\$628,634	\$1,887,500	17.5%	32.5%	33.3%

Source: RIPEC calculations based on House Fiscal Staff Data

Phase-out of the Excise Tax on Motor Vehicles – As part of the State's FY 1998 Appropriations Bill, the General Assembly embarked on a program to eliminate excise taxes on motor vehicles. The program has since been frozen, but it has played a major role in State aid over the past five fiscal years.

In order to ensure that local communities did not raise additional motor vehicle taxes during this period, the program requires communities to freeze motor vehicle excise tax rates at the FY 1998 level. In making up the lost revenues generated by the tax, the State holds communities harmless through advance reimbursements. For example, in FY 2002, the budget included \$93.2 million to reimburse local revenues foregone due to exempting \$4,500 in motor vehicle value in FY 2003.

Phase-out of the Excise Tax on Motor Vehicles					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$0	\$0	0	0	0
1993	0	0	0	0	0
1994	0	0	0	0	0
1995	0	0	0	0	0
1996	0	0	0	0	0
1997	0	0	0	0	0
1998	0	0	0	0	0
1999	3,874,835	22,095,563	0.0%	0.0%	17.5%
2000	8,738,878	47,283,147	125.5%	114.0%	18.5%
2001	13,763,586	74,817,389	57.5%	58.2%	18.4%
2002	17,051,687	93,166,969	23.9%	24.5%	18.3%
2003	17,051,687	94,767,097	0.0%	1.7%	18.0%
1996-03	\$17,051,687	\$94,767,097	NA	NA	18.0%

Source: RIPEC calculations based on House Fiscal Staff Data

The locally levied motor vehicle excise tax had been a source of growing revenue for many municipalities. Therefore, the State has included two provisions that attempt to accommodate this issue. First, the program assumes a 100 percent collection rate on motor vehicles taxes. However, all communities historically have not collected 100 percent of the taxes levied due to slippage.

Second, because municipalities lose the option of increasing the motor vehicle tax in the future, the General Assembly included an inflation adjustment that is applied annually to the FY 1998 motor vehicle tax rate. Therefore, the plan not only replaces all lost revenues due to the elimination of the excise tax, it provides an annual increase in revenues that communities may or may not have realized if the State had not begun phasing out the tax. For more details regarding the program, please consult RIPEC's report - *A System Out of Balance - Permanent Property Tax Relief and Replacement in Rhode Island*.

In FY 1999, municipalities received \$22.1 million for the first installment of the phase-out. This has since grown to \$94.8 million in revenues statewide for the program. Of the amounts in reimbursement, Providence received \$3.9 million in FY 1999 and \$17.1 million in FY 2003 – representing approximately 18.0 percent of the total made available to the State as a whole.

What is interesting about the program is that under its current design, the State actually provides municipalities with more revenues than those that would have been collected locally. As noted above, the state assumes a 100.0 percent collection rate, which is not achievable. Some communities, such as Providence, have much lower collection rates for vehicle taxes. Second, the State updates the vehicle tax base annually with an adjustment for inflation. The inflation factor seems to outpace the actual growth in the vehicle property tax base. Regardless, the City of Providence does fair better under the program than it would if it were collecting excise taxes on motor vehicles at the same rate of taxation it levied in FY 1999.

Direct Education Aid – Education aid has gone through significant changes since FY 1995. The state abandoned its long-standing education aid formula in FY 1995, which was designed to reimburse school districts for spending levels based on their relative wealth. The State began an annual ad-hoc process of establishing a series of formulas to distribute state education aid funding arguably linked to additional accountability. Regardless, the distribution of direct school aid represents the most fluid of State aid programs, principally due to its annually negotiated process.

In direct education aid, the State has increased the amount distributed from \$400.7 million in FY 1996 to \$621.7 million in FY 2003 – representing a 55.1 percent change in total aid. Providence State education aid increased from \$94.0 million to \$174.9 million during this period – representing an 86.2 percent increase. Of the \$221.0 million increase statewide, nearly 37.0 percent of the increase (\$81.0 million) was allocated to the City of Providence. Generally, Providence’s share of total direct education aid has increased over the years, with its share increasing from 23.4 percent in FY 1996 to 28.1 percent in FY 2003.

The State has made a conscious effort in targeting education aid to the State’s urban school systems through a series of formulas designed to drive resources to communities that demonstrate both relatively high property tax burdens and concentrations of low-income children.

Equity Fund/Student Equity Investment Fund - Approximately 75.0 percent of the net increase in State school aid statewide was distributed through the Equity Fund. The Fund distributes State aid through a formula based on the number of children a community has that are eligible for free and reduced lunch programs relative to the total number of eligible children Statewide. This was designed to recognize that student need was a critical factor in education. For every \$1.00 of additional aid distributed under this method, Providence received \$0.40.

Core Instruction Equity Fund and Targeted Aid - A second innovation in school funding during this period was the employment of an index that gauged each community’s relative property tax capacity with its tax effort. Under the Core Instruction Equity Fund, communities that have a property tax effort above the state median and have a gap between instruction expenditures per pupil and the state average receive funds under this program. For the Targeted aid, those communities that demonstrated high tax efforts

with limited capacity, as well as a high concentration of children eligible for subsidized lunch programs, received additional aid under this program. There were several variants of this method during the past 5-6 years, but Providence managed to receive approximately nearly 60 percent of every \$1.00 distributed using the index.

Direct Education Aid					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$58,495,112	\$308,894,886	-0.9%	-8.3%	18.9%
1993	60,800,777	322,119,499	3.9%	4.3%	18.9%
1994	68,743,193	333,175,422	13.1%	3.4%	20.6%
1995	87,814,504	381,761,726	27.7%	14.6%	23.0%
1996	93,951,874	400,749,770	7.0%	5.0%	23.4%
1997	97,987,955	411,534,595	4.3%	2.7%	23.8%
1998	108,499,534	437,757,366	10.7%	6.4%	24.8%
1999	124,843,132	479,507,366	15.1%	9.5%	26.0%
2000	136,245,950	514,933,452	9.1%	7.4%	26.5%
2001	151,748,447	559,719,174	11.4%	8.7%	27.1%
2002*	165,275,304	596,072,940	8.9%	6.5%	27.7%
2003	174,934,589	621,733,840	5.8%	4.3%	28.1%
1996-03	\$80,982,715	\$220,984,070	86.2%	55.1%	36.6%

* There is an additional \$3.7 million for Progressive Support/Intervention.
Source: RIPEC calculations based on House Fiscal Staff Data

State Housing Aid – The State partially reimburses local school construction projects that are approved by the State’s Board of Regents. The reimbursement rate is based on a school district’s wealth compared to the State’s wealth. Each community is guaranteed at least a 30.0 percent reimbursement rate. Reimbursement is based on the total cost of the project, not of the original bond issuance. A major adjustment to the program was made in FY 1998. Up until FY 1998, the program only supported projects funded through general obligation bonds. The program now permits projects that use lease revenue bonds, capital leasing arrangements and capital reserve funds.

The State distributed \$17.0 million in housing aid in FY 1996 – this has since increased to \$38.2 million in FY 2003 (Includes an estimated \$4.7 million adjustment for supplemental spending proposed by the Department of Elementary and Secondary Education). Providence’s share of this program will increase from 27.6 percent to 30.9 percent, with the dollars increasing from \$4.7 million to \$11.8 million during this period. Providence’s reimbursement rate has increased from 69.44 percent in FY 1996 to 74.76 percent in FY 2003.

School Housing Aid					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$2,427,376	\$14,070,831	46.3%	19.5%	17.3%
1993	3,063,303	16,154,117	26.2%	14.8%	19.0%
1994	3,995,709	17,008,438	30.4%	5.3%	23.5%
1995	4,878,197	16,153,809	22.1%	-5.0%	30.2%
1996	4,695,202	17,002,904	-3.8%	5.3%	27.6%
1997	4,583,925	18,104,513	-2.4%	6.5%	25.3%
1998	5,642,166	19,726,219	23.1%	9.0%	28.6%
1999	6,645,457	22,568,944	17.8%	14.4%	29.4%
2000	8,064,957	25,540,280	21.4%	13.2%	31.6%
2001	10,827,562	30,775,774	34.3%	20.5%	35.2%
2002	11,548,717	33,222,193	6.7%	7.9%	34.8%
2003	11,817,799	38,232,355	2.3%	15.1%	30.9%
1996-03	\$7,122,597	\$21,229,451	151.7%	124.9%	33.6%

Source: RIPEC calculations based on House Fiscal Staff Data

Findings:

The State has had significant increases in local aid since FY 1996. Statewide, state aid increased by \$384.0 million from FY 1996 through FY 2003. Of this amount, Providence received \$120.9 million, or 31.4 percent of the growth (two thirds of which was due to growth in school aid). Nearly 75.0 percent of the City's FY 2003 State Aid package is through direct school aid.

Each aid program offers opportunities and challenges. Most State aid comes with little requirements in terms of what the City can spend the money on. Education aid has shown a recent trend of additional restrictions on use, particularly as it relates to the new dollars allocated each new fiscal year. The following highlights the major findings from the analysis of State aid to Providence.

