



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.
 - 1st and 2nd 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 Municipal Budget</u>
	<u>\$8.7 MM Deficit</u>	<u>From \$4.7 MM Deficit</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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- 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.

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.



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- 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.

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.

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.