

## EXECUTIVE SUMMARY

This Three Year Financial Projection has been prepared for the City Council by the Office of the Internal Auditor. This financial projection includes tables that present anticipated municipal and educational revenues and expenditures for the period FY 2014 through FY 2016.

The Three Year Financial Projection provides a baseline fiscal outlook for the City of Providence. The forecast is intended as a benchmark report to assist the City Council assess the affordability and desirability of alternative policy, program and budget options.

The forecast finds that from the FY 2013 adopted budget base, projected expenditures will exceed projected revenues in each of the out years through FY 2016. Not including schools, the operating deficit by fiscal years are as follows: \$26.5 million in FY 2014, \$33.8 million in FY 2015, and \$36.9 million in FY 2016.

Deficits are also projected for the school department in each of the next three fiscal years. In FY 2014 the school department's budget deficit is forecast to total \$5.6 million, increasing to \$11.7 and \$12.6 million in FY 2015 and 2016 respectively.

<b>Table 1</b>					
<b>Summary of Projected Budget Gaps - FY 2014 - 2016</b>					
<b>Fiscal Year</b>	<b>Projected Budget Gap City</b>	<b>Projected Budget Gap School</b>	<b>Projected Budget Gap Total</b>	<b>Total Projected Budget</b>	<b>Projected Deficit as % of Expenditures</b>
2014	26,483,767	\$5,469,061	\$31,952,829	\$676,852,711	4.72%
2015	33,836,943	\$11,721,577	\$45,558,520	\$698,727,039	6.52%
2016	36,881,217	\$12,554,243	\$49,435,460	\$710,884,462	6.96%

The City's three year financial projection is impacted by the state's slow economic growth reflected in less than robust growth in property values and investment. This three year projection anticipates zero annual growth in the tax levy. It is assumed that both residential and commercial property taxpayers will not see their property taxes increased. If the city increased property tax levies by 4% annually, as allowed by State law, an additional \$12-13 million could be generated. The city's second major source of revenue, school aid, is forecast to grow by \$24.4 million or 12.4% between FY 2014 and FY 2016.

There are risks to this financial projection that should be noted. For example, the three year projection is predicated on the FY 2013 base year budget being balanced. At the time of this report, a total of approximately \$14 million of concerns have been raised by the Office of the Internal Auditor regarding the FY 2013 budget.

## REVENUES

### PROPERTY TAXES

For the purposes of this analysis, property taxes are projected to remain at current levels through FY 2016. If a tax increase is deemed necessary, RIGL 44-5-2 established that a city or town may not increase annual property taxes in an amount more than four percent (4%) in excess of the total amount levied and certified for its previous fiscal year. Therefore, state law allows for property taxes to be increased by the amount shown below in Table #2. An annual tax increase in excess of 4.0% would require approval by 4/5ths of the city council and the State of Rhode Island's Auditor General.

<b>Table 2</b>			
<b>Maximum Annual Tax Levy Increase</b>			
<b>Fiscal Year</b>	<b>Total Levy</b>	<b>Net Levy (92.5%)</b>	<b>Max. Increase to Net Levy</b>
2013	\$332,768,119	\$307,810,510	-
2014	\$346,078,844	\$320,122,930	\$12,312,420
2015	\$359,921,998	\$332,927,848	\$12,804,917
2016	\$374,318,877	\$346,244,962	\$13,317,114

### STATE AID

State aid in Governor Chafee's most recent five year budget projections assumes the level funding of payments to local communities from Motor Vehicle Excise Tax Reimbursements, Distressed Communities and PILOT Payments through the period of this analysis.

Reimbursement through the state's School Debt Construction program is scheduled to decrease from \$29,026,848 in FY 2013 to \$24,260,029 by FY 2016. The largest decrease to this revenue (\$4,177,450) will occur between FY 2013 and FY 2014.

Revenue from the state's six-percent (6.0%) Room Tax or Hotel Tax is projected to increase annually at 2.0%.

### INTEREST INCOME

Revenue generated from interest earned on overdue taxes projected to remain at FY 2013 levels throughout the period of this analysis. There have recently been discussions by city council members concerning reducing the interest charged on overdue taxes.

## **FINES & FORFEITURES**

Revenue generated from fines such as parking tickets and moving violations remains at the FY 2013 budgeted level throughout the period of this analysis.

