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

January 16, 2013

Councilman John J. Igliazzi  
Chairman, Committee on Finance  
City of Providence  
25 Dorrance Street  
Providence, RI 02903

Dear Chairman Igliazzi:

On November 13, 2012, I presented a letter to the Ways & Means Committee which was subsequently shared with the entire city council that identified issues that could materially impact the city's FY 2013 budget. As you requested, below you will find an update to that letter.

### Current Taxes

Since the FY 2013 tax levy was approved on June 12, 2012, an additional 1,015 owner-occupied Homestead Exemptions have been granted. The additional thirty-five percent exemption on these properties results in a loss of \$2,633,877 in actual tax revenue.

Approximately 31.5% of the increase to the tangible portion of the city's tax levy was a result of \$488,808 of tangible taxes owed by 38 Studios. It is very unlikely that the city will receive this tax payment from the now bankrupt company.

In order for the city to meet the budgeted revenue from current taxes, a collection rate of 93.4% will need to be achieved. The FY 2013 budget was built with a 92.5% collection rate for current taxes. According to the city's external auditor, the city collected current taxes at a rate of 92.3% in FY 2012.

Based upon the information above, it is likely that the collection of current taxes will fall \$3.1 million short of the \$307,810,510 budget.

### Fines & Forfeits

According to the FY 2012 audit, a total of \$6.34 million in revenues was generated under the Fines & Forfeits category. Through the first half of the current fiscal year, these revenues are outpacing last year's results for the same period by 10%. Therefore, it is projected that a total of approximately \$7.0 million in Fines & Forfeit revenue will be collected in FY 2013. This projected amount is \$1.1 million below the \$8.1 million that has been budgeted.

### Overnight Parking

Through the first half of the fiscal year, a total of 655 annual permits and 213 guest permits have been purchased at total revenue of \$70,825. According to the Parking Administrator, there are no special promotion or marketing efforts planned for the second half of the year. Therefore, it is reasonable to expect that – at best – revenue from parking permits will equal the first half results.

It is projected that revenues from overnight parking permits will be approximately \$460,000 below the \$600,000 budgeted.

### Other Revenues

Revenues generated from the Room Tax, Meal Tax and Inspection & Standards fees combined are projected to exceed the budgeted approximately \$1.7 million.

### PILOT – Colleges, Universities & Hospitals

Providence College recently agreed to make additional voluntary payments to the city of \$3.8 million over the next ten years. According to the proposed Agreement, Providence College will make a \$1.0 million payment in FY 2013. Providence College was the final non-profit organization to agree to make additional PILOT payments to the city.

Assuming that the Providence College Agreement is approved by the city council, total PILOT payments from colleges, universities and hospitals will exceed the budget of \$8.8 million by approximately \$132,000.

## **EXPENDITURES**

### Public Safety Salaries

It is projected that public safety salaries will exceed the budget by approximately \$2.0 million. The fire department is projected to overspend its salary line items by approximately \$1.2 million, while the police and communications departments are projected to overspend by \$500,000 and \$300,000 respectively.

### 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

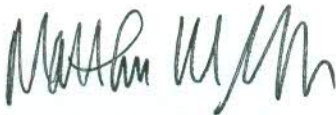
Mercer, the city's consultant on healthcare issues, is currently compiling medical claims data through December 31, 2012. It is expected that the claims data will be available next week. Through the first quarter, claims were trending closely to budgeted amounts. It is projected, however, that employee co-shares payments for healthcare will be approximately \$2.7 million less than projected. Therefore, if claims data remains at budgeted levels through the fiscal year, the city's medical budget will be overspent by \$2.7 million.

## CONCLUSION

Revenue and expenditures results through December 31, 2012 continue to be updated. It is expected that all results will be final for this period by early next week. Therefore, I expect to have a complete analysis of FY 2013 revenues and expenditures, along with year-end budget projections, completed before the end of January.

The budget items listed above represent a net \$15.2 million in concerns. This amount should not be considered a year-end budget projection. Instead, the \$15.2 million is a partial listing of items that will impact the FY 2013 and need to be addressed. It is important that realistic year-end projections, based upon results through December 31, 2012, be determined as soon as possible so corrective actions can be taken to avoid a budget deficit.

Sincerely,



Matthew M. Clarkin, Jr.  
Internal Auditor

Cc: Members of Committee on Finance  
Jake Bissaillon, City Council Chief of Staff