EFFECTIVE WITHOUT THE MAYOR'S SIGNATURE

City of Providence

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RESOLUTION OF THE CITY COUNCIL

No. 436

EFFECTIVE November 14, 2016

WHEREAS, The City Council adopted and the Mayor approved Ordinance Chapter 2016-34, No. 331 effective on August 5, 2016 (the "Ordinance") authorizing the design, construction, repair, rehabilitation, replacement and improvement of infrastructure in the City's neighborhoods, including, but not limited to, streets, sidewalks, public parks, recreation facilities, bridges, sewers, drainage and City of Providence (the "City") buildings (the "Projects") and the financing of the Projects through the issuance of bonds in an amount not to exceed $40,000,000 (the "Bonds"); and

WHEREAS, Section 2 of the Ordinance provides that the Bonds may be issued pursuant to the authority of the Ordinance only if a majority of the electors of the City has approved the authorization to issue a bond at the state general election to be held on November 8, 2016, in a ballot question to be submitted in substantially the following form:

"Shall an Ordinance of the City Council effective on August 5, 2016 authorizing the issuance of up to $40,000,000 general obligation bonds of the City to finance the design, construction, repair, rehabilitation, replacement and improvement of infrastructure in the City's neighborhoods, including, but not limited to, streets, sidewalks, public parks, recreation facilities, bridges, sewers, drainage and City buildings, pursuant to Rhode Island General Laws § 45-12-2 and § 807 of the City's Home Rule Charter, be approved?"; and

WHEREAS, Since the passage of the ordinance additional information about the finances of the City have arose; and

WHEREAS, On October 7, 2016 Moody's Investor Services stated "Any further reductions in reserves or failure to adhere to the deficit reduction plan will result in strong downward rating pressure"; and

WHEREAS, The City of Providences bond rating is Baa1, one investment grade above junk status; and

WHEREAS, In the recently commissioned NRN report it states "Compared to nine other New England cities, Providence has the lowest credit rating, with Baa1 rating as its 2015 bond issue"; and

WHEREAS, Per the Internal Auditor there is a negative cumulative deficit balance (a.k.a. rainy day fund) of thirteen million four hundred thousand dollars ($13,400,000) with possible reductions of an unaudited six million four hundred thousand dollars ($6,400,000) or at least seven million dollars ($7,000,000); and

WHEREAS, Presently, the City has an unsustainable pension system that is approximately 27.4% funded with an approximate nine hundred million dollars ($900,000,000) unfunded pension liability; and

WHEREAS, There is an unbudgeted four million dollars ($4,000,000) change to the budget for reducing the assumed rate of return for the pension system; and

WHEREAS, Presently the City has an Other Post-Employment Benefits (OPEB) unfunded liability of over one billion dollars ($1,000,000,000); and

WHEREAS, Further in the NRN report it states "If the City does nothing else differently, it will face a structural deficit – without even considering the full cost of necessary and required OPEB funding – of more than $37 million by FY2026"; and

WHEREAS, Per the Internal Auditor there is a potential unbudgeted twelve million four hundred thousand dollar ($12,400,000) liability caused from the unilateral actions by the Mayor and Commissioner of Public Safety against the fire department; and

WHEREAS, The Providence City Council acknowledges the fiscal challenges that are before the City and continues to review discretionary spending and in the best interest of the City not granting approval; and

FURTHERMORE, The Governor of The State of Rhode Island recently stated about the City "I think we need some leadership and some action. And make some tough decisions".

NOW, THEREFORE, BE IT RESOLVED, That based upon the above and continuing uncertainty of the finances of the City of Providence, the Providence City Council recommends not to support the issuance of this bond at this time. The issuance of said bond would add Forty Million Dollars ($40,000,000) of new debt to the People of Providence which would create further financial hardship to the City of Providence and its people.

This resolution shall take effect upon passage.

IN CITY COUNCIL

NOV 03 2016

READ AND PASSED

PRES.

