

# RESOLUTION OF THE CITY COUNCIL

No. 86

Approved March 8, 2016

WHEREAS, on January 26, 2016, Mayor Jorge O. Elorza and the City's Finance Department submitted a Deficit Reduction Plan, attached as Appendix A, to the Office of the Auditor General, in conformity with Rhode Island General Laws § 45-12-22.3; and

WHEREAS, on January 28, 2016, Auditor General Dennis E. Hoyle, CPA, responded to the Mayor that he found "the plan generally acceptable and consistent with the [legal] requirements," as further detailed in the attached copy of his letter, Appendix B; and

WHEREAS, final acceptance by the Auditor General, following adoption by the Providence City Council, is subject to certain requirements delineated in Mr. Hoyle's letter; and


WHEREAS, in addition, Mr. Hoyle included certain recommendations to "further ensure compliance with the approved deficit plan or accelerate elimination of the deficit;" the


NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Providence adopts and approves the Deficit Reduction Plan as submitted to the Office of the Auditor General.

IN CITY COUNCIL

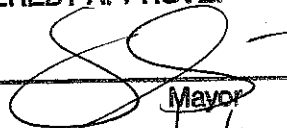
MAR 03 2016

READ AND PASSED

  
\_\_\_\_\_  
PRES.

  
\_\_\_\_\_  
CLERK

I HEREBY APPROVE.

  
\_\_\_\_\_  
Mayor

Date: 3/8/16



**CITY OF PROVIDENCE**

Jorge O. Elorza, Mayor

HAND DELIVERED

Honorable Luis Aponte  
President  
Providence City Council  
Providence City Hall  
Providence, RI 02903

Re: City of Providence Deficit Reduction Plan

January 29, 2016

Dear President Aponte:

Enclosed please find, for City Council consideration, the City of Providence Deficit Reduction Plan, as submitted to the Office of the Auditor General, in conformity with Rhode Island General Laws § 45-12-22.3; along with a letter from Auditor General Dennis E. Hoyle, CPA, that the plan is generally acceptable and consistent with the requirements Rhode Island General Laws § 45-12-22.3

We look forward to a further discussion and presentation at the appropriate next scheduled meeting of the City Council Finance Committee.

Sincerely,



Brett P. Smiley  
Chief Operating Officer

CC  
Providence City Council Members  
Lori L. Hagen, City Clerk

Enclosures

**CITY SOLICITOR'S OFFICE**

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**Finance Department**  
*"Building Pride In Providence"*

**City of Providence**  
**Deficit Reduction Plan**  
**January 26, 2016**

**Submitted to:**  
**State of Rhode Island**  
**Office of the Auditor General**

With the completion of the June 30, 2015 audit (CAFR) the City of Providence is now able to further confirm the results of operation for FY15.

Based upon GASB 54 reporting requirements, we are reporting a net deficit change in fund balance in the City's General Fund of (\$4,773,000) from the results of operations at 6-30-15, which thereby results in a cumulative deficit position at June 30, 2015 of (\$13,445,000). (See page 15 of 6-30-15 CAFR)

The City has consistently identified its primary budgetary risks as self-insured medical funding and public safety overtime and call-back on the expenditure side of the budget and instances of non-re-occurring items (one-timers) usually on the revenue side.

Although we have taken a major step in the right direction to improve upon these perennial budget shortfalls, we are cognizant of other budgetary challenges that require continuous monitoring and strong budgetary controls, which have always been in place and will continue to be exercised proficiently and prudently.

As has been previously discussed in testimony before the City Council Finance Committee, as well as, with the Office of the Auditor General, the Elorza Administration has from its inception taken immediate measures to lessen its dependence upon non-reoccurring revenue items and has significantly increased our budget appropriations for both self-insured medical and public safety overtime and call-back.

