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Finance Department
"Providence, We Can"

December 19, 2004

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

Dear Councilman Jackson:

Please accept this letter as the fifth Annual Report I have submitted since becoming Director of Finance. In this report, I will attempt to update you on major initiatives that the Finance Department has completed or has underway since my last report, which was submitted in June 2004, as an addendum to my December 2003 report.

Foremost, the Finance Department balanced the fiscal 2004 budget. The anticipated undesignated budget surplus of approximately $2,200,000 represents the City's twenty-fourth consecutive budget surplus and will increase the cumulative fund balance to more than $12.2 million. The City achieved higher than budgeted collections in Taxes ($4.9 million), School Debt Construction ($1.8 million), Meals Tax ($1.1 million), Interest Income ($1.4 million), Building Permits ($1.8 million), and Recorder of Deeds fees ($1.8million). There were also savings from refinancing debt, debt service reserves and interest on those reserves ($2.4 million), as well as savings in benefits ($3.5 million). These positive budget variances offset shortfalls from red light cameras ($1.9 million), asset sales ($7.4 million), legal claims ($4.2 million), attrition ($1.5 million), and establishing reserves for a 53rd week of payroll that will occur in fiscal 2005 ($1.1 million). The budget variances listed above were the major components of the $2.2 million positive budget variance for fiscal 2004.

Another important financial project completed was having the actuary perform, for the third year, in a row an actuarial calculation on medical claims that are incurred but not reported as of June 30th (IBNR). These Incurred But Not yet Reported claims are eventually paid through the health care self-insurance fund the following fiscal year. As of fiscal 2004, the Internal Service Account (healthcare claims account) will not only have all of the $4.9 million of IBNR claims fully reserved, but will also have a fund balance (surplus) of over $1.0 million. This will help prevent future budgets from being negatively impacted by old year healthcare expenses and provides the City with a cushion, creating budget flexibility. The fiscal year 2004 audit will reflect a cumulative undesignated fund balance of approximately $12.2 million, a $1.0 million surplus in the healthcare claims account, and will have a \$2.0 million reserve for payroll expenses for a 53rd week of payroll that will occur in fiscal 2005. The audit will also reflect a reserve of \$400,000 from a surplus the school department finished with in fiscal 2004 and needs to bring forward as part of their fiscal 2005 revenues. The City will also have reserves of over \$6.0 in the legal accrual as a reserve for potential litigation. All of these reserves provide financial flexibility and strengthens the financial position of the City.

An important responsibility of the Finance Department is making presentations to rating agencies and bond insurance providers. Last March, presentations were made to Moody's Investors Services, Fitch Ratings, and Standard and Poor's in connection with the refinancing of the 1997 Neighborhood Bond Issue. The refinancing of these bonds saved over \$2 million and had over a 4% net present value benefit. Both Fitch and Standard & Poor's confirmed the City's bond rating at A-. Moody's also confirmed their rating, but in addition changed their outlook for the City from "stable" to "positive". Their latest report states "The positive outlook reflects Moody's belief that Providence will meet its goals of improved reserve levels and reliance solely on recurring revenues for operations, as well as funding the pension obligation at 100% of actuarial recommended levels by no later than 2007. Achievement of these goals will materially improve the city's financial position, thereby creating upward rating pressure." All three rating agencies seemed satisfied with the balanced approach the City has employed to balance budgets. The combination of tax increases, new revenue sources, and expenditure reductions to fill budget shortfalls created by the lost state aid and growing medical and pension cost has been positively received by the various rating agencies. On the negative side, all three rating agencies share the same concern of the growing unfunded pension liability.

As I mentioned in last year's report, I believe once the City resolves its pension system issues, which includes completing its phase-in to fully fund the pension system based on actuarial requirements, an increase in the bond rating will occur. The fiscal 2005 budget funds 90% of the actuarial recommended amount, as we steadily move towards the 100% funding of the system. However, continued increases in school cost, medical expenses, pension cost, and the pending results of the firefighter's arbitration, all impact the City's financial condition and will continue to impact future budgets. The new recently settled contracts with city workers and school teachers that begin to share healthcare cost and provide only moderate raises are certainly steps in the right direction, but alone will not solve the city's budget concerns. Future budgets will require a combination of growth in the tax base, collection rate, tax rate, and/or other revenue sources, as well as continued reductions in the cost of services or possibly the elimination of certain services and programs. In addition, if the State of Rhode Island continues to underfund state aid to Providence, significant budget shortfalls are expected and difficult decisions will have to be made. The City must continue to explore alternative revenues and cost savings, some of which were identified in the report submitted last year by the consulting firm Public Finance Management.