CLERK

Effective without the Mayor's Signature

Lori L. Hagen
City Clerk

Moody's PVD G.O. Bond Rating (Baa1)

"Although the city is making strides to address its weak reserves, going forward, the city will remain challenged to reach and maintain structural balance due to growing pension and healthcare expenditures. ***Any further reductions in reserves or failure to adhere to the deficit reduction plan will result in strong downward rating pressure."***

Moody's Investor Service – October 7, 2016

Moody's Bond Rating (Baa1)

Investment Grade	Aaa	High Grade
	Aa1	
	Aa2	
	Aa3	
	A1	Upper Medium Grade
	A2	
	A3	
Providence →	Baa1	Lower Medium Grade
	Baa2	
	Baa3	
Junk	Ba1	Non-Investment Grade Speculative
	Ba2	
	Ba3	
	B1	Highly Speculative
	B2	
	B3	
	Caa1	Substantive Risks
	Caa2	Extremely Speculative
	Caa3	In Default w/ Little Prospect for Recovery
	Ca	
	D	In Default

UNSUSTAINABLE PENSION

Unfunded Pension Liability = $894.3 million

Pension Funding Ratio[1]

27.4%

Percentage Unfunded

72.6%

Annual Pension Burn Rate[2]

Total Annual Pension Payments = $97.5 Million

Total City and Employee Contributions = $85.1 Million

Variance = $12.4 Million

[1] 2014 CAFR

[2] FY2017 estimate using data from Wainwright Investment Counsel's August/September Performance Update Report. If $12.4 million is not generated from pension investment earnings, then funds will be withdrawn from Pension System.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Unfunded Liability[1]

$1.03 Billion

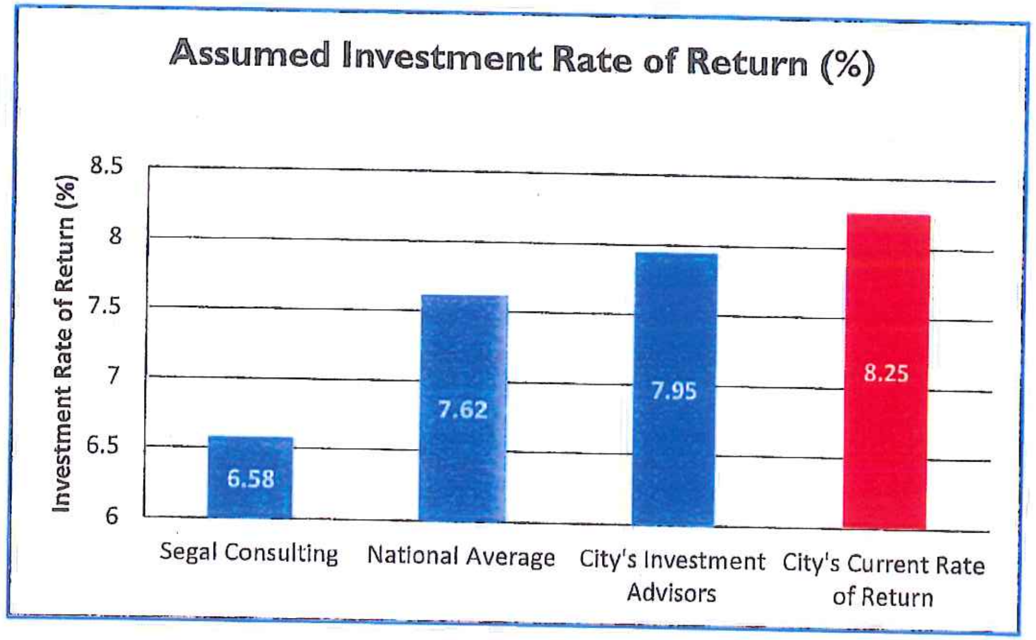
Reserve for OPEB Liability

$0

[1] FY2014 CAFR

UNREALISTIC RATE OF RETURN

- City's current assumed rate of return on pension system's investments is **25% greater** than expectation of the city's actuary (Segal Consulting).
- City's current assumed rate of return on pension system's investments is **8.4% greater** than the national average of pension funds in the United States.
- If the pension contribution for FY2017 was in line with the national average, the city would be required to contribute an additional **$5.0** into the pension system.



27.4%

Pension System's Funded Ratio [2]

[1] Segal Consulting: Actuarial Experience Review: July 1, 2013-June 30, 2015
[2] City ERS 2014 Actuarial Valuation Report

UNSUSTAINABLE PENSION BURN RATE

Pension Contribution (Employer)	$73,102,313
Pension Contribution (Employees)[1]	$12,000,000
Total Contributions	**$85,102,313**
Total Projected Pension Payments[2]	**- $97,500,000**
Variance of Contributions v. Payments	**- $12,397,687**

In order to cover the excess pension payments versus contributions, the System's investments must earn a minimum of $12.4 million. Should the investments fall short of that target in any year, the payments will be made from the System's assets, which worsens the funding ratio.

