



## Office of the Internal Auditor

June 5, 2012

Honorable John J. Igliazzi,  
Chairman Committee on Finance  
City of Providence  
25 Dorrance Street  
Providence, RI 02903

Dear Chairman Igliazzi:

Providence's cash position will be difficult for the remainder of the current fiscal year and through fiscal 2013. The city treasurer is projecting that there will be times during fiscal 2013 - due to the timing of expenditures and revenues - that the city will be facing a negative cash position. The city's finance department with the assistance of the city treasurer is monitoring and managing the city's cash on a daily basis. The city's cash position, however, will be virtually impossible to manage successfully if the fiscal 2013 budget is out balance by even a modest dollar amount.

There are several revenue and expenditures items in the budget that must be monitored closely during the upcoming year because of their financial impact and because of uncertainty that exists regarding these items. Below are details concerning these issues.

**Current Taxes:** According to the Finance Director and City Assessor, the tax levy will grow from \$324.5 million for the current fiscal year to \$332.8 million for fiscal 2013. This 2.5% increase to the city's levy is projected to result in an additional \$7.4 million in tax revenue. The increase to the tax levy is summarized below.

<b>Tax Classification</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY13-FY12 Variance (\$)</b>	<b>FY13-FY12 Variance (%)</b>
Real Estate	\$256,120,966	\$260,976,530	\$4,855,564	1.90%
Excise	\$31,634,368	\$33,536,233	\$1,901,865	6.01%
Tangible	\$36,705,073	\$38,255,356	\$1,550,283	4.22%
<b>Total</b>	<b>\$324,460,407</b>	<b>\$332,768,119</b>	<b>\$8,090,633</b>	<b>2.49%</b>

According to the City Assessor, the increase to the real estate portion of the levy is due primarily to 3,923 fewer properties receiving the 50% owner-occupied homestead. The deadline for taxpayers to apply for a homestead exemption on their owner-occupied property for next fiscal year is July 31, 2012. Based upon the current budget schedule, taxpayers will receive their annual tax bill at the end of June. It is likely that many taxpayers will apply for their homestead

exemption after they see a large increase to their tax bill. It is not possible to quantify the number of taxpayers who are eligible but have yet to apply for their homestead exemption. If there is a large number of additional homestead exemptions issued, the impact on the tax levy could be significant. Based upon information received from the city assessor, approximately \$123,000 of tax revenue will be lost for every 100 additional homestead exemptions issued.

The levy on motor vehicles (excise tax) is projected by the Assessor to increase by \$1.9 million in fiscal 2013, as a result of an approximate six-percent increase to the total assessed value of vehicles registered in the city. I have been informed that this increase is due to more new vehicles being added to the tax roll than in previous years and the overall trend where older model vehicles are holding their value better than what is typical. Another factor in the strong growth to the excise tax levy is that the Assessor is now pricing vehicles not priced by the state individually, based on the National Automobile Dealers Association's (NADA) valuations. In the past, a more generic assessment was given to vehicles that were not priced by the state.

The tangible tax levy increased by \$1.55 million for fiscal 2013 as a result of the revaluation that was completed over the past year. It is important to note that tangible property owned by 38 Studios is included in this increase. 38 Studio's tangible property is included in the above-mentioned increase and its fiscal 2013 tangible tax is approximately \$400,000.

**Prior Year Taxes:** In the fiscal year ended June 30, 2011, a total of \$8.9 million in prior year taxes was collected. I am projecting that the city will collect approximately \$8.0 in prior year taxes in the current fiscal year (FY2012). Therefore, I am doubtful that the city will realize the \$9.1 million that has been budgeted from prior year taxes in fiscal year 2013.

**Fines & Forfeits:** Based upon fiscal year 2012 year-to-date results, revenue under the category Fines & Forfeits is projected at approximately \$1.8 million short of the \$9.0 million budgeted. The revenue from this category has been reduced in the revised fiscal 2013 budget to \$8.1 million. I do not know of any new initiatives that will materially increase this category of revenue above the amount projected in the current fiscal year. Therefore, I am concerned that this revenue is overstated by approximately \$900,000.

**Overnight Parking:** The administration has assumed that owners of 6.0% of the registered vehicles in the city will take advantage of the expanded overnight parking pilot program which will result in total revenues of \$600,000. All residents will be eligible for the program unless 66 2/3rds of the residents on a street decide to opt-out of the program. While there has been a small pilot program in place in Providence, this expansion could be considered a new program and therefore the results are uncertain.

**PILOT - Colleges, Universities & Hospitals:** - A total of \$8,795,715 is budgeted in fiscal 2013 from voluntary payments from the various colleges, universities and hospitals. At this time, there is approximately \$7.7 million in payments identified for fiscal 2013 (see chart below). Providence College and Rhode Island School of Design are the two non-profits that have not agreed to increase their voluntary payments to the city.

Source	Fiscal 2013 Payment
PILOT Agreement (June 2003)	\$1,978,065
Brown University	\$3,900,000
Lifespan	\$800,000
Johnson & Wales University	\$650,000
Care New England	\$250,000
CharterCARE	\$100,000
	<b>\$7,678,065</b>

**Fire Callback:** The current Local 799 contract requires a minimum of 90 fire fighters duty per shift. Fire callback expenditures due to this minimum manning provision are projected to total \$9.2 million in fiscal 2012. The fiscal 2013 budget includes projected savings of approximately \$1.0 million in callback expenditures due to the addition of 55 firefighters being active as of April 1, 2013. Therefore, it is important that these new firefighters are active as of the projected date. Approximately \$85,000 in savings will be lost for every week the completion of the school is delayed.

**Pension/Medicare** – The fiscal 2013 budget contains savings resulting from the pension reforms that were recommended by the Subcommittee on Pension Sustainability and approved by the city council. Should a negotiated settlement on future pension benefits and retiree healthcare be approved by all parties, a fiscal analysis of the final agreement will be necessary and expenditure reductions in other budget items will likely be required.

**Rainy Day Fund:** In July 2011 the City Council amended Chapter 21 of the Code of Ordinances to require that “one-percent of total budget expenditures” in fiscal 2013 be appropriated to re-establish the city’s undesignated surplus or Rainy Day Fund. The revised fiscal 2013 proposed budget currently before the finance committee will require that the council amend Chapter 21 again to require that “one-percent of general fund revenues” in fiscal 2013 be appropriated to re-establish the city’s undesignated surplus or Rainy Day Fund.

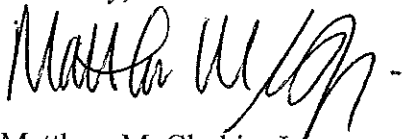
Chairman John J. Iglizzi  
June 5, 2012  
Page 4

There is \$4,327,687 appropriated in the fiscal 2013 budget for the Rainy Day Fund. Standard & Poors earlier this month explained that one of its rationale for lowering the city's bond rating to BBB from BBB+ was "the city's negative unreserved general fund balance projected for the close of 2012 following draw downs in fiscal 2009 through 2012...". The replenishment of the Rainy Day Fund is a vital component to improving the structural financial credibility of the city.

**Conclusion:**

It is vital that the fiscal 2013 budget be monitored very closely and swift action be taken to address any budget assumption that is projected to be failing. Given the city's precarious cash position that the city treasurer is projected throughout fiscal 2013, there is not a large margin for error in the city's budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew M. Clarkin, Jr.", with a stylized flourish at the end.

Matthew M. Clarkin, Jr.  
Internal Auditor