- The City receives the greatest share of aid through the PILOT program – nearly \$0.70 of every \$1.00 distributed is allocated to Providence;
- The City's share of distressed communities relief funds also represents a significant portion of total funds distributed through the program – the City receives nearly \$0.55 of every \$1.00 distributed through the program;

- In terms of total dollars, School aid has provided 75.0 percent of the total growth in aid to Providence since FY 1996. Providence's share of school aid has increased to nearly 30 percent.
- The City has collected more through the General Revenue Sharing Program and the Phase-out of the Excise Tax on Motor Vehicles than it would have if it were levying and collecting those taxes locally.

Total State Aid - All Aid					
Fiscal Year	Providence Share	State Total	Providence Change	State Change	Providence Share
1992	\$64,492,343	\$337,937,256	-4.7%	-10.3%	19.1%
1993	66,919,952	349,521,031	3.8%	3.4%	19.1%
1994	80,581,383	376,754,174	20.4%	7.8%	21.4%
1995	106,945,363	438,118,955	32.7%	16.3%	24.4%
1996	113,857,269	456,770,600	6.5%	4.3%	24.9%
1997	117,650,655	469,253,624	3.3%	2.7%	25.1%
1998	131,683,025	501,729,515	11.9%	6.9%	26.2%
1999	155,779,564	577,166,969	18.3%	15.0%	27.0%
2000	175,888,114	650,791,058	12.9%	12.8%	27.0%
2001	202,466,630	737,432,036	15.1%	13.3%	27.5%
2002	223,824,794	808,637,619	10.5%	9.7%	27.7%
2003	235,071,812	845,575,310	5.0%	4.6%	27.8%
1996-03	\$121,214,543	\$388,804,710	106.5%	85.1%	31.2%

Source: RIPEC calculations based on House Fiscal Staff Data

Recommended Actions:

1. Given the City provides a range of services to non-taxable properties that have a statewide impact, the State should develop a multi-year program to increase the percentage of reimbursement under the PILOT program. Immediate efforts must be made to return the percentage to 27.0 percent. Additional efforts should be made to establish a schedule over five years to increase the program to 35.0 percent – this would require an additional \$8.0 - \$10.0 million in State funding when fully implemented. Providence would receive between \$5.6 - \$7.0 million of this increase.
2. Efforts should continue to maximize education funding, but targeting through programs that direct funds towards student and taxpayer need.

Human Resources – Overview

The Providence Management Task Force focused on three management systems for the City of Providence – Finance, Human Resources, and Information Technology. The following report reflects the analysis developed for the Human Resources Function. Many thanks go to Mr. Stephen O'Rourke, Executive Director of the Providence Housing Authority, for his leadership and insight into the City's human resources function. In addition, Ms. Sybil Bailey, Acting Director of Personnel, was instrumental in developing information and providing valuable guidance regarding the strengths and weaknesses of the City's human resources systems.

The following report summarizes the key findings and recommendations after reviewing the City's human resources function. The report is followed by specific analysis of key issues that face the City, presenting findings, recommendations and action plans for each issue discussed. *It should be noted that many of the recommended actions below would require changes in collective bargaining arrangements and/or through changes in law or City Charter.*

Findings:

- The relationship between the Mayor's Office and employee unions places the Personnel Office in a subordinate position in managing and implementing appropriate human resources policies and procedures;
- Human resources activities are positioned in several locations throughout City Hall, and several functions report to different middle managers;
- The Personnel Department has a number of vacancies that are critical to its mission, and therefore efforts should be made to recruit qualified professionals into these positions;
- The Human Resources Department does not have a labor relations specialist on site that would assist in meeting various labor-related needs, such as preparation for contract negotiations;
- The basic operations of the human resources function have not been implemented comprehensively throughout the City. For example, the job descriptions are sometimes out-dated or incomplete. There is little job analysis and workforce planning conducted, and the human resources function does not have established methods of interacting with and communicating with the City's workforce;
- Performance evaluations are rarely used, and are not used during the probationary period. Given that most positions are filled through contract provisions or through more informal means, there is little done in terms of recruitment or development of resume banks for future openings;

- There are no formal employee recognition programs, and training opportunities are only offered through union training programs.

Recommended Actions:

1. Empower the Personnel Department to actively lead the human resource function, requiring the City to recruit qualified, professionally Trained Human Resources Director. This must also include filling several vacant positions (OSHA, Personnel Tech and EEO Officer) with qualified personnel. The City should also add a Labor Relations Specialist;
2. Realign and co-locate human resources related staff within City Hall, including selected retirement and health care benefit staff from Controller to Personnel. Current design is not conducive to effective human resources management;
3. Establish and maintain effective recruitment practices for all positions. Clearly seniority will dictate many positions, but there are ample opportunities to effectively recruit for key City positions. This should include making better use of performance oriented examinations and career ladders;
4. Immediately implement effective use of appropriate performance evaluations for employees during their six-month probationary period;
5. Establish appropriate procedures for the use of the Memorandum of Agreement as a vehicle for personnel actions that are consistent with City personnel policies and practices;
6. Develop and implement a human resource plan and workforce analysis. This should include, but not be limited to an evaluation of job classifications, wages/salaries and job descriptions, the adoption of a standard model for creating job descriptions, and an employee survey to measure employee satisfaction and feeling in the workplace;
7. Create an employee evaluation system for non-union personnel with agreed upon goals and performance benchmarks;
8. Create an employee evaluation system for all union employees that incorporates goals and performance expectations in order to enhance performance through additional training opportunities. The City should create a performance evaluation work group that includes union representation prior to implementing a program;
9. Charge the Director of Personnel to create and implement an employee Recognition Program for exempt and non-exempt personnel, which includes written criteria and method of selection;

10. Assume responsibility for determining training needs of employees through an ongoing training needs assessment. This will require the creation of a training and staff development manual that reflects the results of the assessment, the methods of training and the desired training settings, a training budget and participant selection process;
11. Implement an employee orientation program that includes a presentation of the City's policies. This should include a meaningful Employee Handbook (Labor Contract is currently used as a substitute), and posting all personnel policies onto the City's website for easy access;
12. Establish an employee communication system through a range of media, such as newsletters, bulletin board postings and email. The Human Resources Department should also establish a City hotline for both managers and line staff regarding questions of personnel policy.

Issue: Human Resources Staffing

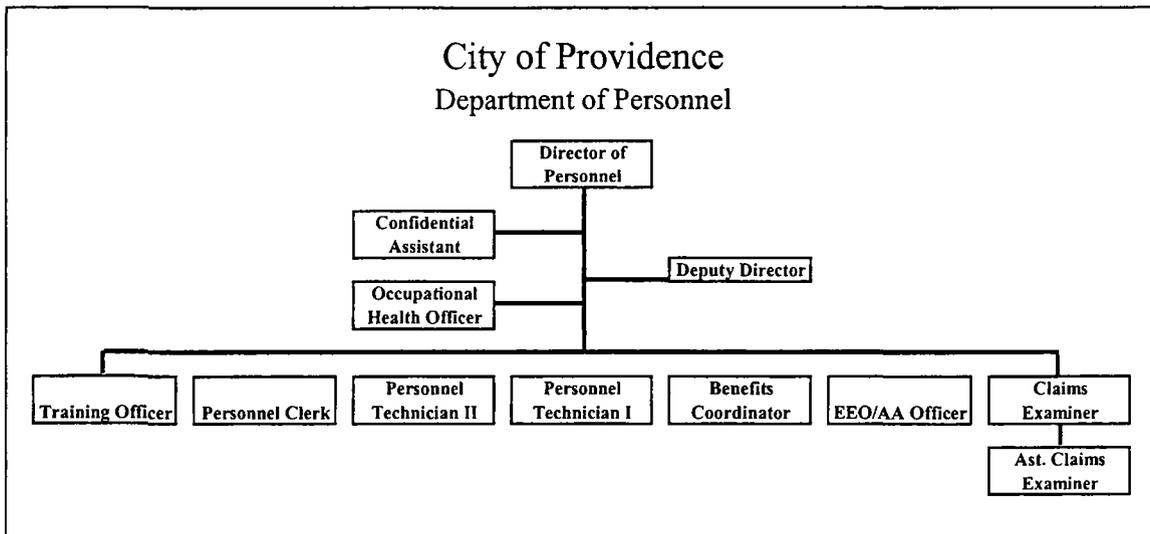
Summary:

The Central Personnel Office serves as the primary contact with employees and the City. There are a number of issues regarding staffing and internal communication issues that warrant attention.

Background:

It is critical to have an effective personnel management system in place. Whether hired through merit or patronage, employees are usually in the job for the long term. Therefore, it is critical to have the appropriate procedures and practices in place to ensure that the City attracts qualified candidates on the front end of the hiring process and that the City employs a range of training and coaching tools to enhance the skills of existing employees.

Central to an effective human resources system are the central personnel staffing, its skill sets and its role in the various personnel decisions made on a daily basis. The personnel office must engender the status and authority needed to provide quality services, plan for the City's human capital needs, and anticipate and respond to issues facing the City. Central to this effort is a professional human resources manager, who has the authority and responsibility to carry out the various duties of the Office.



