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

October 2, 2014

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

Dear Chairman Salvatore:

As requested by the City Council on August 12, 2014 via Resolution #406, I have reviewed the city's current bonding capacity as well as the economic feasibility and financial impact of the city borrowing \$20 million through a general obligation bond to repair and replace sidewalks throughout the city. Below are my findings.

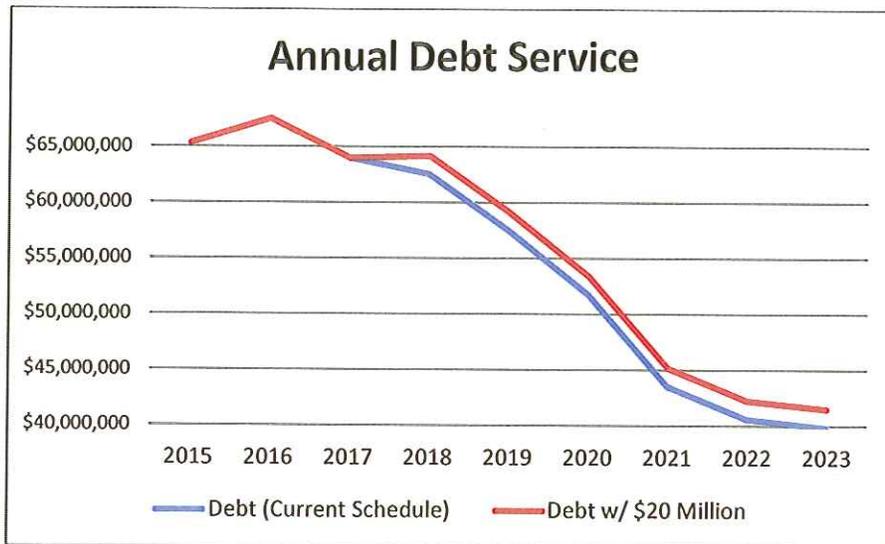
### \$20 Million General Obligation Bond

For the purpose of this analysis it has been assumed that the \$20 million will be borrowed at rates associated with a general obligation bond, which requires voter approval. Therefore, it is assumed that the borrowing of the funds will occur during FY2017 with the first debt payment being due in FY2018.

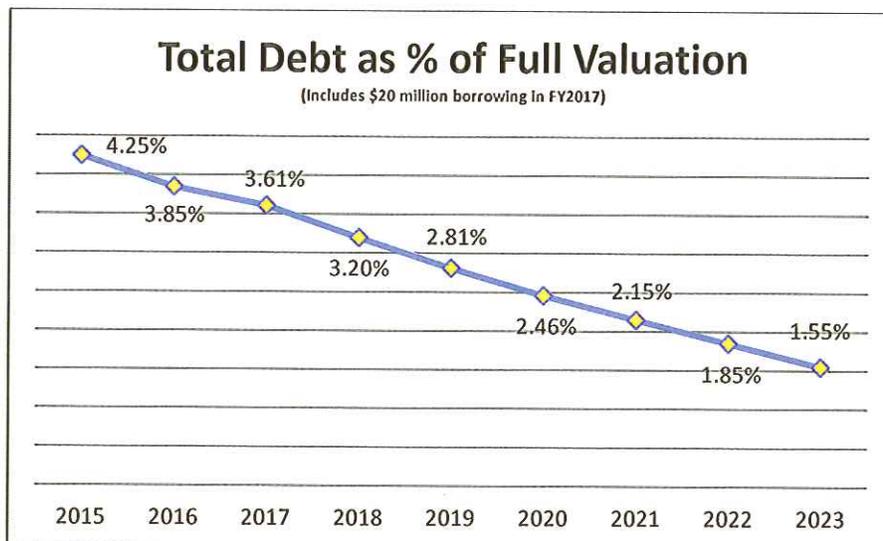
It is assumed that the \$20 million will be borrowed for a term of 20 years and at an interest rate of 5.50%. The annual debt service payment (principal and interest) is estimated at \$1.7 million.