The fiscal 2004 annual audit is almost about completed and though the audited financial statements have not been issued by the audit firm, the audit is so close to completion that I am comfortable enough to announce the \$2.2 million surplus that I discussed earlier in this report. Recently adopted State law required the City to publicly bid the audit contract for fiscal 2004 and will be required to bid these services every three years from now on. This new State requirement resulted in the City Controller, his deputy, and me creating a Request for Proposal for audit services that had to be approved by the State Auditor General. I am pleased to inform you that Ms. Linda Ide, the Deputy Auditor General, informed me that the RFP that we prepared was the best and most complete RFP of all the municipalities in Rhode Island. I should also mention that since hiring the audit firm is a function of the City Council, I asked the Internal Auditor to assist us in interviewing the firms that responded to the proposal. The three firms that bid, KPMG, Deloitte & Touche, and McGladrey and Pullen, all were capable of performing the audit. Both Deloitte and KPMG are members of the so called "Big Four" national accounting firms, and McGladrey & Pullen, though not a national firm, is the fifth largest firm in the country and audit several large New England cities such as Manchester, New Hampshire and Bridgeport, Connecticut. I have always believed that since Providence bonds sell nationally, it is important to have a well-known firm perform the audit, and all three bidders met that criteria. However, McGladrey & Pullen bid was the least expensive and the partner we interviewed made an impressive presentation. These factors resulted in a unanimous choice by all that participated on the selection committee (City Controller, School Controller, Internal Auditor, and Finance Director) to recommend M&P to the City Council, Chief of Administration, and the State Auditor General, who by law, also has to approve the selection. As mentioned above, the fee this year was significantly less than the amount charged by KPMG in past years.

McGladrey and Pullen must also issue the statements in compliance with the new accounting pronouncement that was adopted three years ago, Government Accounting Standards Board 34 (GASB34). GASB 34 required major changes to the City's financial reporting. The City now has to report infrastructure assets, depreciation is required on City assets similar to for profit businesses, and long term sick and vacation, as well as long term liabilities (outstanding bonded debt) and infrastructure are now part of the cumulative fund balance. The new audit firm is going to investigate if the City can record the State reimbursed School Debt Construction Aid on the GASB 34 government-wide financials. As mentioned above, currently the City must record all the outstanding debt service due to pay school bonds as long term debt but does not record the reimbursement from the state that provides more than 80% of the funds for those debt payments. We are asking the State Auditor General determine whether we can record this state aid. Since the revenue is subject to state annual appropriation, I do not believe the Auditor General will allow us to record these future revenues, but we might be able to record the FY 2005 reimbursement since these funds have been appropriated in the FY 2005 State budget. The key will be if the State currently records the liability to pay municipalities for these future bond payments. If that is the case, and I don't think it will be, then the City should be able to record the reimbursements. However, even if we are allowed to only record the FY 2005 state reimbursement, the City GASB 34 financial statements will be positively affected by over $13 million. I mention this only to demonstrate that the new audit firm is taking a fresh look at our financial statements.

Currently the City has the highest opinion an audit firm can issue, an unqualified opinion on the financial statements and the goal is to issue the audit once again in a timely manner. However, with a new pension payroll system going live in January and the added manpower required in running parallel payrolls and validating data, I asked the City Controller and Mr. Scott Basset, partner from M&P, to contact the State Auditor General about an extension, which has been granted to January 31st.

Issued along with the citywide audited financial is the OMB A-133 and Government Auditing Standards "single audit." The "single audit", which reflects all federal grants and comments on management, listed only six management comments in fiscal 2003. This has marked a significant improvement from the twenty-two that existed when I became Director of Finance in June of 1999. None of last year's comments was considered material. The comments dealt with the need for timelier financial reporting, the need for additional finance staffing, the continued need to support the Civic Center financially, tracking of capital assets during construction on Public Building Authority projects, and the negative impact post-retirement medical cost will have on the financial statements in the near future. I'm not sure if the new auditor firm will propose additional comments this year, as the single audit report is not required by federal regulations to be issued until March 31st. However, this could be an area where having a new firm taking a new look might be beneficial in identifying potential management concerns or weaknesses.