Providence's Director of Personnel serves at the pleasure of the Mayor. There are 11 full-time positions reporting to the Director. The organizational chart displays each position and their hierarchy. There are two additional positions reporting to the Controller that are personnel related – a retirement coordinator and a health benefits coordinator. Staff is also located in different offices throughout City Hall. According to the Department, the three senior positions are the only positions that have formal human resources training.

Findings:

In the past, the relationship between the Mayor's Office and employee unions placed the Personnel Office in a subordinate position in managing and implementing appropriate human resources policies and procedures. There are recruitment, selection and evaluation best practices that could be instituted if the mayor's Office empowered the Personnel Department to develop, maintain and implement personnel policies and practices on a daily basis.

The stature of the Personnel Department is essential to an effective system of human capital management. The Director of the Department must exemplify the profession with deep academic and practical experience in the field of human resources, and he/she must be given domain over the City's personnel decisions. This requires that the Director have a wide range of authority, responsibility and accountability as it pertains to the efficient and effective operation of the City's manpower.

Within the City, there appears to be several disconnects within the range of services typically provided through a Personnel Department. First, several key functions under the direction of the City's Personnel Director are located on other floors/sections of City Hall. While this may be partially due to the limited space within the building, it is not conducive to effectively managing the staff, nor does it offer the opportunity for cross training of staff. In addition, it makes it difficult to create a one-stop shop for employees and potential employees when contacting the City concerning their issues. In addition, there are a number of personnel-related activities that do not report to the Director of Personnel. Rather, certain positions responsible for activities involving employee benefits report to the Controller.

The City's Personnel Department has a number of vacant positions that are designed to perform essential functions for the City. These include the Occupational Health Officer, the EEO/Affirmative Action Officer, and a Personnel Technician. These positions fulfill a range of duties, and given their vacancy, are affecting the quality of work performed in the Department. Other positions within the Department must attempt to complete many of the duties that would otherwise be completed by staff in these positions. In addition, given the limited resources allocated to these duties, it could expose the City to unnecessary liabilities. Similarly, while there currently is not a position related to ensuring the City complies with the Americans with Disabilities Act, consideration should be given to either creating a new position or expanding the duties of one of the vacant positions to ensure the related duties are met.

A central role of any personnel operation should be to provide support in preparing for and conducting contract negotiations, the management of the grievance processes and workloads, and the overall counsel regarding a range of personnel matters. The City's Personnel Office does not have a labor relations specialist on site that would assist in meeting these needs. The Deputy Director does provide some assistance with regards to the grievance process, but does not meet the other needs a labor relations specialist could.

Fundamental to this position is the need to ensure that the Personnel Office is a serious, empowered participant in labor relations and contract negotiations.

Recommended Actions:

1. Empower the Personnel Department to actively lead the human resource function. The Department must be permitted to function in accordance with personnel best practices and must be a key player in the City administration.
2. Recruit Professionally trained Human Resources Director. Central to the success of a personnel office is the director – there is clearly a need for a seasoned professional to lead this office.
3. Move retirement and health care benefit staff from Controller to Personnel. These functions should report directly to the Human Resources Director, not the Controller. *(Note: This may require changes in the City Charter and/or collective bargaining arrangements).*
4. Realign City Hall Offices to co-locate all personnel staff. It is essential that related personnel activities be co-located within City Hall so that the Office can manage personnel system well and serve the City and its employees. This may require a number of changes in the location of staff within City Hall.
5. Fill existing vacancies – Occupational Health Officer, Personnel Tech, EEO/AA Officer. Existing staff is attempting to meet these obligations given the vacancies, but the opportunity costs are great – the central duties of existing staff may not be getting the attention they deserve and the City may be exposed to additional liabilities given the lack of oversight in certain areas.
6. Expand the EEO/A Officer duties to include monitoring ADA requirements and compliance or create and fill an ADA Coordinator. Given the compliance requirements under the Americans with Disabilities Act, it is clear that the City must ensure that it has the appropriate capacity to monitor City policies and activities.
7. Add Labor Relations Specialist. This recommendation is contingent on elevating the stature and roll of the Personnel Department so that it plays a central roll in labor negotiations, grievances and other legal matters.

Issue: Recruitment and Hiring

Summary:

A fundamental function of a Human Resources Function is the recruitment of highly qualified staff to meet the service needs of the City. As it is currently designed, there is little to no on-going recruitment activity within the City's Human Resources Function.

Background and Findings:

It is critical to have the appropriate procedures and practices in place to ensure that the City attracts qualified candidates on the front end of the hiring process and that the City employs a range of training and coaching tools to enhance the skills of existing employees. The current labor agreement dictates certain aspects of how positions that fall under the labor contract are filled, such as seniority. However, there are some civilian positions, such as those appointed directly by the Mayor, that do not fall under the labor contract's purview.

The Department does not perform many activities that one would consider fundamental to effective recruiting of qualified personnel for the City. There are few positions that are openly advertised. The City does not actively recruit a candidate pool for positions that are frequently vacant. Part of this is due to the expectation that either the labor contract prevails over standard recruitment practices or that there has been an expectation that the Mayor's Office was going to make the decision regardless of the outcome of standard recruitment efforts. Bottom line, the City has developed little in terms of standard recruitment procedures, thereby limiting its ability to attract qualified employees.

Recommended Actions:

The City needs to have a standard operating procedure relating to recruitment, and actively engage in recruitment activities. The Human Resources Department should administer and coordinate the hiring process for all position vacancies to ensure compliance with contractual, legal and equal opportunity requirements. It should be clear that all hiring efforts are to be conducted in the spirit of equal opportunity. The following outlines a basic framework from which to work:

1. Departments and Agencies must notify the Human Resources Department of position vacancies immediately.
2. The Department should serve as a resource in formulating the job announcement, ads and in determining any special applicant sources.
3. The Human Resources Department should then determine the impact of existing contract provisions, such as seniority provisions as they relate to the position. The Human Resources Department will determine whether to accept in-house candidate applications only or whether outside candidates may be considered.

4. The Human Resources Department should distribute to all City departments copies of the job announcement for posting for at least five working days. In those cases where outside candidates will be considered, the Human Resources Department should distribute the job announcement to a wide range of public and related association publications to develop a pool of candidates.
5. The Human Resources Department should be responsible for developing and periodically screening an active applicant file for possible candidates, and these candidates should be contacted to determine interest prior to the closing date on the employment notice.
6. All applications, whether they are submitted by in-house or outside candidates, should include the City Employment Application Forms. The Human Resources Department may permit a resume in lieu of the Application for senior professional positions, provided all the information requested on the application is completed through the interview process.
7. The Human Resources Department should under no circumstances accept applications after the published closing date. If there is not a sufficient applicant pool at the closing date, the position should be re-opened and re-advertised.
8. The Human Resources Department should screen applications to determine qualification for the position. Potential candidates should be forwarded to the related department for comment prior to conducting interviews.
9. The Department may disqualify for consideration due to lack of qualifications, unsatisfactory employment record, false statements of any material facts, etc.
10. The Human Resources Department should develop and administer appropriate performance-oriented examinations for certain positions based on the position's skills, responsibilities and qualifications required performing the job. The examination could consist of an interview, structured questionnaire, practical written tests, etc. The testing must be job related and designed to determine the knowledge, skills and abilities for the position.
11. Prior to extending an offer of employment, the Human Resources Department is responsible for conducting reference checks on final candidates. Candidates must be notified prior to conducting the appropriate reference check.
12. Once a candidate accepts an offer, all other candidates must be notified in writing that they were not selected. A letter outlining the terms of employment to the successful candidate must be prepared and signed. Appropriate City forms, such as certain waivers, must be completed prior to successful candidate beginning the work.

Issue: Human Resource Planning and Workforce Development

Summary:

In order to plan for the replacement of personnel who retire, for those that are terminated, or due to normal turnover, the Personnel Department needs to create a human resource plan and to conduct a workforce analysis. The City's Personnel Office is responsible for human resource planning for the City's workforce. Staffing the many functions of city government is a crucial function. However, the department lacks a human resource plan and does not conduct a workforce analysis to determine workforce needs.

Background:

A good human resource plan ensures that an organization has the right people at the right place at the right time, and that the people are trained, qualified, and motivated to perform the work that is essential to the success of the organization. The success of human resource planning is measured by whether the organization has the personnel it requires when they are needed. These concerns are both qualitative and quantitative, and human resource planning should benefit both the organization and the employees.

A Human Resource Plan provides the following:

- It ensures that the organization has the people it needs when it needs them;
- It allows lead time for training and development or for recruiting to fill jobs from the outside of the organization;
- Provides inventories of people for jobs, identifies backups and cross-training needs;
- Identifies external elements and makes assumptions that will affect the organization now and in the future. (Impact of technology, social trends, and environmental concerns);
- A plan provides impetus for succession planning. If a crisis was to wipe out several key management personnel, and there was no provision for successors to move into leadership, the organization could suffer.