[1] Estimate using actual employee contribution shown in June 30, 2015 CAFR plus estimated growth

[2] Estimate using data from Wainwright Investment Counsel's August/September Performance Update Report

Providence's Challenges:
Weak Credit Rating, Negative Fund Balance

- Compared to nine other New England cities, Providence has the lowest credit rating, with a Baa1 rating as of its most recent 2015 bond issue
- Although a city's unrestricted fund balance is not the sole determining factor in its credit rating, the table below shows how the two are related

	Current Moody's Credit Rating	2015 General Fund fund Balance as a % of General Fund Revenues
Stamford, CT	Aa1	7.7%
Worcester, MA	Aa3	6.0%
Manchester, NH	Aa3	10.0%*
Warwick, RI	A1	7.9%*
Waterbury, CT	A1	5.5%
Bridgeport, CT	A2	2.4%*
Springfield, MA	A2	13.9%
Hartford, CT	A3	3.7%
New Haven, CT	A3	0.3%
Providence, RI	Baa1	-3.0%
Median Excl. Providence	A1	6.0%
Rank	10 of 10	10 of 10

**Manchester, Warwick and Bridgeport data as of 2014*
Source: Moody's Investors Service, Inc. as of March 30, 2016

Note: Rank is measured from highest to lowest

POTENTIAL 3-PLATOON RETRO PAYMENT

The Administration on August 2, 2015 unilaterally changed the fire department to a 3-platoon schedule. According to analysis provided by the Office of the Internal Auditor, the city faces a potential total liability of as much as $12.4 million in firefighter payroll for the period of August 2015 through September 2016.

$12.4 Million[1]

[1] Based upon 1.5 times pay for 14 hours per week minus 8.0% salary stipend provided to all employees counted against minimum manning for the period of August 2, 2015 through September 30, 2016 .

NEGATIVE RAINY DAY FUND

The Administration announced that the city will have an operating surplus of $6.4 million for fiscal year ending June 30, 2016. It is important to note, however, that this surplus was achieved due in part to an one-time revenue derived from the borrowing of $2.0 million via the Street Light Project, and the deferral of a potential $9.5 million in firefighter salaries due to the move to three platoons.

Negative Rainy Day Fund Balance	
City's Fund Balance (6/30/15) [1]	($13.4)
FY2016: Projected Surplus [2]	$6.4
City's Fund Balance (6/30/16) [2]	**($7.0)**

[1] Comprehensive Annual Financial Report 6/30/15

[2] Unaudited

Includes:

- **Borrowed Revenue ($2.0 million)[3]**

Does Not Include:

- **Firefighter Retro Pay ($9.5 million)[4]**

[1] CAFR 6/30/2015

[2] Unaudited

[3] Revenue of $2.0 million realized in FY2016 was borrowed using Street Light Financing

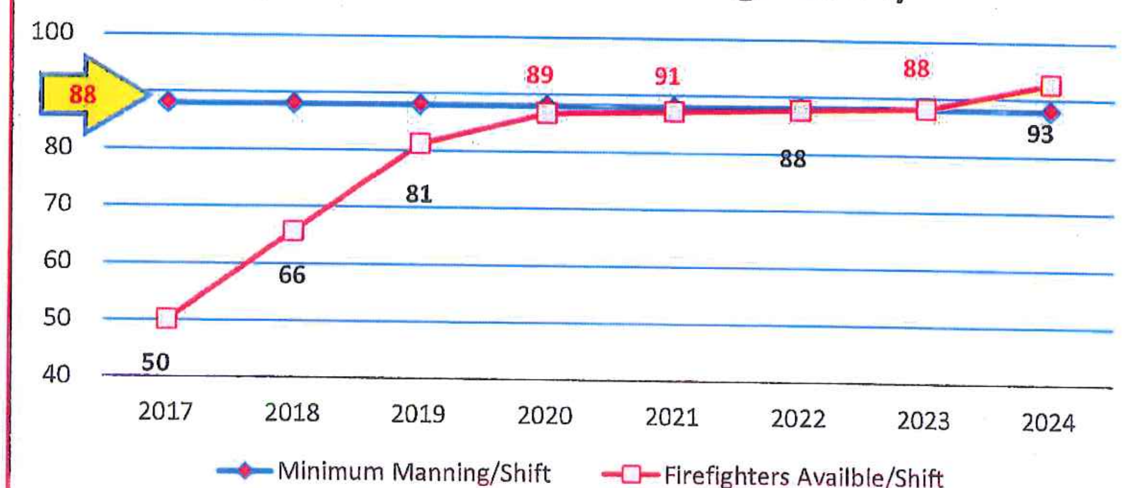
[4] Internal Auditor's projection of firefighter retro-pay (August 2015-June 2016)

