



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly  
Dennis E. Hoyle, CPA - Auditor General

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86 Weybosset Street • Providence, RI • 02903-2800  
tel: 401.222.2435 • fax: 401.222.2111

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.

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- 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.

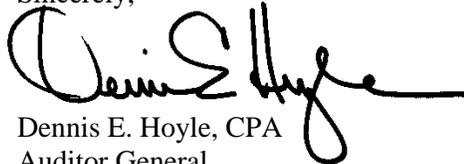
The last recommendation is consistent in intent to an ordinance previously enacted by the City but not implemented due to the recent operating deficits. The 104% threshold would allow the City to use an amount of revenue growth consistent with the general state limit on property tax growth to match anticipated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