A workforce analysis consists of several steps to determine staffing needs:

Workforce Analysis:

1. Prepare database of the current workforce by department.
2. Analyze data. Compare with historical hiring, retirement, termination, and promotion patterns.
3. Work with each department to determine anticipated patterns of employment due to changes in department mission, new technological needs, etc.
4. Prepare a forecast for review and approval.

Findings:

It is the primary responsibility of the Personnel Department to conduct workforce planning and to create and update a human resource plan. The plan serves as the standard operating procedures for determining the short- and long-term workforce requirements of the City. Time gaps between retirements of key personnel, the loss of a department director, and the dismissal of a laborer, impacts the productivity of a department. Effective resource planning will provide enough lead-time to replace personnel in a timely manner. The Personnel Department is not providing this essential service.

The department does not conduct a workforce analysis nor does it have a workforce plan. This will lead to delays in hiring personnel on a timely basis and hinder the effectiveness of the departments to perform in an effective and efficient manner.

Recommended Actions:

1. The new Director of Personnel (we recommend the title be changed to Human Resources Director to adequately cover all the responsibilities of someone in this position) should designate someone in the department to be the project manager to oversee the workforce analysis. The person chosen should hold a senior position in the department and have experience in workforce planning. This should be undertaken as soon as possible. Regardless of whether in-house personnel undertake it, or the department hires a consultant, someone should be the lead person to see the project through completion.
2. The Director of Personnel should determine the frequency with which the analyses will be conducted should also be determined.
3. Using the information obtained from the workforce analysis, the Director of Personnel should create a workforce plan to anticipate and adequately plan for the future needs of the City workforce.

Issue: Position Ratings and Descriptions

Summary:

A position rating system allows for a City position to be analyzed using a set of objective criteria to determine the compensation for a position. The City does not utilize a position rating system. A position description provides a realistic explanation of what an employee's duties and responsibilities are when he assumes a position in the City workforce. Existing position descriptions are inadequate and do not provide a comprehensive description of duties and other elements of an adequate position description.

The Personnel Department is required to maintain and update position descriptions for all City positions, as required by the Home Rule Charter and good management practices. While position descriptions do currently exist, many of them are inadequate to clearly define the various elements of the position and must be upgraded. Base salaries are currently determined on an ad hoc basis, although efforts have been made through the use of consultants to change this practice. No position ratings manual currently exists.

Background:

Employees have an expectation to clearly understand the duties and responsibilities of the position, as well as the reporting relationships, skill requirements, working conditions and physical/mental effort required to perform the work.

The City has not conducted a comprehensive review of City positions for quite some time. Current practice is to review the position description when a new posting takes place or a new position is created. Most of the current position descriptions do not comply with Americans with Disabilities Act requirements. Proper position descriptions contain all of the following elements:

- **Principal job duties, responsibilities and outputs** (Determine and record and function that takes up to 5% or more of the employee's time);
- **Reporting relationships** (Determine all reporting relationships, upward and downward.);
- **Skill requirements** (Determine all skill, ability, or training requirements, including formal education (degree), specialized training (certification), specialized skills (licensing), and amount of experience;
- **Effort** (Include the physical and mental effort required to perform the job.);
- **Responsibilities** (Determine and record in detail how much independent judgment is allowed and used); and
- **Working conditions** (Include the type of working conditions and environment. Include any unpleasant or dangerous working conditions, travel required, length of time sitting, standing, strength required, weights lifted, abnormal working hours, etc.).

A Position Rating System (A manual is suggested) should be created in order to determine pay structure for existing and new positions in City government. A rating system should have some, or all, of the following elements:

- Education and basic knowledge
- Experience
- Nature and purpose of personal contacts
- Accountability
- Supervision required
- Judgment
- Complexity
- Work environment
- Physical demands
- Motor skills
- Occupational risks
- Confidentiality
- Scope of supervisory and managerial responsibility
- Scope and character of the subordinate operation
- Additional time requirements

Each of the above elements is further divided into quantifiable subsections according to the degree of effort required for each position. A numerical score is determined using this method and can be compared to other scores in the system. This results in an equitable pay structure for employees performing similar work.

Findings:

The Personnel Department does not have a position rating system to determine wages and salary levels for its positions. It, also, does not have adequate position descriptions. This further prevents an adequate salary structure to be determined for all City positions.

A position rating system allows for jobs to be analyzed in an objective manner based on a set of criteria. Different weights are given to different criteria. A formula assists in determining the wage/salary structure for the position.

Recommended Actions:

1. The Director of Personnel must review all existing position descriptions for adequacy and have them comply with the model cited above. This should be completed initially on any new job postings and provide for eventual compliance with all City position descriptions.
2. Once all position descriptions are in compliance with established criteria, the Personnel Department should occasionally review positions to determine if they have kept up-to-date with changing work conditions that may affect the position.

3. The Director of Personnel should, as soon as practical, create a position rating system based on multiple, weighted elements (see above for a list of suggested elements). This will allow for the department to determine the level of effort and qualifications for a position and to set a proper pay scale for that position. Since position classification systems are complex, the Personnel Director should consider using outside consultants to create the system. As part of the contract, the consultants should be required to create a position rating system that will be used in reviewing and classifying all new positions created.

Issue: Employee Performance Evaluations

Summary:

The City does not require performance evaluations to be conducted of its workforce. Policy and union contractual agreements will have to be amended and/or modified in order to establish a citywide employee evaluation system.

Background:

A performance evaluation system provides a mechanism for a supervisor to evaluate an employee's performance, rating against predetermined expectations based on specific job responsibilities. Performance evaluation systems are used by organizations to provide a rationale for, and justification of, personnel transactions - training, placement, transfer, promotion, wage and salary adjustments, discipline, and termination.

The process also enables an individual to achieve personal growth through appropriate counseling and coaching activity. A successfully managed evaluation system will produce candid, regular supervisor-employee communication and, in most cases, improve the quality and quantity of employee performance results.

The International City/County Management Association (ICMA) conducts occasional Local Government Human Resources Functions surveys. Their last survey, conducted in 2000, surveyed all 2,885 U. S. municipalities with a population of 10,000 or greater. Responses were received from 45.5% of those surveyed. The survey results showed that the primary responsibility for performance evaluations typically resides in the central personnel department. Various techniques were used in evaluating the performance of employees. Among the methods used are:

- | | |
|--|-------|
| • Written performance standards consistent with duties and responsibilities covered in the employee's position description | 56.2% |
| • Forced choice forms | 44.3% |
| • Appraisal by objectives | 38.0% |
| • Interviews | 33.4% |
| • Self-appraisal | 26.8% |

The objectives of the performance evaluation review are to:

- Review and discuss the employee's present job performance in relation to previously agreed-upon job responsibilities, goals, and performance expectations.
- Allow both the supervisor and the employee to discuss specific strengths and weaknesses in the employer's work performance during the performance evaluation.

- Allow the employee to discuss and obtain assistance in solving day-to-day job problems and to give the employee the opportunity to suggest methods of improving work performance.
- Allow the employee to express feelings about personal and work-related variables affecting performance and career direction.
- Develop jointly between the supervisor and employee plans for improvement, an implementation schedule, and milestones so improved performance can be measured.
- Determine the employee's long-term training needs
- Provide documentation for later disciplinary action up to and including termination.

Findings:

The City has never required supervisory personnel to conduct evaluations of City employees. Since the City does not have a merit pay system and all employees received the same annual rate of pay increase, performance evaluations were not considered necessary. However, there are numerous benefits to an employee appraisal system. A primary advantage of an employee evaluation system is to inform the employee what their strengths and weaknesses are and to complete an action plan to improve the identified weaknesses. Employee evaluations are especially important during an employee's probationary period. Evaluations are also useful used when considering an employee for promotion.

The union official for the City's largest union, Laborer's Union, Local 1033, has stated in interviews that they have no objection to performance evaluations during the probationary period and for promotions. However, they do not agree that evaluations should be conducted on a regular basis. Their primary concern is the fairness of the supervisors conducting the performance evaluations.

Recommended Actions:

1. There is a need to implement effective performance evaluation of the City's workforce. It is recommended that the City start with immediately implementing an effective evaluation process for the probationary period.
2. The City should create an employee evaluation system for non-union personnel with agreed upon goals and performance benchmarks. A starting point may be a performance evaluation system for all immediate appointees of the Mayor.
3. The City should begin developing an employee evaluation system for all union employees that incorporates goals and performance expectations in order to enhance performance through additional training opportunities. The City should create a performance evaluation work group that includes union representation prior to implementing a program.

4. A Performance Evaluation Manual should be created either in-house, through volunteers, or through the work group noted above.
5. A training program should be created and scheduled for all supervisory personnel on how to properly conduct performance evaluations.
6. Employees should be assured that the intention of conducting performance evaluations is not punitive, rather they are a means for supervisor and employee to identify strengths and weaknesses and to develop a plan of improvement.
7. Any performance evaluation system must allow for an employee who is dissatisfied with his evaluation to provide a written response that becomes part of his permanent record.

