

## INTRODUCTION – 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 2015 through FY 2017.

This 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 in assessing the affordability and desirability of alternative policy, program and budget options.

The information included in this analysis respective to FY 2015 reflects the proposed budget now before the City Council.

| Table 1: Summary of Budget Projections  |                            |                            |                             |                          |
|---|----------------------------|----------------------------|-----------------------------|--------------------------|
|   | 2014<br>Approved<br>Budget | 2015<br>Proposed<br>Budget | 2016<br>Projected<br>Budget | 2017 Projected<br>Budget |
| Total Expenditures - City & School *  | \$662,029,131              | \$678,409,979              | \$699,574,832               | \$710,280,508            |
| * City contribution to schools (\$124,896,611) is included in both general fund and school amounts shown below. |                            |                            |                             | -                        |
| General Fund Revenues   | \$449,505,642              | \$458,117,354              | \$453,843,990               | \$452,120,952            |
| General Fund Expenditures   | \$449,505,642              | \$458,117,354              | \$468,022,324               | \$471,240,007            |
|   | <b>\$0</b>                 | <b>\$0</b>                 | <b>(\$14,178,334)</b>       | <b>(\$19,119,055)</b>    |
| School Revenues   | \$337,420,100              | \$345,189,236              | \$353,089,236               | \$360,989,236            |
| School Expenditures   | \$337,420,100              | \$345,189,236              | \$356,449,119               | \$363,937,112            |
|   | <b>\$0</b>                 | <b>\$0</b>                 | <b>(\$3,359,883)</b>        | <b>(\$2,947,876)</b>     |
| <b>Projected Budget Gap</b>   | <b>\$0</b>                 | <b>\$0</b>                 | <b>(\$17,538,217)</b>       | <b>(\$22,066,931)</b>    |

## GENERAL FUND - REVENUES

### PROPERTY TAXES

For the purposes of this analysis, property taxes are projected to remain at current levels through FY 2017. 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 (4.0%) 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 maximum amounts 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.

| Fiscal Year | Total Levy    | Net Levy (93.0%) | Max. Increase to Net Levy |
|-------------|---------------|------------------|---------------------------|
| 2015 *      | \$345,438,177 | \$321,257,505    | -                         |
| 2016        | \$359,255,704 | \$334,107,805    | \$12,850,300              |
| 2017        | \$373,625,932 | \$347,472,117    | \$13,364,312              |

\* Proposed

In addition to the assumption that property taxes will remain level, there are no assumptions concerning the potential level of natural growth to the city’s tax base during this period of analysis.

**STATE AID**

In the State of Rhode Island’s most recent five year budget projections, Motor Vehicle Excise Tax Reimbursements, Distressed Communities and PILOT Program are projected to be level funded through the period of this analysis. In addition, the funding of the Municipal Incentive Aid Program expires after FY 2016.

Reimbursement received through the state’s School Debt Construction program is scheduled to increase from \$23,420,340 in FY 2015 to \$24,147,396 in FY 2017.

Revenue from the state’s six-percent (6.0%) Room Tax/Hotel Tax is projected to increase annually by 3.0%.

**INTEREST INCOME**

Revenue generated from interest earned on overdue taxes projected to remain at FY 2015 levels throughout the period of this analysis.

**FINES & FORFEITURES**

Revenue generated from fines such as parking tickets and moving violations remains at the approximate \$6.4 million included in the proposed FY 2015 budget through FY 2017.

**DEPARTMENTAL AND OTHER REVENUES**

The majority of revenues included under this category have been assumed to remain at FY 2015 levels throughout FY 2017. Below is a brief description of several revenue items in this category that have been adjusted through the period.

*Inspection & Standards Fees:* Due to potential large construction projects in Providence such as the \$200+ million South Street Power Station project, it is projected that Inspection & Standards' revenues will increase 15.0% annually in fiscal years 2016 and 2017.

*Recorder of Deeds:* It is projected that annual revenues generated from recording fees and the Conveyance Tax will increase 3.0% annually in fiscal years 2016 and 2017.

*Water Supply Medical Reimbursement:* This reimbursement from the Providence Water Supply Board for retiree medical benefits is projected to increase annually by the same percentage as the city's medical costs (7.75%).