## **DEPARTMENTAL AND OTHER REVENUES**

Thirty-six department and revenue sources are included under the “Departmental and Other Revenues” category. All revenues, with the exception of those shown below, are projected to remain at FY 2013 levels through the period of this analysis.

*Water Supply Medical Reimbursement:* This reimbursement from the Providence Water Supply Board for retiree medical benefits is projected to increase by the same percentage as the city’s medical costs.

*City Tax Assessor:* This revenue is reduced \$480,000 in FY 2014, due to the one-time state reimbursement of costs associated with the Statistical Update of property values that is currently underway. A corresponding reduction of \$480,000 in expenditures is shown in the City Assessor’s FY 2014 budget.

*Inspection & Standards Fees:* It is projected that Inspection & Standards’ revenues will increase annually by 2.0%.

*Recorder of Deeds:* It is projected that annual revenues generated from recording fees and the Conveyance Tax will increase annually by 2.0%.

*Planning & Development:* This federal reimbursement of Planning & Development salaries is projected to increase annually by the across-the-board salary increases established in the Local 1033 contract.

*Reimbursement Blue Cross Providers:* This federal reimbursement is projected to increase annually by the same percentage as the city’s medical costs.

*Transfer from Company 10 (School Department):* This transfer of \$1 million from the School Department is a one-time general fund revenue in FY 2013. A corresponding reduction of \$1 million in expenditures is shown in the School Department’s FY 2014 budget.

## EXPENDITURES

### SALARIES

Total employee salaries are budgeted in FY 2013 at \$107.9 million or 35% of the city's general fund expenditures. Salaries for employees at the police, fire and communications departments account for \$74.6 million or 69.1% of the total general fund budgeted salaries.

Table 3				
General Fund: Across-the-Board Salary Increases (%)				
<u>Bargaining Unit</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	
Providence Firefighters IAFF - Local 799	0%*	0%*	0%*	
Fraternal Order of Police - Lodge 3	4.00%	4.00%	0.00%	
Public Services Employee's - Local 1033	3.00%	3.00%	0.00%	
Non-Union Employees	3.00%	3.00%	0.00%	
* No Increase Scheduled, but Salary Reopener via MOU Possible				
<i>No increases projected, not established by contract</i>				

Collective Bargaining Agreements (CBAs) are in place through FY 2015 with the Public Services Employees' Local 1033 and the Fraternal Order of Police (FOP). Local 799 – Providence Firefighters IAFF has a contract in place through FY 2016.

#### Local 1033

The approximate 600 city employees represented by Local 1033 are scheduled to receive three percent (3.0%) across-the-board salary increases effective July 1, 2013 (FY 2014) and July 1, 2014 (FY 2015). It is estimated that these salary increases will cost the city \$835,000 and \$860,000 in FY 2014 and FY 2015 respectively. It has been assumed that the subsequent contract with Local 1033 will not contain any salary increases to take effect in FY 2016.

#### Fraternal Order of Police (FOP)

The approximate 490 city employees represented by the Fraternal Order of Police (FOP) are scheduled to receive four percent (4.0%) across-the-board salary increases effective July 1, 2013 (FY 2014) and July 1, 2014 (FY 2015). It is estimated that these salary increases will cost the city \$1.25 million and \$1.3 million in FY 2014 and FY 2015 respectively. It has been assumed that the subsequent contract with the FOP will not contain any salary increases to take effect in FY 2016.

## Local 799 – Providence Firefighters IAFF

*Across-the-Board Salary Increases:* There are no across-the-board salary increases scheduled in the current contract for the approximate 425 city employees that are members of Local 799. There are wage re-opener clauses contained in the contract for July 1, 2013, July 1, 2014 and July 1, 2015. It has been assumed in this analysis that there will be no salary increases from FY 2014 through FY 2016.

*Deferral of Retroactive Payments:* In the most recent CBA, Local 799 deferred retroactive monies (\$1.8 million) due to members from a one percent (1.00%) across-the-board salary increase effective January 1, 2008 and a two percent (2.00%) increase effective January 1, 2009. Twenty-five percent (25%) of the deferred amount was paid in FY 2012 and twenty-five percent (25%) was budgeted in FY 2013. The final fifty percent of the deferred amount (\$900,000) will be paid in FY 2014.

*New Stipend:* Effective July 1, 2013, a new “Hazardous Materials Operations Certificate” stipend of \$10 per week will be in place. The estimated annual cost of this stipend of approximately \$228,000 has been incorporated into the fire department’s FY 2014 salaries.