Issue: Employee Training and Development

Summary:

The City lacks a standardized method for determining the training needs of its employees. It also does not have an annual and long-term training plan or career ladders for its workforce. The City's Personnel Office, in consultation with employee union leadership, needs to determine the training needs of its employees, create a multi-year training plan, and develop career ladders for its workforce.

Background:

The City has no formal method for determining the training needs of its personnel. The City's largest union, Local 1033, has provided much of the training that has taken place. The City, in its most recent contract with the union (July 2001), agreed to contribute certain amount of funds directly to the union for a training fund. The contract reads:

- *Effective March 1, 2002, in order to provide employees covered by this Agreement with necessary work duty and safety related training, the employer agrees to contribute ten (\$.10) cents per hour for each straight time hour each employee covered by this Agreement is paid as follows:*
- *Four (\$.04) cents per hour to the New England laborers' Training Fund;*
- *Four (\$.04) cents per hour to the Laborers' Health and Safety Fund; and,*
- *Two (\$.02) cents per hour to the RI Public Service Employees' Training Fund established by a Declaration of trust executed by the Union.*

- *In July 2002, the hourly contribution rises to fifteen (\$.15) cents per hour*
- *In July 2003, the contribution increases to twenty (\$.20) cents per hour*

The union has conducted worthwhile training sessions for its members. Training sessions have included: computer skills, Spanish, and laborers' skills (cement and brick work, etc.). As far as we have been able to determine, the union determines the training needs of its members independently of the City. Non-union personnel are not covered by the fund. In the past, non-union personnel would have to request permission from their department director to attend a training session conducted by private firms or local educational institutions.

Findings:

Article IX, Section 902(c) of the Providence Home Rule Charter states that one of the requirements of a personnel management system is: "*Training employees, as needed, to assure high quality performance.*" This Charter places this responsibility with the Personnel Department. The City has not provided ongoing training opportunities for its workforce. Rather, the employee unions have stepped in and provided much of this service to its members.

The City does not conduct assessments of the training needs of its employees. Assessments, or surveys, are useful instruments for management to determine where and what type of training is needed. Assessments can be in the form of a survey of staff, focus groups, review of performance evaluations (if conducted), or interviews with selected personnel.

A multi-year training plan does not exist that outlines the type of training to be conducted, the amount budgeted, or what other resources will be needed to conduct effective training.

Career ladders are not formally established to allow personnel in a certain career fields to develop skills through formal and on-the-job training. Career ladders are an excellent means of developing personnel to assume increasing levels of responsibilities and to prepare them for supervisory positions. Career ladders, as part of a training plan, prepare personnel through a systematic course of classroom and on-the-job training.

Recommended Actions:

1. The City should create a training committee with representatives from labor and management to interpret the training needs assessment and create the Training Plan. The Committee should consider all existing training resources, including union resources and facilities – the union offers excellent training facilities.
2. The City should select and hire a qualified Training Officer with experience in education or corporate training. The Training Officer should be charged with conducting the training needs assessment, creating an annual training budget, producing a multi-year training plan, and establishing career ladders for personnel.
3. A **Training and Staff Development Manual** with standard operating procedures for the training function should be developed. The Training Manual, which can be incorporated into the Human Resources Manual, should cover the following topics:
 - *Training Needs Assessment:* A training needs assessment survey should be developed for distribution to the workforce. The assessment will be used determine the training needs of the workforce. There should be more than one survey. Surveys should be developed for senior and middle-management personnel, other administrative staff, and field workers that perform manual labor. The Training Officer should be responsible for compiling the data from the surveys and prioritizing needs. This can be accomplished through meetings with department directors and taking into consideration the resources that are available for training.
 - *Methods of Training Delivery:* The manual should be clear on how training resources will be chosen. Training may be conducted by in-house staff or contracted with outside vendors. Request for Proposals will have to be prepared for out-sourced training.

- *Training Setting:* The training Officer will be responsible for determining the space needs and securing a location for the training to be conducted. Ideally, the City will designate a permanent training room equipped with training tools (audio-visual, computer projection, etc.).
- *Selection Process:* The manual should clearly state how individuals, or groups, would be selected for training opportunities. Priority should be given to those training needs that instruct the staff on the use of new equipment or procedures that will increase the efficiency and effectiveness of the workforce
- *Budget:* The Training Manual should itemize the training budget allocated for the year.
- *Evaluation:* A method to evaluate the effectiveness of the training conducted.

Issue: Employee Communication

Summary:

In order to have a more effective and productive workforce, employees must believe they are important members of the organization. Employees who are assigned to a department without a proper orientation do not adequately understand the mission and vision of the City. They do not understand their importance in the delivery of services to the taxpayer. Management also needs to recognize employees who exhibit exemplary performance. Performance-based recognition programs do not exist, but should be an important part of any organization, especially one that does not have a merit-based pay system.

The City does not conduct formal employee orientations, has no employee recognition programs, and inadequately provides effective communication with its employees.

Background:

An effective **orientation program** makes a positive and lasting impression and may have a significant impact on a new employee's success or failure during the first few weeks on the job. Orientation programs should be designed specifically for the organization that will use it. There are two levels of orientation: (1) general procedures, and (2) departmental procedures. The human resource department and the new employee's supervisor should share orientation responsibilities.

Orientations should be conducted in a group. A good form of presentation is a slide-show to discuss the City's policies and major projects planned by the City.

Employees respond to incentives. Most successful organizations **recognize their employees** through merit bonuses or other types of incentives to promote harmony in the workplace and to increase productivity. No formal programs of recognition exist in the City.

An **informed workforce** is a more effective workforce. Internal communication through the use of newsletters, bulletin board postings, and internal e-mail are important components of communicating the City's policies and other activities that are important to the employee.

Readership surveys indicate that internal publications are the primary source of information for most employees and that the contents of most company newsletters are reliable, accurate, and believable.

An **employee survey** is one way to assist an organization in identifying workers' priorities and values. The survey should be systematic and continuous to discover trends in such matters as employee attitudes, total organizational climate, expectations, satisfactions, and frustrations. The survey might be completed utilizing a variety of instruments, both published and/or custom tailored for the organization.

There are many pros and cons regarding employee surveys. Employee surveys can create more problems than they solve if they aren't done right and if the results are not communicated adequately to employees. Employee surveys are an excellent tool to determine the organization's strengths and weaknesses related to the workforce.

The Providence Housing Authority has surveyed its workforce for the last three years using the Survey of Organizational Excellence. The Survey is an 86 question, computer processed survey developed by the University of Texas, School of Social Work, for state strategic planning use.

The five workplace dimensions and their 20 constructs are:

- Work Group
 - Supervisor Effectiveness
 - Fairness
 - Team Effectiveness
 - Diversity
- Organizational Features
 - Change Oriented
 - Goal Oriented
 - Holographic (Consistency)
 - Strategic
 - Quality
- Information
 - Internal
 - Availability
 - External
- Work Setting
 - Fair Pay
 - Physical Environment
 - Benefits
 - Employee Development
- Personal
 - Job Satisfaction
 - Time and Stress
 - Burnout
 - Empowerment

Findings:

There is a general lack of communication both up and down the chain of command. New employees are hired and assigned to their departments with little more than a review of their salary and benefits. Employees have no stake in the success of the City, are uninformed of major events, and have no means of communicating their feelings to the hierarchy.

Recommended Actions:

1. The Personnel Director should create a formal orientation program for new personnel.
2. An employee orientation package should be prepared for each new employee. The package should include the following:
 - An table of organization
 - Building layout
 - Copy of policy or employee handbook
 - Copy of union contract, if applicable
 - List of benefits
 - Compensation policies
 - Copy of a blank performance evaluation form
 - List of training policies
 - Short history of the City
 - Major projects/developments taking place in the City
3. The Director of Personnel should appoint a committee to determine which types and how many recognition programs can be supported. The committee should establish written guidelines using objective criteria for each award program. Once approved, the program and selection criteria should be published in the employee newsletter, Human Resource Standard Operating Procedures Handbook, and the Employee Handbook. The programs should also be discussed during new employee orientation.
4. The Personnel Director should created policies for communicating with City employees to keep them informed using the following means of communication:

Newsletter: The Personnel Director should designate a subordinate to be project manager for establishing an employee newsletter within the first 30-days of the new administration. This designee should work closely with the City's Communications Director in securing funds and establishing written policy concerning the publication.

Elements to be considered are:

- Establish the scope of the newsletter
- Establish a format
- Decide on frequency
- Decide on basic contents
- Establish a budget
- What outside or inside sources will be used? (City print shop or out-sourced/graphic designers, etc..)
- Who will have editorial control of the contents?
- How will it be distributed?
- How will you measure the newsletter's effectiveness over time?

Bulletin Board Postings A formal policy should be established by the Director of Personnel clearly stating what may be posted on employee (and public) bulletin boards throughout the workplace. The director should also ensure that bulletin boards are distributed adequately maximizing the number of employees who will view them.

Internal E-mail The Personnel Director should determine the feasibility of using internal e-mail as a quick means of communicating information to employees. While this method of communication is timely, there are many employees, especially field personnel, who do not have access to e-mail.