*Fire Department Inspections & Plan Review:* It is projected that these two revenue sources generated through the fire department will increase 3.0% annually in fiscal years 2016 and 2017.

*Miscellaneous Revenues:* Historically, this revenue is budgeted at \$200,000. In the proposed FY 2015 budget, revenue from an extension of the lease of Triggs Golf Course (\$2.0 million) as well as the naming rights of the skating center (\$500,000) is included under this revenue category. This revenue has been reduced to \$200,000 for fiscal years 2016 and 2017.

*Transfer from Fund 856 – Capital Assets:* The proposed FY 2015 budget includes \$4.0 million of revenue from the sale assets. The \$4.0 million is generated from the sale Flynn School to the Providence Redevelopment Agency (\$1.4 million) as well as 246 Prairie Avenue (\$2.6 million). It has been assumed in this analysis that there will not be revenue from Fund 856 in fiscal years 2016 and 2017.

## **GENERAL FUND – EXPENDITURES**

### **SALARIES**

Only salary increases that are scheduled due to contractual obligations have been included in the projected budgets for fiscal years 2016 and 2017. Below is a description of the salaries for each group of employees at the school department.

#### Local 1033

The approximate 580 city employees represented by Local 1033 are scheduled to receive a three percent (3.0%) across-the-board salary increase effective July 1, 2014. Approximately \$860,000 in additional salary costs has been incorporated into the proposed FY 2015 budget. For the purposes of this analysis, it has been assumed that the subsequent contract with Local 1033 will not contain an across-the-board salary increase that will be in effect for fiscal years 2016 or 2017. A one-percent across-the-board salary increase would result in approximately \$285,000 of additional salary costs.

### Fraternal Order of Police (FOP)

The approximate 400 city employees represented by the Fraternal Order of Police (FOP) are scheduled to receive a four percent (4.0%) across-the-board salary increases effective July 1, 2014. Approximately \$1.3 million in additional salary costs due to this salary increase has been incorporated into the proposed FY 2015 budget. For the purposes of this analysis, it has been assumed that the subsequent contract with the FOP will not contain an across-the-board salary increase that will be in effect for fiscal years 2016 or 2017. A one-percent across-the-board salary increase would result in approximately \$325,000 of additional salary costs.

### Local 799 – Providence Firefighters IAFF

While there is not an across-the-board salary increase scheduled in the current contract for the approximate 450 city employees that are members of Local 799. There is a wage re-opener clauses contained in the contract. The proposed FY 2015 budget contains a 3.5% across-the-board salary increase effective July 1, 2014 for Local 799-represented employees. For the purposes of this analysis, it has been assumed that there will not be an across-the-board salary increase in effect for fiscal year 2016 or 2017. A one-percent across-the-board salary increase would result in approximately \$385,000 of additional salary costs.

### Non-union Employees

It has been assumed that the salaries of the approximate 175 non-union employees will mirror that of Local 1033-represented employees. A one-percent across-the-board salary increase for non-union employees would result in approximately \$125,000 in additional salary costs.

## **EMPLOYEE BENEFITS**

### Pension Contribution

The city's actuary, Segal Consulting, on January 31, 2014 issued an Actuarial Valuation Report of the city's Employee Retirement System as of July 1, 2013. In the report it is projected that city's Annual Required Contribution will increase by 7.66% in FY 2016 and 3.8% in FY 2017. The ARC is funded at 100% throughout the period of this analysis.

### Medical Benefits

Expenditures for employee and retiree medical benefits are projected to increase 7.75% annually through FY 2017, according to the city's medical consultant. Therefore, it is projected that the city's general fund budget for medical expenditures will increase from \$40.5 million in FY 2015 to \$47.0 million in FY 2017.

## **DEBT SERVICE**

The city's total debt service (principal and interest on bonded debt) is scheduled to decrease from \$66.9 million in FY 2015 to \$64.8 million in FY 2017. It has been assumed that the proposed \$7.0 million Master Lease which was recently submitted to the City Council will be approved. The annual debt service on the Lease, which will begin in FY 2016, is estimated at \$1.45 million and has been included in the projected budgets for fiscal years 2016 and 2017.