Through the Board of Contract and Supply I have hired a company called Profit Search to examine paid invoices and related documents looking for overpayments or other errors over the last three fiscal years. The firm will not be paid unless they recover funds for the City and their fee is based on a sliding scale between 33% and 25%, depending on how much they are able to recover. I have been meeting with them semi-weekly and the Profit Search auditors have been complimentary of the City Controller's accounts payable staff, finding few problems on the thousands of invoices processed from all city departments. However, they have found cases where Narragansett Electric has been charging sales tax on new accounts like the new public safety building, which has added up to significant dollars. The final refund I expect from the electric company will be somewhere between $50,000 and $100,000, as I have already received a $56,000 refund from them. In addition, the auditors found that the City paid federal government excise taxes on oil and diesel deliveries. This will result in a reimbursement of approximately $25,000. I have instructed Profit Search to review the city's blanket contract purchases in order to ensure vendors are billing city departments the amounts that were bid at the Board of Contract and Supply. For example, if the city receives a low price due to volume, I want to verify that we are being billed at that lower price. Profit Search has also recovered $26,000 from a credit the School Department had with a vendor since calendar 2000 and has found a few overpayments on uniform contracts and elevator repairs thus far. When the audit is complete I will provide you with a list of the funds recovered and from what activities.

The Finance Department is also working with Mellon, the City's actuary, to determine if we should change certain assumptions that determine what the City's annual contribution into the pension system to pay both normal cost and to eliminate the unfunded liability. To date, Mellon is recommending several possible changes that would result in a significantly lower contribution being required to fund the pension system. Mellon is recommending changes in the mortality rate that have been in effect since possibly the sixties. This change would result in an increase in the amount necessary to fund the system, however, Mellon is also recommending that we adjust the number of anticipated disabilities downward, as well as adjusting the average salary increases from 5% to 4.5% for five years, 4.75% the next five years, and then back to 5%. These recommendations are based on what has been happening with growth in wages most recently. These changes would reduce the amount necessary to fund the system. However, the major changes Mellon is recommending are the way the city measures Actuarial Value (value of its assets) and the way the Actuarial Cost Method (liability of the past service and normal cost amounts) is derived. The asset smoothing change Mellon is recommending does not generally result in significant swings in value from the actual market value of the assets from year to year. This method has been in existence for years, is more accurate, is used by 98% of pension plans, and IRS rules accept this proposed method, unlike the current approach that is being used to measure the plan's assets. Mr. Dan Sherman, who has taken over the responsibility of the Providence account, feels this approach is the way the City should calculate the value of its assets. The other major change in the way the normal and unfunded liability costs are calculated would also result in a reduced contribution being required. Once again the new method is widely accepted and used by most pension systems and is more accurate in the way it actually calculates the amounted needed in the system by individual. These proposed methods could possibly result in the amount needed next year to fund the system to drop from $55.8 million dollars to $51.9 and adopting the changes in mortality, disabilities and salary assumption would further reduce the contribution to $51.5 million. The amount recommended by the actuary for fiscal 2004 was $49.4 million, of which 90% was budgeted. The new proposed funding level might allow us to achieve the 100% funding level the rating agencies are looking for. I have asked Mr. Sherman to explain, in writing, why his firm, after so many years is now recommending these changes, so that we will be able to respond to questions that will arise from groups like the Rating Agencies and Retirement Board.

I have also written two new policies: one to do with investments and the other derivative debt. The derivate debt policy ("Swap Policy") will determine guidelines for the City when issuing derivative debt. The policy determines the net present value and total percentage of all outstanding debt that would be allowed in these derivative products. The policy also describes rationales when variable rate, swaps, etc. should and could be used, outlines financial institutions or participants requirements (collateral placed with the City, etc.), how to minimize risk, and the reporting and monitoring requirements that will be in place to safeguard the City and minimize risk. This policy has just been submitted by Resolution to the City Council for approval, as we would like to have derivative debt as a potential method of refinancing four Tax Incremental Financing Bonds that were issue in the mid 1990's. These bonds Series A-D could provide a budget solution in fiscal 2006 of several million dollars. I will keep you informed of this important refinancing activity as we proceed.

The second policy was re-written and updated and deals with investing of city funds. The policy replaces a policy that was written in the 1980's and includes investment instruments that were not in wide use at that time. This policy addresses investment objectives (safety, maximizing rate of return, etc.) institutional requirements to participate, acceptable investment instruments, and stresses diversification. A copy of both these policies is available in the Finance Department.