**In the FY 16 Adopted Budget, the following items, were significantly reduced or increased over the FY 15 budget:**

- Non-recurring revenues: Reduction of reliance upon by \$4.1 Million
- Self-insured medical expense: Increase in funding by \$5.0 Million
- Public Safety callback/overtime: Increase in funding by \$1.0 Million



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**Additional FY 16 Budget actions that have been implemented:**

- The fiscal year 2016 budget includes an appropriation of \$4.3 million towards deficit reduction, which reflects one half of the remaining \$8.6 million cumulative deficit as of June 30, 2014.
- We believe this is achievable because of higher than previously budgeted amounts for medical and public safety call back as mentioned above, that we expect will help with alleviating budgetary-risk that generally arises in these 2 categories of expense.
- As of this date, we have already made 2 quarters or \$2,172,000 in deficit reduction payments into a deficit reduction account maintained by the City Treasurer's Office.
- We will continue to adhere to the \$8.6M 5-year deficit reduction schedule that is currently in place for FY 16 and FY17, as part of our annual budget appropriation, and enter into with a new deficit reduction appropriation for years FY 17-FY 21 for the FY 15 deficit of approximately \$4,773,000.

**Actions to Eliminate Cumulative Deficit**

- Initial cumulative general fund deficit was \$8.7 million at June 30, 2014
  - The City projects elimination of this deficit by the close of FY2017
    - \$4.3 million reduction planned for both FY2016 and FY2017
    - Prudent budgeting includes \$1.1 million quarterly transfers to separate account for deficit reduction.
    - 1<sup>st</sup> and 2<sup>nd</sup> quarter of FY16 payments already completed this fiscal year.
- Deficit reduction plan for FY2015 \$4.77 million deficit
  - 5 year plan that reduces deficit \$1 million each year
  - Begins in FY2017
  - Deficit eliminated by close of FY2021
- Combined Deficit Reduction payments as follows:

<u>Fiscal Year</u>	<u>Deficit Reduction Payments</u>		<u>Percent of Total</u>
	<u>\$8.7 MM Deficit</u>	<u>From \$4.7 MM Deficit Municipal Budget</u>	
2016	\$4.3 million		0.9%
2017	\$4.3 million	\$1.0 million	1.1%
2018		\$1.0 million	0.2%
2019		\$1.0 million	0.2%
2020		\$1.0 million	0.2%
2021		\$1.0 million	0.2%



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**Items to assist in the further reduction of the deficit:**

- We are continuing to exercise prudent fiscal controls, including reductions in non-contractual spending and have high confidence we will finish fiscal year 2016 at budget or better.
- The Public Safety Commissioner has instituted various personnel measures over the past several months to mitigate firefighter injured on duty time-loss, resulting in an immediate recognition of call back/overtime reduction.  
**We are currently experiencing favorable results in this area.**
- All non-emergency or non-essential purchase requisitions will require 2 additional levels of internal review by Administration and Finance over and above departmental approval.
- Possible hiring freeze for all non-essential employment city-wide.
- The Administration regularly reviews an assessment and analysis of vacant positions and has already instituted a delay in filling non-essential positions
- A more formal hiring freeze will be undertaken immediately should the budget variance indicate that such a savings measure would be required
- Implementation of bargaining unit contract savings and concessions with non-bargaining unit staff (management and non-union) including increase co-shares for dental coverage, less accrual of sick time and reduction and /or elimination of auto and travel allowance/reimbursements.

As we continue in the 2016 fiscal year, we will take all necessary measures to continue our best budget and fiscal practices and continue to share information with your office.

The Deficit Reduction Plan, as proposed here and ultimately submitted to the Providence City Council for their approval, is a working document that may require amendment from time to time, should the need arise or as circumstances may dictate, from either a positive or negative perspective.

We will continue to provide regular updates to the Providence City Council and schedule monthly meetings with the Office of the Auditor General and Division of Municipal Affairs to provide current budget information and progress with deficit reduction strategies.