## **CITY CONTRIBUTION TO SCHOOLS**

It has been assumed in this analysis that the city's contribution to the school department will remain at the FY 2015 level (\$124,896,611) through FY 2017.

## **DEPARTMENTAL LINE ITEMS**

The city's departmental line items for general services and supplies are assumed to increase throughout the period of this analysis at the rate of fifty percent of the Consumer Price Index for Urban Wage Earners (CPI-U). Therefore, departmental line items are projected to increase 1.2% in both FY 2016 and FY 2017.

*Heat, Light & Power:* According to the city's Sustainability Director, city expenditures on electricity and natural gas are projected to increase from \$7.0 million in FY 2015 to \$8.0 million in FY 2017.

*Grants & Commissions:* It has been assumed that the appropriation for grants and commissions will remain funded at FY 2015 appropriations through FY 2017.

## **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 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**

It is proposed that the city's general fund in FY 2015 will transfer \$124,896,611 to the School Department. This contribution represents 36.2% of the school department's total local revenue. The majority of school department's local revenue is received from the state of Rhode Island. State Education Aid is determined by student enrollment and the statewide funding formula. As a result of the phase-in of the state's funding formula, Providence is projected to receive an additional \$7.9 million in state aid annually. The phase-in of the Funding Formula will be complete in FY2017. It is expected that in FY2015 Providence will receive state aid of \$213,857,625, which represents 62% of total local revenues.

In addition to the city's contribution and state aid, the school department receives reimbursement for costs associated with various services provided to students who are eligible for Medicaid benefits. It is projected that in FY 2015 the department will receive reimbursements of \$4.45 million. It is projected that Medicaid reimbursements will remain level through FY 2017.

## **SCHOOL DEPARTMENT - EXPENDITURES**

### **SALARIES**

Only salary increases that are scheduled due to contractual obligations have been included in the projected budgets for fiscal years 2016 and 2017. Below is a description of the salaries for each group of employees at the school department.

#### Providence Teachers Union (PTU)

Effective the first day of the 2013-14 school year, a three percent (3.0%) across-the-board salary increase was in effect for the city's approximate 1,950 teachers. A second three percent (3.0%) across-the-board salary increase will be effective on the last day of the current school year. The cost of this second 3.0% salary increase (\$4.1 million) did not have a fiscal impact on the FY 2014 budget but has been incorporated into the school department's proposed FY 2015 budget.

The current contract with the PTU expires on August 31, 2014. For the purposes of this analysis, it has been assumed that the subsequent contract with the PTU will not contain an across-the-board salary increase effective in fiscal years 2016 and 2017. A one-percent across-the-board salary increase would result in approximately \$1.35 million in additional salary costs.

Additional salary costs of \$800,000 for teacher step increases have been incorporated into the school department's budgets in fiscal years 2016 and 2017.

### 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, 2014, Local 1033 members will receive a 3.0% across-the-board salary increase. The total projected cost of this salary increase (\$662,000) has been incorporated into the school department's proposed FY 2015 budget.

The three Local 1033 contracts with the school department expire on June 30, 2015. For the purposes of this analysis, it has been assumed that the subsequent contract with Local 1033 will not contain an across-the-board salary increase effective in fiscal years 2016 and 2017. A one-percent across-the-board salary increase would result in approximately \$220,000 in additional salary costs.

### Local 1339

Local 1339 represent approximately 215 employees at the school department. The current Local 1339 contract calls for a four percent (4.0%) across-the-board salary increase effective on September 1, 2014. The total projected cost of this salary increase (\$290,000) has been incorporated into the school department's proposed FY 2015 budget.

The Local 1339 contract expires on August 31, 2015. For the purposes of this analysis, it has been assumed that the subsequent contract with Local 1339 will not contain an across-the-board salary increase effective in fiscal years 2016 and 2017. A one-percent across-the-board salary increase would result in approximately \$72,500 in additional salary costs.

### Non-union Employees

It has been assumed that salary increases for approximate 100 non-union employees will mirror that of Local 1033-represented employees. A one-percent across-the-board salary increase for non-union employees would result in approximately \$125,000 in additional salary costs.

## **EMPLOYEE BENEFITS**

### Medical Benefits

According to the city's medical consultant, the school department's medical expenditures are projected to increase 7.75% annually throughout the period of this analysis.