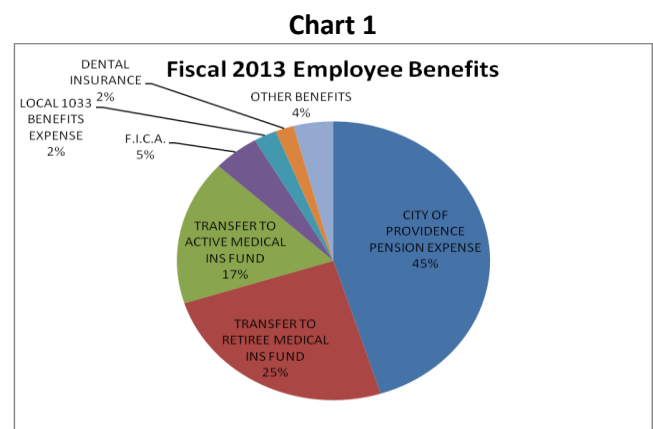
*Minimum Manning:* Effective June 30, 2014, the minimum manning level per shift returns to 92 from its current number of 90. An additional \$730,000 has been added for Callback in FY2015.

## Non-union Employees

It has been assumed that the salaries of non-union employees will mirror that of Local 1033-represented employees.

## **EMPLOYEE BENEFITS**

A total of \$90.2 million in the city’s FY 2013 general fund budget has been appropriated to pay “Employee Benefits”. The largest component of the general fund’s “Employee Benefits” is the city’s pension contribution at \$40.7 million. Medical expenditures for city active and retired employees are the second largest component at \$37.6 million. Workers’ Compensation, Laborers Pension Contribution, and Local 1033 Benefits account for a total of \$7.5 million. The remainder of the Employees Benefits budget (\$4.3 million) is appropriated for FICA.



## Pension Contribution

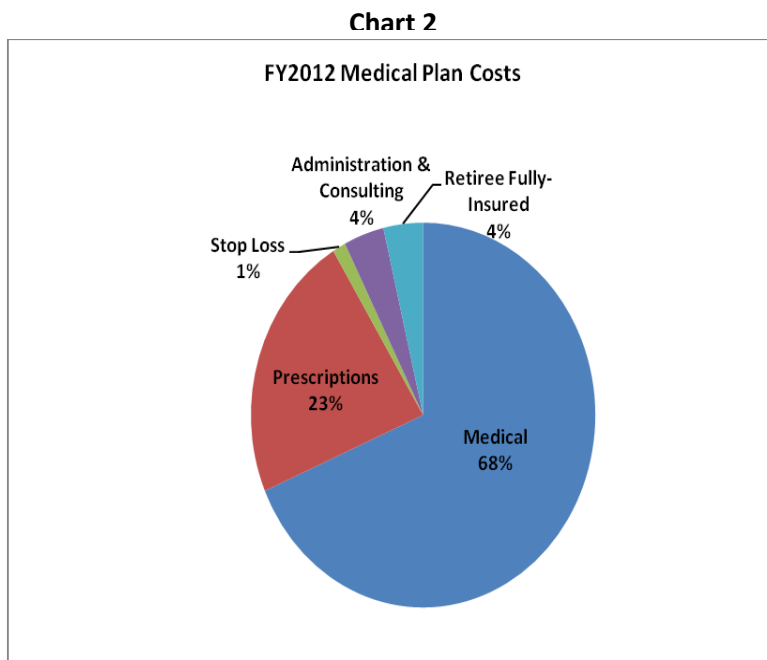
The city's actuary, Buck Consultants, in August 2012 restated the city's Annual Required Contribution (ARC) as a result of an April 2012 Experience Study and the negotiated settlement between the Taveras Administration, retirees and bargaining units for active employees. According to Buck Consultants, the net effect of the negotiated agreements reduced the pension system's June 30, 2010 unfunded accrued liability from \$828 million to \$661 million. In addition, these changes reduced the city's ARC for FY 2012 from \$58.9 million to \$53.7 million.

The city's actual pension contribution in FY 2012 was only 90% of the restated ARC. Based upon the city's 90% contribution in FY 2012, the ARC over the next three fiscal years is forecasted as shown in Table 4.