### Total Annual Debt Service

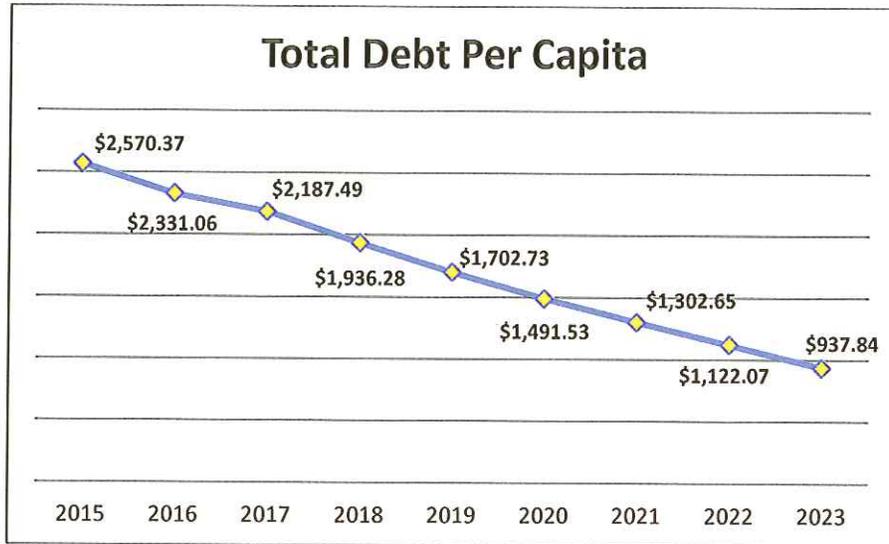
The city is scheduled in the current fiscal year to make a total of \$65.4 million in principal and interest payments on all city debt. The city's annual expenditure on debt service is scheduled to increase by \$2.2 million next fiscal year but then decrease to \$62.6 million in FY2018, which would be the first year a debt payment would be due on the \$20 million being considered. Total annual debt service in FY2023 – incorporating the \$1.7 million annual debt payments from the \$20 million bond – is scheduled to be \$41.5 million.



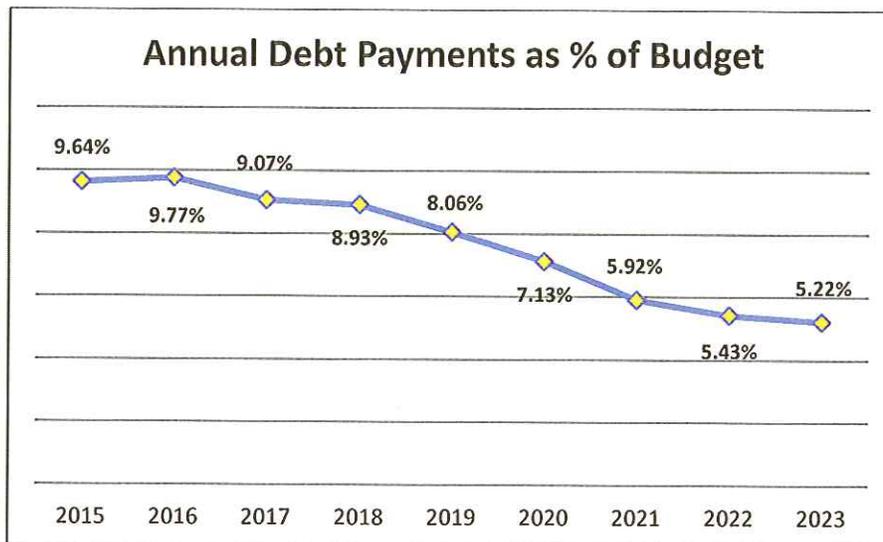
According to Moody’s Investor Services “Median Report” issued in August 2014, the national median Total Debt as a Percentage of Full Valuation for a city with between 100,000 and 500,000 residents and a bond rating of Baa is 4.42%. Providence’s percentage is currently 4.25%, but it is important to note that this percentage is based upon gross debt, which does not include state reimbursement on school debt. Even considering gross debt, a static full valuation (\$10.8 billion) and an additional \$20 million borrowing in FY2017, the city’s Debt as a Percentage of Full Valuation will decrease from the current 4.25% to 1.55% in FY2023 if no additional debt is added.



The City's total debt per capita, inclusive of the \$20 million borrowing, is projected to decrease from its current \$2,570 to \$938 in FY2023 if no additional debt is added. According to Moody's Investor Service, the average total debt per capita for the New England cities rated at Baa is \$3,513.



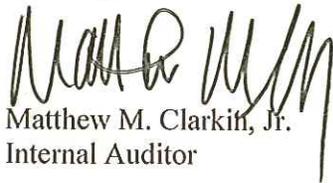
In the current fiscal year, annual debt service payments represent 9.64% of the City's total budget (\$678.4 million). Assuming two-percent (2.0%) annual increases to the City budget and incorporating the \$1.7 million annual debt payments on the \$20 million bond, the City's annual debt payments as a percentage of the total budget is estimated to fall to 5.22% in FY2023 if no additional debt is added.



In addition to the above debt ratios, Moody's and other rating agencies will review the City's finances and overall economic condition when rating future borrowings. Therefore, it is important that the city continue to balance future budgets, make the required annual contributions to the retirement fund and take steps to improve the Providence's economy. But based upon the ratios mentioned above, it seems reasonable that the City would be able to successfully go to market with a \$20 million borrowing for infrastructure purposes.

If you have any questions or would like additional information, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew M. Clark, Jr.", written over a printed name and title.

Matthew M. Clark, Jr.  
Internal Auditor

Cc: Council President Michael Solomon  
Members of the Subcommittee on Ways & Means  
City Council Members  
Yvonne Graf, Chief of Staff – City Council