### City Pension Contribution:

According to the July 1, 2013 actuarial valuation performed by Segal Consulting, the school department's Annual Required Contribution (ARC) to the city's Employee Retirement System will increase from \$9.0 million in FY 2015 to \$10.0 million in FY 2017. It is assumed that the school department's non-local (federal) budget will continue to fund the ARC at its current share. The non-local budget in FY2015 will fund 12.2% of the department's ARC. Therefore, the department's local appropriation for the ARC will increase approximately \$600,000 in FY2016 and \$322,000 in FY2017.

### State Pension Contribution:

The proposed FY 2015 budget includes a \$1.7 million increase for the local portion of the school department's pension contribution to the Employees' Retirement System of Rhode Island for certified employees. It has been assumed that this pension contribution will increase 4.0% annually in fiscal years 2016 and 2017. Therefore, it is projected that the local portion of the pension contribution will increase from \$19.9 million in FY 2015 to \$21.5 million in FY 2017.

### **DEPARTMENTAL LINE ITEMS**

The School Department's line items are assumed to increase throughout the period of this analysis at the rate of fifty percent of the Consumer Price Index for Urban Wage Earners (CPI-U). Therefore, departmental line items are projected to increase 1.2% in both FY 2016 and FY 2017. Below is a description of some expenditures line items that are not projected to change at fifty percent of the CPI-U.

*Custodial Services:* The contract for custodial services for the school department's 41 buildings, which is currently with Aramark, Inc., will expire in November 2014. The department is currently out to bid with a RFP that maintains the identical level of services provided in the current contract. It has been assumed that the new contract will include annual increases of 3.0%. Total expenditures for custodial services are projected to increase from \$18.3 million in FY2015 to \$19.4 million in FY2017.

*Tuition to Other School Districts:* Approximately 525 Providence students attend either The Met or Davies Vocational schools. The school department is scheduled to pay tuition of \$3,758 for each student for the 2015-2016 school year. The tuition will increase to \$4,708 for the next two school years. It has been assumed that the number of Providence students attending these schools will remain stable over the period of this analysis. This line item is projected to increase from \$2.0 million in FY 2015 to \$2.5 million in FY 2017.

*Tuitions:* A total of \$16 million has been proposed in FY 2015 for tuition payments for approximately 250 special needs students attending out-of-district schools. It is projected that the cost for out-of-district tuitions will increase 4.5% annually. In addition, it has been assumed that the number of students served under this category will remain stable through FY 2017. Total expenditures for out-of-district tuition are projected to grow to \$17.5 million by FY 2017.

*Tuition to Charter Schools:* In the current school year, 2,820 Providence students are attending a charter school. The school department's annual per pupil payment to a charter school is \$3,871. This annual cost is expected to rise to \$4,242 in FY 2015 and then increase to \$4,737 for the next two years. The annual increase coupled with projected enrollment increases of 285 students in 2016 and 76 students in 2017 results will result in total payments to charter schools increasing from \$14.3 million in FY 2015 to \$17.6 million in FY 2017.

*Utilities:* According to the city's Sustainability Director, the school department's utility costs (electricity, natural gas and oil) will increase by 7.0% during the period of this analysis. Total utility expenditures are projected to increase from \$5.6 million in FY 2015 to \$5.9 million in FY2017.

*Transportation:*

The current contract with First Student expires in June 2015. The school department will solicit bids through the city's Board of Contract & Supply for a three-year contract. It is assumed that the new contract will provide for annual cost increases of 3.0%. In addition, it assumed that the school department will continue to require 125 busses on a daily basis.

The proposed FY 2015 budget includes an additional \$497,860 to provide RIPTA bus passes to the 803 high school students who live between 2.5 and 3.0 miles away from their school. It has been assumed in this analysis that the School Board will reduce the walking distance effective for the 2016-2017 school year from 2.5 to 2.0 miles. Therefore, the FY 2016 budget includes an additional \$680,000 in the transportation line item to provide bus passes to an additional 1,097 students. It has been assumed that the cost of RIPTA ten-month bus pass for a Providence student will remain at the current \$620.

Based upon the above-mentioned assumptions, the school department's transportation budget is projected to increase from \$12.3 million in FY 2015 to \$13.8 million in FY 2017.