



March 6, 2016

Dear Fellow East Siders:

Last Thursday night, the City Council approved a [proposed deficit reduction plan](#) the administration submitted in response to an [October 20 letter](#) from the State's Auditor General. I voted against approval for the reasons which follow:

In his October 20 letter, the Auditor General expressed concerns about the City's financial position. He noted that effective deficit reduction must go beyond what he called "accounting mechanics", and that it is now "imperative that the City adopt and comply with a realistic plan." Providence is not the first city or town to require the Auditor General's supervision; however, his October 20 letter is distinctive in requiring this city council officially to adopt the plan.

While the Auditor General did not provide a rubric or a template, I believe a realistic deficit reduction plan should contain three essential elements. First, it must describe where we are. Second, it must describe where we need to go. Third, it must describe a path that takes us from our current position to the desired one. In meeting each of these three elements, a realistic plan must be accurate and it must be complete.

The proposed plan fully accomplishes the second element. It clearly specifies the required operating surpluses the City must achieve this year and each of the five which follow. In my opinion, however, the proposed plan is less successful in meeting the other two essential elements, namely assessing our current condition and providing a specific map to take us from that position to the identified goals.

In its assessment of current conditions, the proposed plan notes the current budget promotes stability by increasing public safety callback by \$1 million. While this is factually correct, it must be presented in the context of what is actually happening this year. On January 25, 2016, the day before it submitted the deficit reduction plan to the Auditor General, the administration filed a second quarter report with the State's Division of Revenue. In that report, the administration stated it expected a \$3.6 million salary overrun in the Fire Department, driven by greater than budgeted callback expense. By including the positive news about the increased budget allowance while excluding the negative news of the expected deficit that will overwhelm the budgeted increase, the proposed plan does not meet the standard of being fully accurate and complete.

I also believe an accurate and complete statement of the City's current financial condition should include a discussion of the dispute with the fire fighters. The Internal Auditor estimated the City's potential exposure in this matter to be \$9.6 million per year. The Internal Auditor also estimated that one of the City's settlement proposals made last summer, namely a 33% non-pensionable salary increase, would cost an additional \$6.7 million per year. This number is significant because it estimates the administration's own calculation of what it was willing to put on the table to resolve the case, balancing the odds of success against the exposure from an adverse result.

There also is the issue of timing. At this point, it appears unlikely that the proceedings before the arbitrator and the Supreme Court will answer the disputed issues prior to the end of this calendar year, and may extend beyond that. As a result, barring a settlement, the amount of disputed time for legal resolution will be closer to 1½ to 2 years, meaning a potential financial exposure of \$15 million or greater. When the Internal Auditor recently asked the administration for its estimate of the City's exposure, the administration replied that "at this time, there are too many variables to determine the potential fiscal impact." It is not an easy exercise, but it is a critical one, given that we have no reserves to absorb a potential loss. Instead, any liability could directly impact, dollar for dollar, the amount by which we reduce the deficit. A realistic deficit reduction plan should, in my opinion, have at least some discussion about this contingent liability and how we are dealing with it. The proposed plan also is not sufficiently accurate and complete in its third element, in which it should provide specific guidance about how we will go from where we are to where we need to be. It identifies a number of deficit reduction tools, but does not state how much in potential savings any of them will generate.

All of us on the City Council wish to work collaboratively with the administration to support its efforts to manage the budget successfully. I believe the best way we can support the administration at this time is to help it improve its proposed deficit reduction plan before we take a vote to adopt it as our own, an vote by which we would officially certify the plan's accuracy and completeness to the Auditor General. If we do not have the option of improving this plan, I cannot, in meeting my obligations to my constituents and our City as a member of this body, cast my vote in good conscience to adopt this plan and confer upon it our full faith and credit, because it is not sufficiently realistic, accurate or complete.

Sincerely,