REBUILD THE FIRE DEPARTMENT

- Under a 4-platoon structure with a minimum manning requirement of 88, an additional 200 firefighters will need to be hired to reach 88 per shift
- Based upon projections and assumptions of the Internal Auditor, the city will likely need until 2020 to reach the minimum manning requirement

Fiscal Year	Additional Firefighters
2017	0
*2018	80
2019	80
2020	40
2021	20
2022	20
2023	20
2024	20
	280

* Funding via federal grant

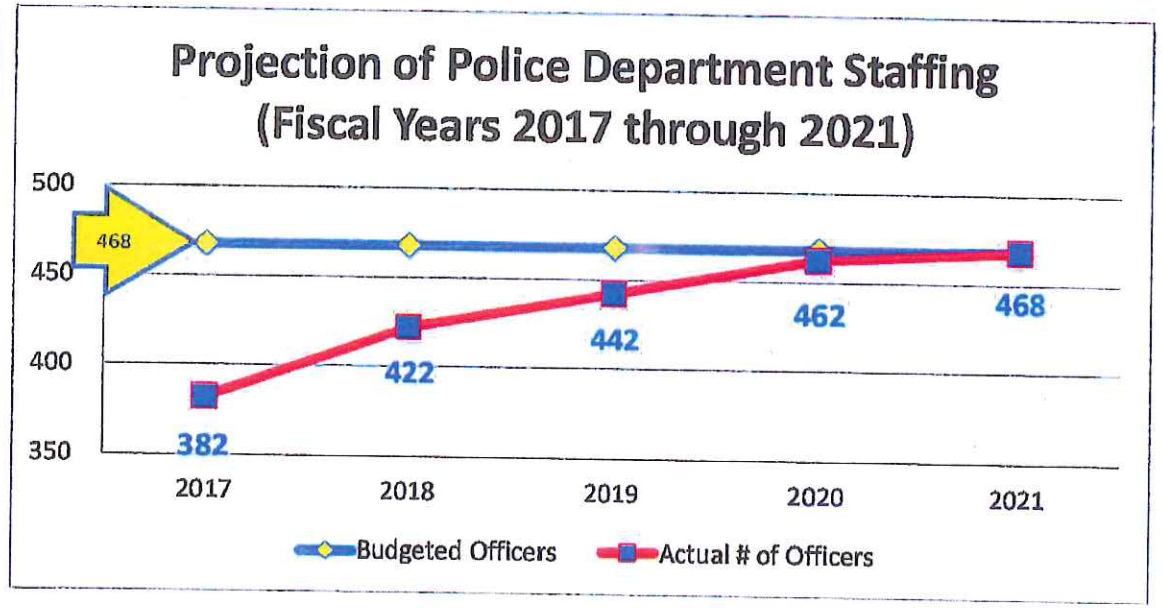


[1] Based upon Internal Auditor's assumptions concerning annual retirements (18), IOD/LD (33), Leave (14/shift), FPB (4/shift), and additional number of firefighters shown above.