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- We are committed to utilizing any newly identified and/or non-reoccurring revenues or revenue-enhancements, along with any spending-reduction or savings programs, to further ease the cumulative deficit.
- We have recently identified a revenue-incentive opportunity with the conversion of the City's streetlights to LED lighting.
- We are expecting a one-time incentive rebate of approximately \$2,500,000, payable in early FY 17 (most likely August 2016) as well as, an additional monthly net savings on maintenance expense of approximately \$200,000, that will be used to off-set any increase in utility/energy costs over the next 10 years, under a Master Lease purchase program to acquire the street lights.
- While we are continuing to explore other alternatives to tax increases in the FY 17 budget, certainly it will require a further in-depth analysis, which will be predicated upon the results of the City's current statistical revaluation effort, which will be based upon property values as of December 31, 2015 and to be effective July 1, 2016 for the FY 17 tax levy.

**Other additional revenue enhancements and/or savings opportunities that have not been previously relied upon and have not been part of prior year appropriations include:**

- New construction and development tax stabilizations that will generate building inspection fees nearly immediately in the next 12-36 months of approximately \$8-9 million based upon project values and new tax-base growth and hence additional tax revenue eventually over 3-5-7-10 years.
- Expected tax base expansion of \$800-880 million between years 2016-2020, predicated upon newly created project developments, mostly with tax stabilization approval.
- This tax base expansion would thereby be generating between \$8 to 32 million, incrementally, in new taxes over the 3-5-7 and 10-year period of stabilization phase-in, based upon current tax rates and without regard to any tax rate increase, should such an increase become necessary.
- Additional port revenues associated with newly created Prov Port agreement replacing previously expired agreement. With the Port of Providence currently at maximum capacity, expansion is now actively being studied.
- The expiration of a significant stand-alone Tax Stabilization Agreement this fiscal year is expected to generate higher tax revenue in the FY 17 budget and beyond.



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

Dennis E. Hoyle, CPA - Auditor General

[oag.ri.gov](http://oag.ri.gov)

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January 29, 2016

Honorable Jorge O. Elorza  
Mayor of the City of Providence  
25 Dorrance Street  
Providence RI 02903

Dear Mayor Elorza:

I have reviewed the City's deficit reduction plan to eliminate the cumulative General Fund deficit of \$13,445,000 at June 30, 2015. I understand that you intend to forward the plan for the City Council's consideration today.

I find the plan to be generally acceptable and consistent with the requirements of General Law section 45-12-22.3 that requires that the deficit be eliminated in equal or diminishing amounts over a period not to exceed five years. There are two components to the cumulative deficit of \$13,445,000 - \$8.7 million for which reductions are required in fiscal years 2016 and 2017 and \$4.7 million for which reductions will be required in fiscal years 2017 through 2021.

Final acceptance of the City's deficit reduction plan, once adopted by the City Council, is subject to the following requirements:

- Monthly status meetings with the Office of the Auditor General, Division of Municipal Finance, the City's Finance Director and other members of the City administration shall continue for the purpose of receiving updates on the City's budgetary compliance, financial situation, and progress in eliminating the deficit at least through the close of fiscal 2016.
- Upon determination that the City projects an unfavorable variance from the enacted fiscal year budget plan such that the planned "surplus" or deficit reduction amount may not be achieved, the City will develop a plan within 30 days to correct the budget imbalance and achieve the same targeted amount of deficit reduction for the fiscal year as outlined in the approved deficit reduction plan.

I also offer the following recommendations with the intent that these may further ensure compliance with the approved deficit plan or accelerate elimination of the deficit, as well as build a reserve within the General Fund once the cumulative deficit is eliminated.

- The City should prepare a schedule of anticipated incremental or new general revenues by fiscal year over the duration of the deficit reduction plan (2017-2021). Anticipated incremental revenues should include those from one-time sources, new additions to assessed property values (exclusive of the impact of revaluation), or incremental additions to taxable property values due to provisions within tax stabilization agreements.