5. The Personnel Director, or his designee, should conduct an employee survey as a means of receiving feedback from City personnel. Information gathered from the survey can be useful in gauging the attitudes of personnel on a wide range of topics. The Personnel Department can create its own survey using available purchased software or contract for services from a vendor.



Information Technology Systems – Overview

The Providence Management Task Force focused on three management systems for the City of Providence – Finance, Human Resources, and Information Technology. The following report reflects the analysis developed for the Information Technology Function. Many thanks go to Mr. Charles Hewitt, Partner at Tatum CIO Partners, LLP, for his valuable expertise in information technology as well as his systematic approach to evaluating the City's IT resources and capabilities. RIPEC would also like to thank Alex Prignano and Lisa Vitullo for their assistance in the evaluation of the City's information technology systems.

The following report summarizes the key findings and recommendations after reviewing the City's information technology functions. The report is followed by specific analysis of key issues that face the City, presenting findings, recommendations and action plans for each issue discussed.

Summary:

Providence's state of readiness is low, but improving. For example:

- The City made good use of consultants and followed best practices in the process that led to the selection of the Lawson and Govern software suites and the Eisner consulting firm;
- Both Lawson and Govern are well suited to Providence's requirements, and Eisner has provided competent expertise to direct the implementation work;
- The project leaders, with the active oversight of the Director of Finance, have applied sound practices in managing the technical, financial and schedule performance elements of the project;
- The project team (numbering over twenty people) is an appropriate, multi-disciplined mix of functional and systems leaders and staff;
- The project team successfully achieved the first major milestone - implementation of the Lawson financial and procurement subsystems - on an aggressive, six-month schedule;
- The project leaders have worked around major obstacles (for example, the unexpected loss of leadership in the personnel function) to minimize cost overruns and implementation delays of subsequent milestones.
- The School Department is building a robust data telecommunications infrastructure through the E-Rate program to support its educational mission;
- The City's web site, ProvidenceRI.com, provides 1,100 pages of useful information to help people find and access municipal services; and
- Data processing leaders are beginning to collaborate on establishing sound information management policies and practices.

However, for Providence to realize the so-called “e-government” vision of fast service and low cost operations, there need to be many more advances. First and foremost, the City must organize itself to give priority to the information management agenda. Second, it must learn the basic skills and apply them to its operations. Third, its information services must deliver consistently high quality results: the expected service, on time, at the agreed-upon price. The principal recommendation is to establish a senior executive for information systems, reporting to the Mayor.

The initial agenda for this executive would be to:

- Ensure the completion of the IFAMS program;
- Advance the information services infrastructure to enable it to support the demands of “e-government”;
- Advance the skills & knowledge of management and staff to enable them to function in the “e-government” environment;
- Lead future programs to advance the application of information technology to municipal operations;
- Own the information management process, providing central leadership and direction for the decentralized information services organizations of the city government;
- Directly manage the operation of the central information services organization and infrastructure that supports the City, including Public Safety and Planning.

Background:

To a considerable degree, the speed, efficiency and effectiveness of the Providence municipal government depends on its ability to present the right information to the right person at the right place and time to take appropriate action. In other words, the government must be a competent manager and processor of data.

A combination of forces is driving government to change its approach to managing and processing data. At present, the government relies mostly on paper, ink and telephones to accomplish these functions, especially when functions cross departmental boundaries. However, as the public becomes conditioned to expect fast service, such as from an automated teller terminal or on the Web at Amazon.com, the pressure is growing on government to respond faster as well. Concurrently, the growth of environmental, security, occupational safety, and other controls is requiring government to manage a huge and growing volume of data. The city’s financial condition prevents the government from responding to these growing demands as it has been inclined to do in the past – by increasing the workforce to move more paper around faster. The cost of this approach is simply unaffordable. Instead, economic forces are urging the government to take advantage of information technology – where the cost of a unit of computing power falls by 50% every eighteen months – and implement the e-government vision.

Implementing e-government, however, implies significant changes. The vision implies, for example, that once data is captured anywhere in the government, it is available to whomever, wherever and whenever it is needed to fulfill the mission of the government. This, in turn, implies that departments inter-operate with integrated processes that convert service requests into finished results quickly. It implies that managers and staff have skills to use e-mail and to find information using a web browser; and that some are skilled at using specialized tools such as word processors, spreadsheets, and ad hoc data query software. It implies a culture of teamwork, respect for individual talent and an attitude that values service to customers.

At present, the mission of providing information services is diffused among data processing organizations that report to the Director of Finance at City Hall, the Business Manager of the School Department, the Director of Finance at the Water Supply Board, the Public Safety Department and the Planning Department. The primary mission of each of these units is to support the mission of the parent organization. There no single executive, other than the Mayor, who has clear responsibility for the provision of information services globally.

The combined operating budget of the data processing organizations is about \$6 million. In addition, they have a combined capital budget of up to about \$3 million. The combined complement is 32 full-time employee positions and 9 out-sourced contract positions.

The leaders of the organizations are well aware of the need to have an infrastructure that facilitates the movement and processing of data among the various departments. They have recently implemented an information technology steering committee to adopt technical standards and to coordinate information management policies, such as disaster recovery and virus control.

The data processing organizations primarily provide operating and support services. The majority of employee positions provide PC support and help desk service. Most software is purchased and implemented without modification, except for special report generating software to extract and report data from files and databases. Major projects, such as IFAMS, rely on consultants, "power" users and a very small number of system analysts to organize the work and to do technically advanced tasks.

The data processing infrastructure is a client-server network. There are 25 servers under the control of the City Finance Director, plus other servers under control of the School Department and the Water Supply Board. Hundreds of desktop computers communicate with the servers via local area networks and an extensive wide area network. All but a few small sites connect to the network. The network is generally capable of high-speed (100 mb) service to the desktop. The infrastructure provides access to many services such as e-mail; internal systems and databases (e.g., the Lawson financial system); and the Internet.

The Communications Department under Public Safety is responsible for providing voice telecommunications service.

The level of skill & knowledge to use these services varies from virtually non-existent to very high. For example, significant numbers of management and staff lack basic understanding of how to use a desktop computer to prepare and send e-mail.

Findings:

Providence city government is on the way to becoming a competent user of information technology, but further advances are needed.

The government's process for providing information services assumes:

- individual Departments have little need to inter-operate;
- voice and data telecommunications are unrelated;
- advancement will happen by itself, without executive direction;
- infrastructure is an issue that can be left to technicians.

As the government advances its use of information technology, these assumptions fail to hold true. The infrastructure becomes the platform for conducting business. It demands executive attention to keep it aligned with the needs of its users. Voice and data telecommunications are converging on a common, digital platform. New systems, such as the Lawson financial system and the Govern assessors & collectors system, require Departments to work together on shared goals and require the people of these Departments to learn and apply new skills.

There are some issues demanding immediate attention. For example, Providence has invested much money in the IFAMS program (also known as the Lawson Project). Action is needed to make sure the objectives of this program are achieved.

Recommended Actions:

Information Services Management

- Implement the position of Director of Information Services and recruit a professionally experienced executive to fill it;
- Implement an annual Strategic Plan for Information Technology;
- Study the feasibility of consolidating voice and data telecommunications under the Director of Information Services;
- Establish uniform standard chart of objects for accounting for information services costs; and
- Establish uniform standard for budgeting cost and labor hour requirements for system development projects.

Integrated Financial & Administration Management System Program

- Statistical Revaluation: Complete the implementation of the Govern Mass Appraisal system; augment existing staff with additional professional resources;
- Tax Roll Certification: Complete loading data into the Govern Assessment & Collection system;
- Payroll: Complete the implementation of the Lawson Payroll/Human Resources system; expedite for School Department personnel department staff;
- Parking Violations: Complete loading data into the Ticket Tracker system, complete arrangements with outside service provider for non-Rhode Island tickets, and deploy hand-held data entry units;
- Public Property: Complete loading fixed asset data into Lawson Asset Management system;
- Permitting and Inspection: Implement Govern Permits, Inspections & Licenses system; and
- Business Licenses: Implement Govern Permits, Inspections & Licenses system.

Other City Systems

- E-mail: Move e-mail server (Exchange) to the data center in Room 408 of City Hall;
- Public Safety: Study the current implementation of the HTE criminal records and computer-aided dispatch systems; and the fingerprint identification system and, if needed, prepare a corrective action plan;
- Ad Hoc Reporting and Data Analysis: Implement a data warehouse to support on-line analytical reporting;
- Water Supply Board: Study the feasibility of retiring the Oracle financial application system, and replacing it with the Lawson system; and
- ProvidenceRI.com: Reassign ownership to the Director of Communications in the Mayor's office.

Systems Infrastructure

- Data General computing environment: Retire the Data General environment; and
- Local and Wide Area Networks: Evaluate the network for capacity, reliability, availability and service to support anticipated requirements.

Systems Management Services

- Disaster Recovery: complete the project to implement a disaster recovery plan;
- Backup & Recovery: complete the project to implement the data backup & recovery plan; and
- System Change Control: Follow-through on current plans to isolate production operations from development and training activities; implement written policy and procedures to govern the process of making changes to systems.