REBUILD THE POLICE DEPARTMENT

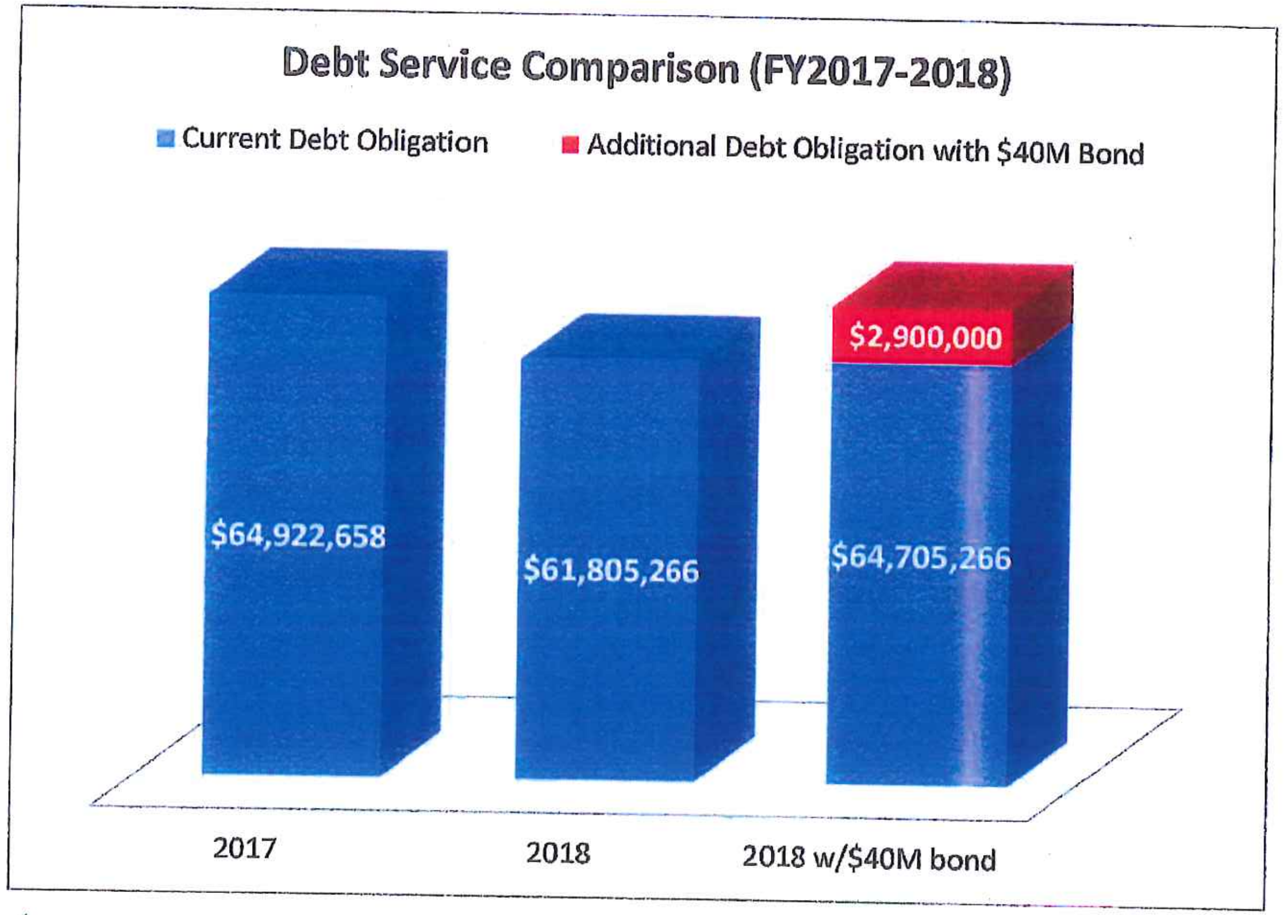
- The police department has 468 uniformed positions budgeted (FY2017)
- The department has only 396 police officers on the job
- Based upon projections and assumptions of the Internal Auditor, an additional 166 police officers will need to be hired to reach 468
- The city will likely need until 2020 to reach the staffing of 468 officers

Fiscal Year	Additional Police Officers
2017	0
2018	60
2019	40
2020	40
2021	26
	166



[1] Based upon Internal Auditor's Assumptions concerning annual retirements (20) and additional number of police officers shown above.

DEBT SERVICE BURDEN



[1] Approximate debt service payment based on $40M borrowing with a 20 year amortization at a rate of 3.75%

Time for Tough Decisions

"I think we need some leadership and some action. And make some tough decisions."

Governor Gina Raimondo

FINAL ANALYSIS

- **Moody's Bond Rating**
  - One Grade Above Junk Status with a Negative Outlook
- **Negative Rainy Day Fund**
  - Negative $7.0 million Fund Balance[1]
  - Borrowed $2.0 million & No Reserves Set Aside to pay potential Fire Retro to Achieve FY2016 Surplus
- **Unsustainable Pension**
  - $894.3 million Unfunded Pension Liability
  - Pension is Only 27.4% Funded
- **OPEB**
  - $1 Billion Unfunded Liability
  - $0 Reserves

[1] After incorporating the Administration's projected $6.4 million surplus for FY16

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Downgrades RIHEBC's Providence (PPBA) Bonds to Baa2; Affirms Baa1 on GOs; Outlook is Negative