<b>Table 4</b> <b>Forecast of Annual Required Contribution (ARC)</b>				
<b>FY</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
City	\$46,917,588	\$48,368,225	\$50,084,233	\$51,861,738
School	8,120,212	8,371,279	8,668,276	8,975,916
Other	3,106,713	3,202,769	3,316,397	3,434,097
Total	\$58,144,513	\$59,942,273	\$62,068,906	\$64,271,751

## **MEDICAL BENEFITS**

Projected annual increases to the city's medical costs mirror the expenditure assumptions made in the State of Rhode Island's most recent five-year budget forecast. Specifically, medical costs for active employees are projected to increase 7.1% in FY 2014, and 7.7% in FY 2015 and 6.1% in FY 2016, while medical costs for retirees is projected to increase by 6.86% each year.



Increases to employee medical co-share payments, however, reduce the net increases for active medical to 2.1% in FY 2014, 6.6% in FY 2015 and 6.1% in FY 2016.

## FICA

In FY 2013 general fund budget, \$4,284,755 has been appropriated to pay 7.65% of employees' earnings towards FICA. The budget for FICA payments has been increased by the same percentage as the across-the-board salary increases during this period.

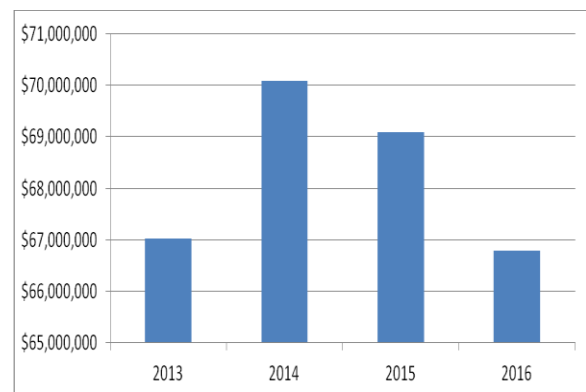
## DEBT SERVICE

A total of \$67,019,273 has been appropriated in city's FY 2013 for principal and interest payments on debt. Based upon an assumption that the only new debt issued through June 30, 2016 will be the \$40 million, General Obligation Infrastructure Bond approved by voters on November 6, 2012, the city's annual debt service payments will increase to \$70.1 million in FY 2014 and will then gradually reduce to \$66.8 million in FY 2016. The main cause for the reduction of debt service payments between FY 2014 and FY 2016 is that four issues (see table 5) will mature over this period.

<b>Table 5</b> <b>Bonds Scheduled to mature FY 2013 - FY 2016</b>			
<b>Bond Description</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Final Debt Payment</b>
- 2001 Series C - Advance Refund of 93 Bond	12/1/2001	1/15/2013	\$1,993,950
- 1995 Series B (Feinstein School Project)	6/15/1995	12/15/2014	\$646,537
- 2009 Series B - Various Leases	6/30/2009	6/30/2014	\$226,927
- FY2008 Master Lease	7/18/2008	7/30/2014	\$803,810

First Southwest, the city's financial advisor on the approved \$40 million Infrastructure Bond, has developed an estimated amortization schedule that assumes that debt service payments on this bond will begin in FY 2014. The total debt payment for FY 2014 is estimated to be \$3.2 million. During its twenty-year amortization, it is estimated that the city will pay \$24.3 of interest on the bond.

**Chart 3 Total Debt Service**



## CITY CONTRIBUTION TO SCHOOLS

It has been assumed in this analysis that the city's contribution to the School Department will be funded at the FY 2013 level (\$124,896,611) through FY 2016. Currently, the city's contribution accounts for 37.95% of the School Department's revenues. Based upon the School Department's projected FY2016 budget, the city's contribution, if level funded, will fall to 33.74%.

## **DEPARTMENTAL LINE ITEMS**

Departmental line items are assumed to increase throughout the period at the rate of the Consumer Price Index for Urban Wage Earners (CPI-U). Departmental line items are projected to increase 2.7% in FY 2014, 2.8% in FY 2015, and 2.1% in FY 2016. Below is a description for line items that have annual projection different from the CPI-U.

*City Tax Assessor:* A \$480,000 expenditure reduction from the one-time cost associated with the Statistical Update is reflected in FY 2014.

*Highway – Capital:* The Structures & Improvement line item for FY 2013 included one year funding of \$250,000 for capital projects. This line item is expected to be reduced in FY 2014 and to remain at \$100,000.