Skills & Knowledge

- E-mail: Implement a program to make e-mail a routine mode of communication; familiarize every member of the city government with access to a computer and mailbox; deliver a training and certification program to all employees;
- Web-based services: Implement a program to make the web browser a routine mode of access to information services; provide every client computer with a web browser; deliver a training and certification program to all employees;
- Basic office tools: Implement a program to assure management and staff know how to use the tools they need to perform their jobs, such as the word processor, spreadsheet processor and on-line statistical report writer; and
- Specialized systems: Implement appropriate training and certification programs to prepare new and advancing employees.

INFORMATION SERVICES MANAGEMENT

<u>Process Element</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Governance of IT infrastructure and IM Process	Mayor	Mayor is owner in name only. IM Process requires focused executive leadership.	Proliferation of non-integrated initiatives; islands of automation (p=.8)	Wasted money and resources; resources gravitate to the politically powerful; political bickering	High priority. Implement an executive for information management with mission to direct the provision of information services for the city. Continue monthly meeting of IT leaders.
Strategic planning for IT	Mayor	Mayor is owner in name only. Strategic planning for IT is happening randomly.	Lack of overall direction for investment and advancement of IT applications	Not ready for e-government; investment determined by political power, proliferation of incompatible and un-integrated systems	Medium priority. Implement annual strategic plan for IT which is the primary plan for implementing the infrastructure and systems for e-government.
Voice and data telecommunications	Finance (data) and Communications (voice)	Telecommunications technology is converging; expectations for e-government are increasing	Fail to meet reasonable expectations of stakeholders (p=.1)	Not ready for e-government. Lost opportunity to leverage converging technology for lower cost, higher performance	Low priority. Commission a study of the feasibility of combining responsibility for voice and data telecommunication under a single authority.
Financial budgeting & control of operating units	Finance	Cost of information services is distributed over many departments; IT budgets and expenditures not centrally visible	Proliferation of software and equipment; islands of development and automation	Wasteful spending; un-integrated systems; lack of control over IT spending; impaired control over advance into e-government	Low priority: Establish uniform standard chart of cost objects for IT with sufficient granularity to identify charges for out-sourced services, consultants, software license fees, etc.

INFORMATION SERVICES MANAGEMENT

<u>Process Element</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Financial budgeting & control of and projects	Finance	Program plans do not provide for utilization of in-house labor	In-house labor unavailable to perform implementation tasks, including training and file conversion	Missed schedules, labor issues, overtime costs, cost overruns. Not ready for e-government	Low priority: establish uniform standard for budgeting cost and labor hours requirements for systems development projects

**INTEGRATED FINANCIAL AND ADMINISTRATION MANAGEMENT
SYSTEM PROGRAM**

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Property Appraisal	Govern: Mass Appraisal	Appraisers	Data must be entered into the Mass Appraisal subsystem of Govern and users must be ready before the Statistical Update can be processed. The system is available for operation, but is not in use. Scheduled go-live 1Q03. There is insufficient staff who qualify to use the system. Tasks require a professional appraiser trained to use Mass Appraisal. There is currently only one appraiser, and this person is being trained now. The department needs to fill open positions for professional appraisers, but anticipates this will be difficult. The fallback is to rely on the firm and the system (Univers) that did the original revaluation. Doing so, however, is likely to result in a more costly and less responsive appeals resolution process than if the City were to have professional appraisers on staff (i.e., with staff, the City can process the easy ones quickly ("Level 1 Support") and only refer the hard ones to outside agent).	Miss the 12/31/03 deadline for statistical revaluation (p=.05, very unlikely). Fallback to using the firm that did the original revaluation (p=.9, very likely).	(consequence of fallback scenario) The backlog of appeals - already stretching many years into the past - gets worse. More appeals, more money wasted on corrective action, more discontent among property owners, major public flap. Money invested in Mass Appraisal system implementation wasted; search for scapegoat.	High priority. Monitor progress at least semi-weekly. Get detailed understanding of the effort and resources required to avoid fallback scenario. Fill enough professional appraiser positions to provide Level 1 Support, with goal to have them on-board, trained and producing during 2Q03. Augment staff with overtime and/or additional qualified temporary workers sufficient to assure Mass Appraisal system does the statistical revaluation.

**INTEGRATED FINANCIAL AND ADMINISTRATION MANAGEMENT
SYSTEM PROGRAM**

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Property Assessment & Collection	Govern: Assessment & Collection	Assessors & Collectors	Data (deeds, property transfers) must be entered into the Assessors & Collectors subsystem of Govern before the tax roll certification can be processed. The system is operational. The Project leader has a detailed understanding of the tasks that need to be done and the timeline for doing them. There is a large amount of data which the team (seven people) is loading into the system. They are currently working long hours, but are on schedule to meet a self-imposed deadline of 4/1/03. By meeting this deadline, they can provide accurate tax base information to support City's budgeting process.	Miss the 6/30 State deadline for completion (p=.01, very unlikely).	Late tax bills, unable to provide accurate projection of tax revenue; possible delay in meeting requirements for State aid that depends on the tax base.	Medium priority. Continue to monitor the situation closely, getting a status at least weekly.
Payroll (City)	Lawson: Payroll/HR	Finance	Payroll depends on accurate master employee record that Personnel (City) maintains. Initial master file is not ready (see Human Resources (City)).	Miss 4/1 deadline for going-live on the new system (p=.1) or go-live on time but produce an inaccurate payroll (p=.05).	Missed deadline generates change order to cover project cost overrun. Inaccurate payroll causes major rash of employee discontent and corrective action	See Human Resources (City)

**INTEGRATED FINANCIAL AND ADMINISTRATION MANAGEMENT
SYSTEM PROGRAM**

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Human Resources (City)	Lawson: Payroll/HR	Personnel (City)	Personnel staff are about three weeks behind in the training and conference room pilot phase of the project. Conversion of existing employee records is going slowly. Also need to develop user documentation.	Miss 4/1 deadline for going-live on the new system (p=.1) or go-live on time but produce an inaccurate payroll (p=.05).	See Payroll (City)	High priority. Implement daily progress assessment. Acquire special training consultant to expedite training and to help with user documentation. Authorize overtime for HR staff to get work completed. Prepare detail action & resource requirements plan.
Payroll (Schools)	Lawson: Payroll/HR	Finance	Payroll depends on accurate master employee record that Personnel (Schools) maintains. Initial master file is not ready (see Human Resources (Schools)).	Miss 4/1 deadline for going-live on the new system (p=.3) or go-live on time but produce an inaccurate payroll (p=.2).	Missed deadline generates change order to cover project cost overrun. Inaccurate payroll causes major rash of employee discontent and corrective action	
Human Resources (Schools)	Lawson: Payroll/HR	Personnel (School) (Note: Business Manager has intervened)	Personnel staff are several weeks behind in training and conference room pilot. Current leadership has been inattentive and unaware of implications until very recently. Difficulty of file conversion from existing system to Lawson remains unknown. Interfaces with SWAC and IVR needed.	Miss 4/1 deadline for going-live on the new system (p=.4) or go-live on time but produce an inaccurate payroll (p=.2) or go-live on time but miss subsequent high-volume changes (p=.3)	See Payroll (School)	High priority. Have Business Manager lead daily progress assessment. Acquire special training consultant to expedite training and to help with user documentation. Prepare detail action and resource requirements plan. If necessary, authorize temporary help and/or overtime.

**INTEGRATED FINANCIAL AND ADMINISTRATION MANAGEMENT
SYSTEM PROGRAM**

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Parking Violations	Ticket Tracker	Municipal Court	Two months of parking tickets remain to get entered into the system. Scheduled to go-live in February. (System is currently operational on State violations)	Miss go-live date (p=.4)	Wasted opportunity for operating efficiency, faster revenue collection and enforcement. Embarrassment for Court staff.	Medium priority. Mayor: authorize Finance Director to oversee project status and deliver weekly progress report.
Parking Violations	Ticket Tracker	Municipal Court	Service vendor that schedules court appearances (LES) moving slowly to implement his role in the system. Under current system, LES handles all tickets; but under new system LES will only handle non-Rhode Island tickets	Miss go-live date (p=.4)	Wasted opportunity for operating efficiency, faster revenue collection and enforcement. Embarrassment for Court staff.	Medium priority. Mayor: authorize Finance Director to oversee project status and deliver weekly progress report. Line up alternate service suppliers and discipline LES.
Parking Violations	Ticket Tracker	Municipal Court	Parking checkers resist using the hand-held data entry units, out of concern that management will use them for work measurement or will allow selected parking checkers to continue to write tickets manually.	Miss go-live date (p= .4). System will fail to fulfill expectations (p= .5). Input device will raise a labor-management issue (p= .2)	Labor relations problem. Wasted opportunity for operating efficiency, faster revenue collection and enforcement.	Medium priority: implement policy that all parking checkers, shall use hand-held units. For parking checkers, and in cooperation with labor union, provide mandatory training prior to go-live and "help desk" support after go-live. Survey parking checkers regularly for issues.