Global Credit Research - 07 Oct 2016

New York, October 07, 2016 -- Summary Rating Rationale

Moody's Investor Service downgrades Rhode Island Health & Educational Building Corporation's (RI) Providence Public Schools Revenue Bond Financing Program, Series' 2007 A, 2007 B, 2007 C, 2009 A, 2010 A, and 2010 B to Baa2 from Baa1. The rating was previously on review for downgrade and concludes a review undertaken in conjunction with the publication on July 26, 2016 of the Lease, Appropriation, Moral Obligation, and Comparable Debt of US State and Local Governments Methodology. Concurrently, Moody's has affirmed the Baa1 rating on the city's outstanding general obligation (GO) debt; the Baa2 rating on the lease appropriation revenue bonds issued by the Providence Redevelopment Agency; the Baa2 lease appropriation revenue bonds issued by the Providence Public Buildings Authority (PPBA) ;and Series 2015 A & B, and 2013A PPBA bonds issued through RIHEBC. The outlook is negative. The rating action affects approximately $446 million in outstanding debt.

The Baa2 rating on the RIHEBC bonds is one notch lower than the Baa1 general obligation rating on the city. The notching reflects the appropriation requirement, as well as the more essential nature of the projects financed and the moderate legal structure.

The Baa1 general obligation rating reflects the city's sizeable and diverse tax base anchored by a significant institutional presence and an improving unemployment rate and high poverty levels. The rating also factors the city's weak financial position including a negative fund balance.The rating also incorporates a high debt burden that is partially supported by state school building aid, and a very high fixed cost burden with large unfunded pension and OPEB liabilities.

The Baa2 PPBA and PRA lease revenue bond ratings reflect the city's general credit quality as well as the risk of non-appropriation, as outlined in the Master Trust Indentures and lease agreements between the city and the authorities. The rating also factors the essential nature of the leased assets.

Rating Outlook

The negative outlook reflects the continued fiscal challenges the city faces including a very weak reserve position and rising pension and healthcare costs.

Factors that Could Lead to an Upgrade

Continued reduction in accumulated operating fund deficit

Ability to achieve and maintain structurally balanced operations

Significant tax base expansion and improvement in socioeconomic metrics

Reduction in unfunded pension and OPEB liabilities

Factors that Could Lead to a Downgrade

Further weakening of reserve levels

Inability to achieve and maintain structurally balance operations

Increase in debt burden

Lack of progress in funding long-term liabilities

Legal Security

The Rhode Island Health and Educational Building Corporation (RIHEBC) bonds are secured solely by a pledge of payments made by the Providence Public Building Authority (PPBA or authority) under the financing agreement between the two parties. Loan payments to RIHEBC are scheduled to be sufficient to pay the principal, sinking fund installments and redemption price of and interest on the bonds. The PPBA's loan payments will be made from lease payments the PPBA receives from the City of Providence. Security for the lease obligation between the PPBA and the City of Providence is provided by a pledge of lease rental payments made by the city to the authority. Under the lease agreement, the lease rental payments by the city are subject to and dependent upon annual appropriation. The authority has no taxing power of its own. The authority is required to maintain a debt service reserve (except for Series 2010 A & B) equivalent to maximum annual lease payments, which can be tapped if the city fails to make a payment sufficient to cover its lease payment. Further, the RIHEBC bonds benefit from a monthly pay Intercept Program which is a state-backed enhancement program. The program allows RIHEBC to request an intercept of basic education aid from the General Treasurer of the state. Additionally, security is provided by direct payment of School Housing Aid (82% of debt service) directly to RIHEBC's trustee from the State.

The PPBA and PRA bonds are secured by the agencies' respective pledges to annually appropriate lease payments equal to debt service on the bonds and by liens on pledged collateral, which is comprised of various city buildings, primarily schools and public safety facilities. Under the lease agreements, these lease rental payments by the city are subject to annual appropriation. The PPBA and PRA have no taxing powers of their own. These bonds are issued under Master Trust Indentures pursuant to separate lease agreements with the city. All outstanding PPBA and PRA debt is fully collateralized by city assets. In the event of default, the Trustee is granted power to sell such real property as may be allowed for cure.

Debt service on the GO bonds is secured by the city's general obligation unlimited tax pledge, subject to the state levy cap.

Use of Proceeds

Not applicable.

Obligor Profile

Providence is the third largest city in New England and the capital of Rhode Island. The city is home to several higher education and healthcare institutions and serves as a regional employment center. The city has an estimated population of 178,432.

Methodology

The principal methodology used in the lease rating was the Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Regulatory Disclosures