

September 27, 2015

Dear Fellow East Siders:

This week's Ward letter reviews the consequences of the administration's surprise announcement, last Thursday, that the fiscal year that the City's last fiscal year ended on June 30 with a deficit of \$5 million.

The City of Providence operates on a fiscal year that begins on July 1 and ends on June 30. (Providence maintains this schedule because each year's financial decisions depend significantly on decisions by the General Assembly each Spring.) The City Council approved the budget for the July 1, 2014 – June 30, 2015 fiscal year in June, 2014, including a \$3 million line item for deficit reduction. This line item was required by [State law](#), under which municipalities that run a deficit in any given year are required to pay off the deficit in the five following years or less. The \$3 million budgeted for last year was part of a 5-year plan to retire the deficit incurred during the "fiscal hurricane" year of 2010-11. As last fiscal year began, the accumulated deficit was \$8.7 million, and the City's \$3.2 million installment for 2014-15 was part of a plan submitted to and approved by the State's Auditor General to retire the deficit by end of the 2016-17 fiscal year. The deficit reduction line also was required by City Ordinance, which established a "rainy day" account to begin building reserves for future contingencies.

In May of this year, the administration suggested that it was not committed to reducing the accumulated deficit. At that time, it issued the [PFM Report](#), in which its consultant included tables at pages 3-4 that projected the \$8.7 million deficit to remain on the City's books through June 30, 2021, even though State law and City ordinance required that it be retired four years prior to that date. At the time, I asked the administration in a hearing whether the PFM report's chart was inaccurate, i.e., whether the administration acknowledged its obligation to retire the \$8.7 million deficit by 2016-17. The administration agreed that State law had this requirement, but did not agree to correct the chart in the PFM Report. To make matters worse, the administration did not commit to appropriating \$3.2 million for deficit reduction during the 2014-15 fiscal year, even though this was clearly stated in the budget. Instead, the administration stated its plan to close the 2014-15 fiscal year with a "balanced" budget that did not include the \$3.2 million budgeted for deficit reduction. As I stated at the time, I do not believe it is accurate or useful to say a budget is "balanced" when it requires \$3.2 million to fund reserves, and instead that money is used to pay for other expenses in violation of State law. As a result, I introduced an [Ordinance](#) for the City Council to consider that would require the administration to fund the reserve account by October 1 of each fiscal year. That Ordinance is pending before Finance Committee.

In early June, the administration projected that the fiscal year ending on June 30 would close with a modest "surplus", if one does not include the administration's failure to set aside \$3.2 million in reserves. On July 24, more than three weeks after the fiscal year ended, the administration reported to the State that the previous fiscal year had ended with a deficit of approximately \$28,000, again putting aside the failure to fund the \$3.2 million for deficit reduction. While not a "balanced" budget even under the administration's definition, the \$28,000 was close enough to be consistent with the administration's projection in June.

All of this changed Thursday night, when the administration announced that the deficit for the fiscal year ending June 30, 2015 was actually \$5.05 million. This surprising change raises several important questions about this administration's ability to manage the City's budget.

First, it raises questions about the administration's ability to understand the budget. If, as the administration now concedes, the budget ran a \$5.05 million deficit as of June 30, why did the administration tell the State on July 24 the budget was essentially "balanced" "under its definition?"

Second, it raises questions about the administration's ability to manage the budget. A \$5 million deficit represents a major failure. Given the City's tight finances and lack of reserves, it is necessary for this administration to manage the City's budget carefully in order to avoid deficits, and such careful management is not likely when the administration does not understand the budget.

Third, it raises questions about the administration's to make the necessary projections to prepare budget. The City's Home Rule Charter and State law require cities to enact balanced budgets; however, this is less likely to occur when there is a lack of understanding of the budget or an ability to manage it. In this regard, the current year's budget began in the red when the administration included a projection of \$1.5 million more in State aid than the General Assembly appropriated in June. The Rhode Island House of Representatives approved its initial budget on June 9 (with the \$1.5 million shortfall), and the General Assembly approved it later that week; however, the Mayor signed the budget without seeking any changes, thus assuring that it was \$1.5 million out of balance before the fiscal year began. (I did not believe these actions to be fiscally prudent for the City, and voted against the budget.)

Fourth, these actions raise serious questions about the current year's budget. Instead of reducing the accumulated deficit by \$3.2 million, the administration increased it by \$5 million to a new level of \$13.7 million. It is far from clear that the administration will meet this year's deficit reduction requirement of \$4.3 million, given that the current year began \$1.5 million in the red and given the failures we learned about last week in the areas of understanding and managing the budget.

Finally, these actions compromise the City Council's ability to work with the administration to ensure financial stability for the City, as the quality of information we are receiving about the City's fiscal condition from month to month has been shown to be subject to significant errors and adjustments that are presented after it is too late to take remedial measures.

As you may conclude, I am deeply concerned about our City's finances, and I will continue to urge my colleagues to consider (and hopefully approve) the ordinance I introduced this Spring to require the administration to allocate funds for deficit reduction on a clear schedule, rather than preparing for contingencies based on an accurate understanding of the City's difficult financial realities.

Sincerely,