Each year the annual budget seems to have one difficult budget solution to accomplish. Fiscal 2005 is no exception, as the budget includes $3 million for the lease/leaseback of parking spaces at the Public Safety Garage. Due to lender concerns, structuring the transaction so that the proceeds would be considered revenue and not a loan, as well as ensuring the transaction didn't have tax consequences for the outstanding bonds that funded the public safety headquarters; the lease/leaseback was complicated and took several months to complete. The end result was that the Providence Redevelopment Agency has leased to the City 500 parking spaces. The City then leased 300 of the spaces to Bank of America for $3 million for a ten-year term. The 300 spaces were then leased back to the City for the same ten year term, minus one day, for annual rental payments equaling $3 million plus interest through annual appropriation. In order to provide the lender a sense of comfort, the proceeds will be held with J.P. Morgan, the trustee, and for tax purposes will only be invested in either state or municipality tax exempt bonds. The proceeds are currently invested in is a State of Ohio Highway bond that pays 5.0% and matures in May of 2007. This solution represents nearly half of the $7.4 million the City has included in the fiscal 2005 budget. Another $4.0 million dollars must still come from the sale of the old public safety building, Fogarty Building, land surrounding Triggs Golf Course or possibly excess land at Blackstone Park. All of these land sales contain circumstances that make them difficult and time consuming and six months of this fiscal year has already passed, thus I believe it will be necessary to develop other solutions in order to ensure the FY2005 budget is balanced.

As you are aware, the City began implementation of an integrated software project in November of 2001 with a comprehensive request for proposals. The areas of the project that are more financial in nature have almost all been completed. The Tax Collector and Tax Assessor offices have been using Govern Software's billing and collecting features for the last two years. Lawson's Financial Software has been in use since July of 2002 in areas such as the general ledger, accounts payable, accounts receivable, budget, and purchasing. Last January, Human Resources, citywide payroll, and retirement loans and annuities were implemented. There was some difficulty in the loans and annuity portion of the project due to the complex, one of a kind system that is currently in place that allows employees to borrow from the pension system. These issues have been resolved, though we still need to do more in the way of creating reports to help streamline the workflow in the retirement office. The workload that resulted in the retirement office from this portion of the implementation, as well as Mr. Lynch, the Pension Administrator, being on extended sick leave resulted in an abnormal six month delay for retirees to actually receive their first retirement check. This has now been resolved and the delay is back to a more normal two to three month time frame that is a result of the retirement department, actuary (calculates pension) and Retirement Board all having to take specific actions before a first check is processed.

The financial portion of the integrated software project has been successful except in three areas that Lawson senior management is now directly involved in trying to help develop a solution. These areas are Budget Edits, General Ledger Process Flows, and developing a bid system. These three areas have really been a source of problem for the School Department operations due to the reporting requirements the State has and the fact that all the schools have their own budgets.

The budget edit feature prevents individual schools from overspending their budgets. When the feature was turned on in Lawson it caused the entire accounts payables process to freeze and come to a standstill. My understanding is that this problem has recently been resolved by an upgrade to the Lawson software.

The second area of concern deals with general ledger process flow. Once again this is a School Department problem due to the way they charge off employees to numerous funding sources (city funds, federal grants, foundation dollars etc.). For months the School Controller has been making manual journal voucher entries that are time consuming and tedious. A Lawson financial expert has been assisting us for several months and has made many improvements that has resulted in fewer manual adjustments. However, there is still unfinished work that will automate this entire process and the Lawson consultant is researching some of the glitches that still exist in hopes of completely resolving this issue.

The last item on the agenda is that the RFP that City issued called for a bid system with specific functionality. To date, Lawson who said they could provide this functionality in their RFP, has not. I have contacted senior management at Lawson and they are attempting to develop the functionality. We have offered to be a BETA site for this development (a test site). Also through another company they have partnered with "Buy Right" they could provide I believe the functionality we want. Lawson is telling us that we would have to buy the software from Buy Right at a cost of probably $50,000. I have told Lawson that they should provide the product for free. I am waiting for their response. In my next conversation with them if I am not happy with their answer to my request, will be to mention legal action since they clearly stated they could provide this bid module we need.