**INTEGRATED FINANCIAL AND ADMINISTRATION MANAGEMENT
SYSTEM PROGRAM**

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Public Property	Lawson: Asset Management	Public Property	System is not performing its primary mission. There are 16 thousand assets that must be loaded in the system before it will be operational. The data is probably low quality and will require manual updating	System will fail to be operational by 12/03, in time to support FY03 audit (which will include GASB 34 requirements). If there are many problems with the data, the file conversion resource will be overloaded (p=.5). System will never be operational (p= .99, very likely)	Failure to implement GASB34; failure to execute will embarrass Public Property and Finance directors. Possible impairment of bond ratings.	Medium priority. Address after high priority issues resolved. Finance Director: Determine appropriate milestones, monitor progress and continue to apply City/State resources.
Permitting and Inspection	Govern: Permits, Inspections & Licenses; Public hearings & Time/Cost Recovery	Inspections & Standards	No target set for go-live and the project is on-hold pending assignment of new functional area leadership. Project lacks a strong functional executive advocate. Technical resources are owned by and primarily committed to Finance.	System will never be operational (p= .99, very likely)	Wasted capital investment; cost overrun; lost opportunity for operational efficiency and improved service; impaired e-government performance; embarrassment for City leaders	Low priority. Mayor: After new administration installed, assign functional area leadership, and charge with responsibility for project implementation.
Business Licenses	Govern: Permits, Inspections & Licenses	Licenses	No target set for go-live and the project is on-hold pending assignment of new functional area leadership. Project lacks a strong functional executive advocate. Technical resources are owned by and primarily committed to Finance.	System will never be operational (p= .99, very likely)	Wasted capital investment; cost overrun; lost opportunity for operational efficiency and improved service; impaired e-government performance; embarrassment for City leaders	Low priority. Mayor: After new administration installed, assign functional area leadership, and charge with responsibility for project implementation.

OTHER SYSTEMS

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
E-Mail	Microsoft Exchange Server	Data Processing (City)	Server is housed in an unsecured area without environment controls.	Server exposed to accidental or malicious damage (p=.7)	Loss of primary mode of fast communications; major loss of operational efficiency; not ready to base government operations on electronically transmitted text & graphic messages.	High priority. Move Exchange server from Room 304 to a rack in the data center facility in Room 408.
Criminal Records	HTE: criminal records	Police Department	Takes 45 minutes to log in a criminal, delaying the assignment of a detective and creating a backlog	Impaired response and exposure to charges of holding people beyond the time allowed by law (p=.5)	Failure to protect the public; loss of public confidence	High priority. Assign business systems analyst to examine the log-in process and the system, and recommend corrective action
Dispatch	HTE: computer-aided dispatch	Communications	User expresses strong dissatisfaction with the system; wants it replaced.	Dissatisfaction is based in reality (p=.9)	Impairment of Communications mission performance. Loss of good working relationships between Communications and Finance/IT.	High priority. Assign business systems analyst to frame the problems in more detail, determine root cause, and recommend corrective action.

OTHER SYSTEMS

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Fingerprint Identification	AFIS	Police Department	System is alleged to be incompatible with the rest of Rhode Island and USA	Fail to identify suspects (p=??)	Impaired ability to use a primary investigation tool; impaired performance of mission	High priority. Assign qualified law enforcement expert to evaluate AFIS and report findings and recommendations.
Ad hoc reporting and data analysis	Lawson and Crystal reports	Data Processing (City)	Ad hoc reporting from the production database slows down production system performance	Loss of Lawson application service for routine transaction processing (p=.9)	Idle workforce; impaired ability to conduct business	Medium priority. Implement a data warehouse (an image of the production database refreshed daily) and require analysts to use it instead of the production database.
Financial (Water Supply)	Lawson: financial modules Oracle: financial application suite	Water Supply Board	Financial records maintained in both systems. Disbursements must be made through Lawson, otherwise, WSB uses Oracle financials to operate the department	Unable to sustain dual systems and inefficient operations (p = .1)	Excess cost to maintain skill & knowledge, pay license fees, make reconciliation & corrective actions	Low priority: eliminate disbursement constraint; provide for retirement of Oracle application within the next 36 months in long-range plan.
ProvidenceRI web site	Web site content	Planning	Inappropriate owner. Web site is not aligned with the direction of Department heads. Webmaster is proceeding with very little direction from municipal government leaders.	Web site will continue to be largely irrelevant to the primary mission of municipal government (p=.9)	Wasted money; resources and management time; e-government initiative stalled; lost opportunity to advance the service level of government operations	Low priority. Continue developing ProvidenceRI.com in its present form. Reassign it to the Mayor's Director of Communications (Gonzalo Cuervo). Commission a task force to plan the strategy and actions to implement e-government and include this web site within the scope.

SYSTEMS INFRASTRUCTURE

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Mainframe computing service	Data General	Data Processing (City)	Data General computer is obsolescent, requires resources and services that are increasingly scarce and a drain on management	Costs driven to ever higher levels; less and less resource available to maintain & advance core operational systems	Loss of readiness to sustain current operations and to advance application of IT to government operations (e.g., e-government)	Low priority. Embark on a program leading to the retirement of the Data General system by 2004.
Network	Various	Data Processing ((City, Schools, etc)	Network is a complex mix of technologies. Not known whether it is capable of supporting load of anticipated applications (e.g., e-government)	Network unable to provide necessary level of service; cost overruns on projects to implement advanced initiatives (p=.2)	Major unplanned costs, delayed project implementations	Low priority. Embark on a program to evaluate the network and prepare a three-year development plan

SYSTEMS MANAGEMENT SERVICES

<u>Process Element</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Disaster Recovery	IT Managers	Lack detailed, tested process for restoring information services in the event of loss of primary facility	Major outage resulting in destruction of major infrastructure element (p=.005)	Not ready for e-Government. Government operations impaired; possible reduction in public safety, inability to pay vendors, employees	Medium priority. Advancement into e-government raises the stakes. Continue the project currently underway.
Backup and recovery	IT Managers	Have only partially implemented process for backing up central data files and making them rapidly available for recovery	Permanent, unrecoverable loss of data (p=.05)	Failure to comply with reporting requirements; unplanned costs to recover data manually	Medium priority. Continue the project currently underway to implement backup & recovery routine. Extend universally to all data processing sites.
Change Control	IT Managers	Have only partially implemented facilities to control changes to systems hardware and software	Downtime due to failure of changed components (p=.2)	Lost workforce productivity; missed deadlines. Not ready for e-government	Medium priority. Follow-through on current plans to isolate production environment from development and training environments. Implement written policy and procedures to govern the process of making changes to systems.

SKILLS & KNOWLEDGE

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
e-mail	Microsoft Outlook	Data Processing (City)	Employees resist adopting as a primary means of communication; access to e-mail not universal	e-Government flops (p=.99)	Public disenchantment; Government fails to deliver on the promise of faster, higher quality service	Medium priority: Mayor set the example; use e-mail and require direct reports to use it. Embark on program to facilitate every public employee with access to a workstation and an e-mail mailbox.
e-mail	Microsoft Outlook	Data Processing (City)	Users lack basic skills	e-Government flops (p=.99)	Public disenchantment; Government fails to deliver on the promise of faster, higher quality service	Medium priority: have Local 1033 and Personnel deliver a training & certification program to all employees
Web-Enabled Desktop computer	Microsoft Windows and Microsoft Explorer	Data Processing (City)	Users lack basic skills	e-Government flops (p=.99)	Public disenchantment; Government fails to deliver on the promise of faster, higher quality service	Medium priority: have Local 1033 and Personnel deliver a training/certification program to all employees
word processing, spreadsheet, and presentation	Microsoft Office	Data Processing (City)	Users lack basic skills	e-Government flops (p=.99)	Public disenchantment; Government fails to deliver on the promise of faster, higher quality service	Medium priority: have Local 1033 and Personnel identify positions where this skill & knowledge is required; deliver a training/certification program to targeted employees

SKILLS & KNOWLEDGE

<u>System</u>	<u>System Suite & Module</u>	<u>Process Owner</u>	<u>Problem</u>	<u>Risk and Probability Assessment</u>	<u>Consequences</u>	<u>Recommendation</u>
Ad hoc data analysis and reporting	Crystal Reports and Hyperion	Data Processing (City)	Few users and data processing staff know how to use	Users continue to expect Data Processing staff to fulfill report requests; users experiment on their own	Frustrated expectations of users; continued long service cycle to fill requests for reports; not ready for e-government	Medium priority: Determine the positions that should have this skill. Have Local 1033 and Personnel deliver a training & certification program to qualified employees
Specialized systems	Lawson, Govern, HTE and others	Personnel and Functional Department Heads	New hires need training; workforce needs occasional help	Procedures not followed or performed inaccurately (p=.9)	Impaired performance; exposure to audit findings and poor performance evaluation; labor grievances	Low priority: Prepare user reference documentation for core systems. Personnel implement a routine skill assessment and development process. Have Local 1033 and Personnel deliver a training & certification program for new and advancing employees.