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## City of Providence, Rhode Island Office of the Internal Auditor

November 13, 2012

Councilman David A. Salvatore  
 Chairman Ways & Means Committee  
 City of Providence  
 25 Dorrance Street  
 Providence, RI 02903

Dear Chairman Salvatore:

It is difficult to make year-end budget projections based upon only one quarter of budget activity, especially with a budget as large as Providence's. It is possible, however, to identify areas of concern or issues that will likely impact the budget. Below is a listing of the major items that are likely to materially impact the city's FY 2013 budget.

### REVENUES

#### Current Taxes

The budgeted tax levy grew without a tax increase from \$324.5 million in FY 2012 to \$332.8 million in FY 2013. This 2.5% increase to the city's levy was projected to result in an additional \$7.5 million in tax revenue. The increase to the tax levy is summarized below.

Tax Classification	FY2012	FY2013	FY13-FY12 Variance (\$)	FY13-FY12 Variance (%)
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>

At the time the FY2013 budget was approved on June 12, 2012, there were 3,923 fewer properties receiving the fifty-percent (50%) owner-occupied Homestead Exemption. The deadline for taxpayers to apply for a Homestead Exemption on their owner-occupied properties was July 31, 2012. Subsequent to the approval of the budget, an additional 835 Homestead Exemptions have been granted. These additional Homestead Exemptions have resulted in a reduction of more than \$2.2 million of tax revenue.

The tangible tax levy increased by \$1.55 million for FY 2013, as a result of a revaluation of tangible property. It is important to note that tangible property owned by 38 Studios (\$400,000 taxes) was included in this increase.

In order for the city to collect the current tax revenue that has been budgeted, a collection rate of 93.2% will need to be achieved. The FY 2013 budget was designed with a 92.5% collection rate on current taxes. In FY 2012, the city collected 92.4% (unaudited) in current taxes.

#### Fines & Forfeits

In FY 2012 the city collected \$7.2 million (unaudited) in revenues categorized under "Fines & Forfeits". Revenue from this category of revenue is budgeted in FY 2013 at \$8.1 million. There are no new initiatives that will materially increase this category of revenue above the results of FY 2012.

#### Overnight Parking

Revenue of \$600,000 has been budgeted in FY 2013 from a city-wide overnight parking program. This revenue is based on the assumption that 6.0% of registered vehicles will be included in the overnight parking pilot program. Through the first quarter of the fiscal year, 657 annual permits and 122 guest permits have been purchased, resulting in total revenue of \$68,750. It is not possible to forecast the year-end revenue from the overnight parking program, but this revenue is an area of concern.

#### Other Revenues

Revenue generated from the Room Tax, the Meal Tax and Inspection & Standards fees combined are projected to end the year at approximately \$750,000 over budget. This projection is based upon first quarter actual results and year-end results for FY 2012.

PILOT - Colleges, Universities & Hospitals

A total of \$8,795,715 is budgeted in FY 2013 from voluntary payments from the various colleges, universities and hospitals. At this time, there is approximately \$7.9 million in payments identified (see chart below). There is potentially an additional \$500,000 in annual payments available from Johnson & Wales University. Providence College is the only non-profit that has not agreed to increase its voluntary payments to the city.

Source	FY 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
RISD	\$250,000
CharterCARE	\$100,000
	<b>\$7,928,065</b>

EXPENDITURES

Public Safety Salaries

Year-end salary expenditures at the three public safety departments (police, fire and communications) are projected to be over budget by a total of approximately \$2.5 million.

The fire department's FY 2013 budget included savings of approximately \$1.0 million in callback expenditures from an assumption that an addition 55 firefighters would be active as of April 1, 2013. According to the fire chief, the new fire school will begin on January 1, 2013. Therefore, the new firefighters will likely be active as of July 1, 2013.

Through the first quarter of this year, callback pay is running 5.7% ahead of the same time last year and is projected to total \$10.4 million by year-end, which is \$1.8 million over the amount budgeted. Salary savings realized from vacant, budgeted positions tightens the department's overspending to approximately \$1.5 million.

The police department's salary budget is projected to be overspent by approximately \$800,000. Savings from attrition of \$947,791 was assumed in the police department's budget. Through the first quarter, it is unlikely that the department will achieve that level of attrition.

The communications' department is projected to overspend its salary budget by approximately \$200,000. Overtime is the main reason for the department's overspending.

### Pension Contribution

In August 2012, Buck Consultants restated the FY 2012 Annual Required Contribution (ARC) to the Employees Retirement System. Based upon negotiated benefit changes and actuarial assumptions derived from the most recent experience study report completed by Buck, the total FY 2012 ARC was reduced from \$58,928,925 to \$53,735,585. The city's actual pension contribution, which was made in October 2012, was ninety-percent (90%) of the restated ARC.

According to Buck Consultants, the city's general fund portion of the FY 2013 ARC is \$46,917,588, which is \$6,209,499 greater than the amount appropriated (\$40,708,089). The school department has appropriated \$6,699,765 to fund its portion of the FY 2013 ARC. Buck Consultants has determined that the school department's ARC is \$8,120,212. Therefore, a 100% payment of the FY 2013 ARC will result in a total over-expenditure of \$7.63 million.

### Medical

Based upon first quarter claims experience, the city's medical consultant, Mercer, is projecting that medical expenditures will be within the \$97.6 million budget. The Finance Director stated that there is potentially additional savings of \$4.0 million to be realized through the Coordination of Benefits Program, as well as Plan changes associated with the transfer of retirees to Medicare. These potential savings, however, are not documented and are uncertain at this point.

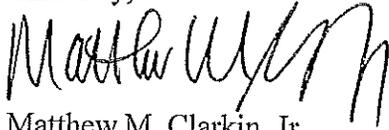
### School Department

The school department's budget is trending close to budget, but there are pressures on the school budget that must be looked at closely. Expenditures for Providence students attending out-of-district charter schools, transportation costs and the above-mentioned pension payment could result in a deficit.

Conclusion

Based upon the analysis above, the city will need to put in place a corrective action plan in order to forestall a potential budget deficit for FY 2013. This plan will be needed to offset projected revenue shortfalls and over expenditures as outlined above.

Sincerely,



Matthew M. Clarkin, Jr.  
Internal Auditor

Cc: City Council President Solomon  
City Council Members  
Jake Bissaillon, City Council Chief of Staff  
Michael Pearis, Finance Director