The last major component of the financial implementation that is due to "go live" this January is the pension payroll. The month of January was chosen so that we could avoid issuing W-2P's from two different payroll systems, as well as not wanting to have to convert current pensioner's payroll history into the new system. The Controller's Office staff has been running duplicate pension payrolls and is correcting errors and validating information so that this payroll conversion goes as well as the citywide payroll did last January. However, with all the different retiree rules and options, as well as the many different benefit plans we have for retirees, it is an amazingly complicated and time consuming task and results in a tremendous workload every time healthcare rates change for example. At some point we need to consolidate retiree benefit plans and eliminate groups that have a small number of members in them. Of course this would result in some additional cost, as we would probably have to move retirees into plans that provide added benefits in order to close the group that we no longer want to track in our system. I hope to examine this shortly after we "go live" and determine how many groups could be combined and what the added benefits cost might be. Obviously we won't close groups that would result in significant cost and will discuss this with Administration, City Council members, as well as the unions before taking any action. The retirees will soon receive a letter that will inform them of changes they may see due to the new payroll system. For example, the new system will mail checks in sealed, secured envelopes, similar to the city payroll. However, the major change will be that the new pension payroll will switch to a software program that calculates federal and state withholdings more accurately than the City could with the old software. This could result in retirees seeing a different amount in their net pay. This will be one of the items addressed in my letter. We expect this implementation to be on time and with relatively few problems.

Other areas of the integrated software implementation that effect outside departments like Inspection and Standards, Public Works, and Recorder of Deeds have been monitored mostly by Mr. Charles Hewitt since he was hired. I have stayed involved and supported him with staff when necessary. However, Charlie will address the progress of the software implementation in these departments outside of Finance in his report to you.

Another item I want to report on is in the area of Risk-Management. The Department has been able to secure less expensive insurance coverage for both our Fiduciary and Liability insurance for both the Board of Investment Commissioners and Retirement Board, as well as savings in the Stop-Loss insurance coverage for healthcare claims.

Through the competitive bidding process, the RFP for Stop Loss Insurance on healthcare claims asked bidders to bid on a variety of options. The City had a $225,000 deductible per claim incurred over 12 months and paid out over a 24 month period when we issued the RFP. We asked companies to bid a variety of deductibles and also had them bid various levels of aggregating specific amounts. "Aggregating Specific" means the City would be willing to assume a total amount above the individual deductible amount we carry on each individual claim. For example, if the City was to carry a $225,000 deductible per claim, the City would also be willing to assume additional risk in some amount. The City basically examined its claims the last several years and only once has the City had a claim that resulted in the City exceeding the $225,000 threshold. Based on the bids we received and claim experience information, the City chose to continue with a $225,000 deductible, but also added an Aggregating Specific amount of an additional $100,000 that would be spread out over all claims that could hit the $225,000 threshold. For example, if the City had two claims that reached $275,000, the additional $50,000 on both those claims would be absorbed by the City due to the additional aggregating specific amount of $100,000 risk we chose. If another claim came in for more than $225,000, the City would be capped at the $225,000 deductible. Last year, the Stop Lost

Policy cost us $615,000 annually, compared to the $490,754 the policy will cost this fiscal year, in large part to the additional $100,000 risk we are taking on claim payments. The insurance policy is with Companion Life Insurance from North Carolina and Best & Company, who rates insurance companies, has rated them an A+.

The second major insurance RFP that the Finance Department completed was for Fiduciary Liability Insurance for the Retirement Board and Board of Investment Commissioners. Last year, U.S. Specialty insured the first $5 million of coverage and Chubb the secondary $5 million, as we could not get one bidder to provide the entire $10 million that was requested in the RFP. This year AIG bid, as well as U.S. Specialty and Chubb. In discussing the coverage that would be provided by AIG, we encountered some concerns regarding retroactive coverage and prior acts exclusion. However, just having that second bid allowed us to go back to Chubb and get them to lower their cost for insurance and achieve a lower price for the same coverage as last year. The price for fiscal 2005 will be $125,625 for both $5.0 million dollar policies, compared to $153,910 last fiscal year.

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

The City Assessor's Office, besides carrying out the normal functions of the office that are related to generating the tax role implemented a citywide state mandated statistical update (revaluation) that was reflected in tax bills mailed out last August. As you know, a statistical update is different than a total revaluation in that the appraisal inspectors review property assessments on every property in the City during a full revaluation. In a statistical update, the field data is only collected on properties that have sold within the last two years. The overall update has gone well and I feel the numerous public meetings that John Simmons arranged were educational and contributed to the minimum number of complaints that were received when the new valuation notices were mailed. The number of appeals made to the revaluation firm was approximately 5,400, which is well within what would be expected when revaluing 44,000 parcels. The City Assessor's Office has received approximately 750 appeals that have all been acted on and the Board of Tax Assessment and Review has heard 58 appeals and is current with no backlog. This compares to the 1670 appeals that resulted from the previous revaluation. The value of taxable real estate increased from approximately $6 billion to nearly $10 billion.