January 29, 2016

- In conjunction with preparation of the City's fiscal 2017 annual operating budget, the City should commit to dedicating all new incremental general revenues (as defined above and excluding any restricted source revenues, federal grants, or state aid) that exceed 104% of the immediate prior year budgeted general revenue amount, first to accelerating the approved deficit reduction plan, and second, to building a budget reserve account within the General Fund equal to at least 5% of the City's total general revenues for the fiscal year.

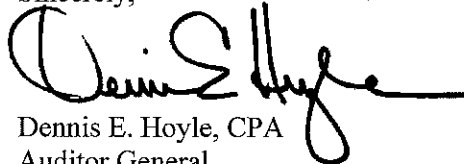
The last recommendation is consistent in intent to an ordinance previously enacted by the City but not implemented due to the recent operating deficits. The 104% threshold would allow the City to use an amount of revenue growth consistent with the general state limit on property tax growth to match anticipated growth in operating expenditures.

As recognized and discussed with members of your administration, the practice of making periodic cash transfers into a deficit reduction account during fiscal 2016 demonstrates commitment to the planned deficit reduction plan, but will not alone result in deficit reduction if actual revenues do not exceed expenditures by the targeted amount at the close of the year. Accordingly, the City's focus, and ours, in monitoring adherence to the deficit reduction plan, must be on ensuring compliance with the enacted fiscal year budgets for 2016 and beyond.

As acknowledged in your deficit reduction plan, the plan will likely require update and amendment going forward. The plan should be updated as required each year to reflect the results of the annual audit of the City's financial statements.

I look forward to continuing to work cooperatively with the City to ensure its future fiscal stability.

Sincerely,



Dennis E. Hoyle, CPA  
Auditor General

C: Providence City Council members  
Tony Simon  
Brett Smiley  
Lawrence Mancini  
Matthew Clarkin  
Marilyn Shannon McConaghy  
Susanne Greschner





**Finance Department**  
*"Building Pride In Providence"*

Mr. Matthew M. Clarkin, Jr.  
Internal Auditor  
City of Providence  
25 Dorrance Street  
Providence, RI 02903

February 11, 2016

Dear Mr. Clarkin,

I am writing in reply to your letter of February 4, 2016, requesting responses to questions that you have presented regarding the City's Deficit Reduction Plan as filed with the Providence City Council.

The plan represents the most accurate information available at the time of the filing.

For ease of comprehension, I have styled our replies, in bold italics, immediately following each question and in succession of each question.

1. In the plan it is mentioned that fire department is experiencing favorable results on expenditures for callback and overtime. Can you provide more detail as to your projections for fire callback and overtime expenditures through the remainder of FY2016 and for FY2017?

***At the time of our filing of the Deficit Reduction Plan on January 26, 2016, the Fire Department callback was experiencing a reduction over the previous monthly and year-to-date averages. The last payroll in January 2016 showed callback at \$273,873, down from previous monthly averages of \$ 312,774 in November and December and the year-to-date average of \$366,096.***

***Although the changes associated with day-to-day administration and management of the call back and IOD had only been in effect for less than 2 months, Finance has seen a reduction that we expect will continue over the remainder of the fiscal year, notwithstanding a further increase in actual retirements.***

2. The potential liability associated with the current arbitration with Local 799 regarding the appropriate compensation for firefighters working under a 3-platoon versus 4-platoon structure, the FLSA public safety arbitration, and the arbitration with the F.O.P concerning the July 1, 2015 wage reopener are not addressed in the plan. Please explain how adverse decisions on any or all of these outstanding arbitrations will impact the stated goal to eliminate \$13.45 million General Fund deficit by the end of FY2021.