*Heat, Light & Power:* According to information provided by the city's Sustainability Director, it is projected that utility costs will increase by a total of 10.3% by FY 2016.

## **OPERATING DEFICIT**

According to the city's external auditor, Braver, the city's operating deficit for the fiscal year ending June 30, 2011 was \$6.7 million. As required by RIGL 45-12-22.3 the city began in FY 2013 to appropriate \$1.34 million (1/5<sup>th</sup> of the FY 2011 deficit) to replenish the city's general fund. This amount will be appropriated annually until the total is replenished in FY 2017.

## **FY2012 OPERATING DEFICIT**

In addition to the repayment of the FY 2011 operating deficit, the city will begin in FY 2014 to replenish the operating deficit for FY 2012. The official operating deficit will be stated in the city's annual audit, which is scheduled to be published in December 2012. For the purposes of this three year budget projection, the Internal Auditor's projected operating deficit of \$16.9 million has been assumed for the fiscal year ending June 30, 2012.

## **RAINY DAY FUND**

The City Council in July 2011 amended Chapter 21 of the City's Code of Ordinances to require that one-percent (1.0%) of total expenditures be set aside in the city budget to establish a Reserve Account. In the current year budget, one percent (1.0%) of municipal expenditures has been appropriated to for that purpose. Due to the budget deficits projected in this three year analysis, it is unlikely that the city will be in a position to reserve 1.0% of total expenditures. Therefore, it has been assumed that the city will continue to reserve 1.0% of municipal expenditures only throughout this period.

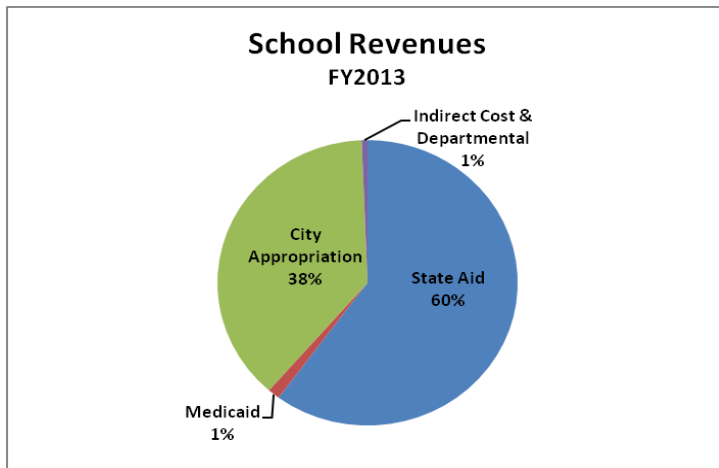


## SCHOOL DEPARTMENT

### REVENUES

School Department appropriations represent 51% of the city's FY 2013 budget. The city's general fund will transfer \$124,896,611 to the schools or 37.9% of the department's total revenue. The majority of school department's revenue is received from the state of Rhode Island. State Aid is driven by student enrollment and the statewide funding formula, which is projected to provide annually an additional \$8.01 million to the school department. State Education Aid is projected to increase 12.7% from fiscal 2013 through 2017.

Chart 4



In addition to the city's contribution and state aid, the school department receives approximately \$4.25 million in reimbursement from Medicaid for various services provided to students who are eligible for Medicaid benefits. It is projected that these other revenues will be flat for the period of this analysis.

### EXPENDITURES

#### SALARIES

##### Providence Teachers Union (PTU)

Effective the first day of the 2013-14 school year (FY 2014), a three percent (3.0%) across-the-board salary increase will be in effect for the city's 1,900 teachers. A second three percent (3.0%) across-the-board salary increase will be effective on the last day of the school year. This second salary increase will not have an impact in FY 2014 but will impact the FY 2015 budget. It is estimated that these salary increases will have a \$3.8 million and \$4.1 million impact on the FY 2014 and FY 2015 budgets respectively.

The PTU's current contract expires on August 31, 2014. It has been assumed that the subsequent contract will not contain any salary increases to take effect in fiscal years 2015 or 2016.

### Local 1033

Local 1033 represent approximately 855 employees in the three bargaining units at the school department: (B.E.S.T.; Teacher Assistants; and Public School Safety Services Officers). All employees will receive the same salary increases during the period of this analysis.