The City Collector has continued to employ a firm but fair approach in dealing with taxpayers. Unless an individual is experiencing a financial hardship, payment plans are not granted and interest is not waived. Also, the taxpayer must provide evidence that demonstrates the financial hardship. Once a payment plan is allowed, the department monitors the plan in order to assure the conditions of the plans are being met. I believe that the tracking being done by Prov-Stat on office activity indicate payments are processed timely and that the added clerical staff and cross-training the Collector has done has paid off.

The personnel in the Collector's Office have adjusted well to the new Govern Software, which has made job performance and reporting on numerous tasks better, quicker, and easier. The Collector's Office continues to exceed the budgeted amount for tax collections, as the collection rate of all taxes against the current levy has continued to increase. For fiscal year 2003, that collection rate was 97.4% against a budgeted amount of 95.6%. In fiscal 2004 the collection rate was even higher at 98.1%, against the same 95.6% budgeted collection rate, even after numerous credits were applied to tax bills due to tax refunds granted at the BTAR.

I feel the approach that I have requested the City Collector take in handling delinquent accounts is finally paying off. No longer do taxpayers feel they can avoid paying taxes or pay them late without penalties being applied and secondly everyone is treated the same. However, I want to assure you that we are sensitive to taxpayers who may have forgotten to make a payment on time but have an excellent payment history, or a taxpayer that is experiencing financial hardship due to lost income. In these type of cases, once evidenced is demonstrated to the office, the tax payer would not be subject to penalties and a payment plan they could keep, if needed, would be developed. This firm but fair approach has resulted in the City collecting approximately $3 million more in interest collections in each of the last several fiscal years, the equivalent of nearly a $1 on the tax rate.

Another department in the Finance Department is the City Controller's Office. All retiree benefits, accounting, payroll and accounts payable are the responsibility of this department.

The Controller's staff have just about completed the 2004 City Annual Audit and the OMB Circular A-133 (management letter and single audit) and is on schedule to "go live" with the new pension payroll through the Lawson system come this January. This office has really been involved with the Lawson project since November of 2001 and not only have managed to perform their normal job functions, but have also been key in the software implementation as well. In fiscal 2003 the new general ledger was implemented, last fiscal year the citywide payroll went live and this year the pension payroll will go live in January. This has all been accomplished with existing staff.

As it is now, the Controller's Office with only six professionals is understaffed. City departments and agencies that receive funds from the City are numerous and they need to be monitored more directly. However, with a Controller, Deputy, and five accountants it is impossible to be involved as much as we would like to. When considering all the different funds that exist (general fund, school, capital projects, trust funds, pension system) and all the satellite agencies (Providence Water, Public Building Authority, Civic Center, Skating Rink, Community Development Grants, Drug and Alcohol Grants, Housing Corporation to name some) and all the extensive interaction and review that is necessary, the department could use more resources.

The last area that I wish to report on is the budget. I believe the annual budget is the most important document prepared each year, not only by the Finance Department, but also by the entire City. It determines the level of governmental services and methods of distributing costs to the various segments of the community through collection of taxes and other general revenues. Hopefully we will be able to accomplish "Performance Based Budgeting" in all departments. It is something I have not been able to get departments to cooperate with in the past and now that this is a priority of the Mayor's Strategic Plan, it will help me accomplish this budget practice.

The Budget Analyst, Matthew Clarkin, and myself have just finished the budget process with the City Council, as due to union negotiations, the Compensation and Classification Ordinances were not passed until last month. The department has just two people and we make up for it by working longer hours. I have tried to keep jobs in the Finance department vacant due to budget restraints, however I will request filling one vacant position in the upcoming budget cycle.

I have attempted to address what I believe are the major initiatives and responsibilities of the Finance Department. I hope this, my fifth report, provides you with an insight of some of the Finance Department's accomplishments and ongoing initiatives.

Sincerely,

Alex Prignano

Alex Prignano
Director of Finance

C.c. City Council Members
Internal Auditor Lombardi

IN CITY COUNCIL
JAN 6 2005
READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.
Michael J. Clement CLERK