***With regard to each of these arbitrations, the following information is hereby presented:***

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- a. Local 799 platoon shift from 4 to 3: *The City continues to prepare for the matter and has not included any anticipated savings in the FY 16 budget but had planned to see savings of up to \$5M in the FY 17 and future budgets as a result of the platoon shift. At this time, there are too many variables to determine the potential fiscal impact.*
  - b. FLSA public safety arbitration: *The case is working its way through the Federal Court and based upon a most recent briefing of the City Solicitor's Office, and due to payroll credits that were not originally factored into the calculations, the case will more than likely be settled at a much lower amount than originally anticipated. At this time, we estimate exposure in the range of approximately \$100,000.*
  - c. Providence FOP Lodge 3 Wage Re-opener: *The arbitration is currently working its way through the process. The re-opener clause calls for a range of zero to six percent (0 to 6 %). We are mindful of the parity clause that exists within the PTU contract and we have governed our negotiations accordingly.*
3. In the plan it is stated that the administration is committed to utilizing any newly identified and/or non-reoccurring revenues or revenue-enhancements, along with any spending-reduction or savings programs, to further ease the cumulative deficit. Does this mean that the Administration will utilize these revenue and expenditure items to reduce the cumulative deficit more quickly than stated in the schedule on page #2 of the plan?

*The Administration is wholly committed to utilizing every means available to continue with a balance budget, which includes full payment of the deficit reduction payments as appropriated in FY 16 and all future years, necessary to meet the deficit reduction plan requirements. Any newly identified opportunities will allow us to first and foremost balance any current year budget, which includes scheduled Deficit Reduction appropriation payments.*

4. What fiscal year do you expect to recognize the \$2.5 million one-time rebate from National Grid for the cost of retrofitting of the city's streetlights with LED fixtures?

*It would be based upon project completion and when the rebates would then be available. Should that occur in FY 16 we would recognize that in FY 16 although payment is expected in August of 2016.*

5. Please provide details on the projects that are expected to generate \$8-9 million of building inspection fees within the next 36 months.

*This is based upon recent analysis of the project list as attached in question 6 below and is calculated as an average of 1 percent of that value of \$880M or \$8.8M.*

6. Please provide details on the projects that are expected to increase the city's tax base by \$800-880 million between years 2016-2020.

*See attached list of projects*

7. Please provide the details on the Tax Stabilization Agreement(s) that is scheduled to expire at the end of the current fiscal year.

*The Manchester Street/Dominion Energy Tax Stabilization is set to expire in June 2016. As a result, values as of December 31, 2015 as part of the Citywide Statistical Analysis (Revaluation) will support a value that will yield significantly higher taxes than the current agreement.*

I trust that we have provided you with sufficient information and should you request additional information kindly do not hesitate to ask.

Sincerely,



Lawrence J. Mancini  
Finance Director

CC: Tony Simon, Chief of Staff  
Brett P. Smiley, Chief Operating Officer  
Council President Luis A. Aponte  
Councilman John J. Iglizzi, Chairman Finance Committee  
Ms. Cyd Mc Kenna, Chief of Staff City Council  
Mr. James J. Lombardi, City Treasurer/Senior Advisor to City Council  
Sara Silveria, Deputy Finance Director

The City of Providence continues to see additional revenue opportunities, primarily through natural tax base expansion, as well as, specific projects associated with tax stabilization.

**Some of the more recently approved tax stabilizations include:**

Foundry Associates (Student/residential housing) \$50M Project value  
Prospect /Charter Care \$250M  
261 LLC (170 units of residential) \$40M  
South Street Station (Nursing school) \$225M  
Proccacianti Hotel/Fogarty Site \$30M  
Port of Providence/McGinis Cement \$15M (Pending final approval)

**Other recent economic development announcements:**

Wexford Associates (Hotel, private development and life sciences buildings) \$200M  
Parcel 12 (Near Federal Courthouse) Hotel site \$25M  
Corliss Street Development (Commercial use) \$20M  
Baccari/Benrus 195 land site \$25M

These projects project to expand the tax base by \$880M, which over the time frame of the tax stabilizations would generate approximately \$5 M annually by the end of the next 3 years, then approximately \$ 18M annually between the subsequent 5-10 years and finally approximately \$32M annually in the 10<sup>th</sup> year.