Effective July 1, 2013 (FY 2014) a three percent (3.0%) across-the-board salary increase will be in effect for all bargaining unit members. Effective July 1, 2014 (FY 2015) a second three percent (3.0%) across-the-board salary increase will be in effect for all bargaining unit members. It is estimated that these salary increases will cost \$645,000 and \$662,000 in FY 2014 and FY 2015 budget respectively.

The three Local 1033 contracts expire on June 30, 2015. It has been assumed that the subsequent contracts will not contain any salary increases effective in FY 2015.

### Local 1339

Effective on September 1, 2013 (FY 2014), a four percent (4.0%) across-the-board salary increase will be in effect for the 206 school employees represented by Local 1339. A second four percent (4.0%) across-the-board salary increase will be effective on September 1, 2014 (FY 2015). It is estimated that these salary increases will cost \$280,000 and \$290,000 on the FY 2014 and FY 2015 budgets respectively.

The Local 1339 contract expires on August 31, 2015. It has been assumed that the subsequent contract will not contain a salary increase in fiscal years 2015 or 2016.

### Non-union Employees

It has been assumed that the salaries of the 97 non-union employees will mirror that of Local 1033-represented employees.

### Medical Benefits

The projected annual increases to the school department's medical costs mirror the medical expenditure assumptions made in the State of Rhode Island's most recent five year budget forecast. Specifically, medical costs for active employees are projected to increase 7.1% in FY 2014, and 7.7% in FY 2015 and 6.1% in FY 2016, while medical costs for retirees is projected to increase by 6.86% each year.

Increases to employee medical co-share payments, however, reduce the net increases for active medical to only 3.0% in FY 2014. According to the city's Manager of Employee Benefits, a Coordination of Benefits (COB) effort will soon be in process with school employees and

retirees. Additional savings from this program are likely beginning in FY 2014, but it is not possible at this time to quantify those savings.

#### Pension Contributions:

According to Buck Consultants, the school department's ARC for the city's Employee Retirement System increases from \$8.1 million in FY 2013 to \$9.0 in FY 2016. It has been assumed that the school department's non-local (federal) budget will continue to fund the ARC at its current share.

The school department's ARC for the state's Employee Retirement System, which funds teacher and certified school employees' pensions, is projected to increase from \$16.7 million in FY 2013 to \$18.9 million in FY 2016.

#### **DEPARTMENTAL LINE ITEMS**

The School Department's line items are assumed to increase throughout the period at the rate of the Consumer Price Index for Urban Wage Earners (CPI-U). Departmental line items are projected to increase 2.7% in FY 2014, 2.8% in FY 2015, and 2.1% in FY 2016. Below is a description of line items that have annual projection different from the CPI-U.

*Custodial Services:* The current contract with Aramark, Inc. for custodial services at the school department's 46 buildings is scheduled to increase 3.0% annually through FY 2016. The FY 2013 budget for custodial services is \$17,351,465.

*Tuition:* A total of \$14,661,456 has been appropriated in FY 2013 for tuition for approximately 350 special needs students attending out-of-district schools. It is projected that the cost for out-of-district tuitions will increase 3.0% annually.

*Tuition to Charter Schools:* Approximately 1,300 Providence students attend out-of-district charter schools. The school department's annual per pupil payment to charters is currently \$3,500. The per student cost is scheduled to increase 52.6% between FY 2013 and FY 2016. Therefore, assuming no change in the number of Providence students attending out-of-district charter schools, the department's payments to charters is projected to increase from \$3.8 million in FY 2013 to \$5.3 million in FY 2016.

*Achievement First Charter School:* The recently approved Achievement First Charter School (AFCS) is scheduled to begin operations in FY 2014. Based upon an assumption that 75% of students attending AFCS will be from Providence, it is projected that the net cost to the school department will begin at \$580,000 in FY 2014 and grow to \$3.1 million in FY 2016.

*In-District Charter Schools:* Additional costs associated with the designation of in-district charter schools have not been included in this analysis. Should a Providence school be designated in the future as an in-district charter school, there will be additional costs to the school department.

*Utilities:* According to the city's Sustainability Director, the school department's utility costs will begin to be reduced in January 2013 when a new contract with Direct Energy goes into effect. It is projected that electricity costs will be reduced in FY 2014 by close to 13%, which will result in savings of approximately \$325,000. The department's electricity costs are projected to increase 2.3% from FY 2014 to FY 2016. It is expected that the school department will spend approximately \$2.6 million on electricity in the current fiscal year.