

Financial Impact of Funding Pensions on Providence

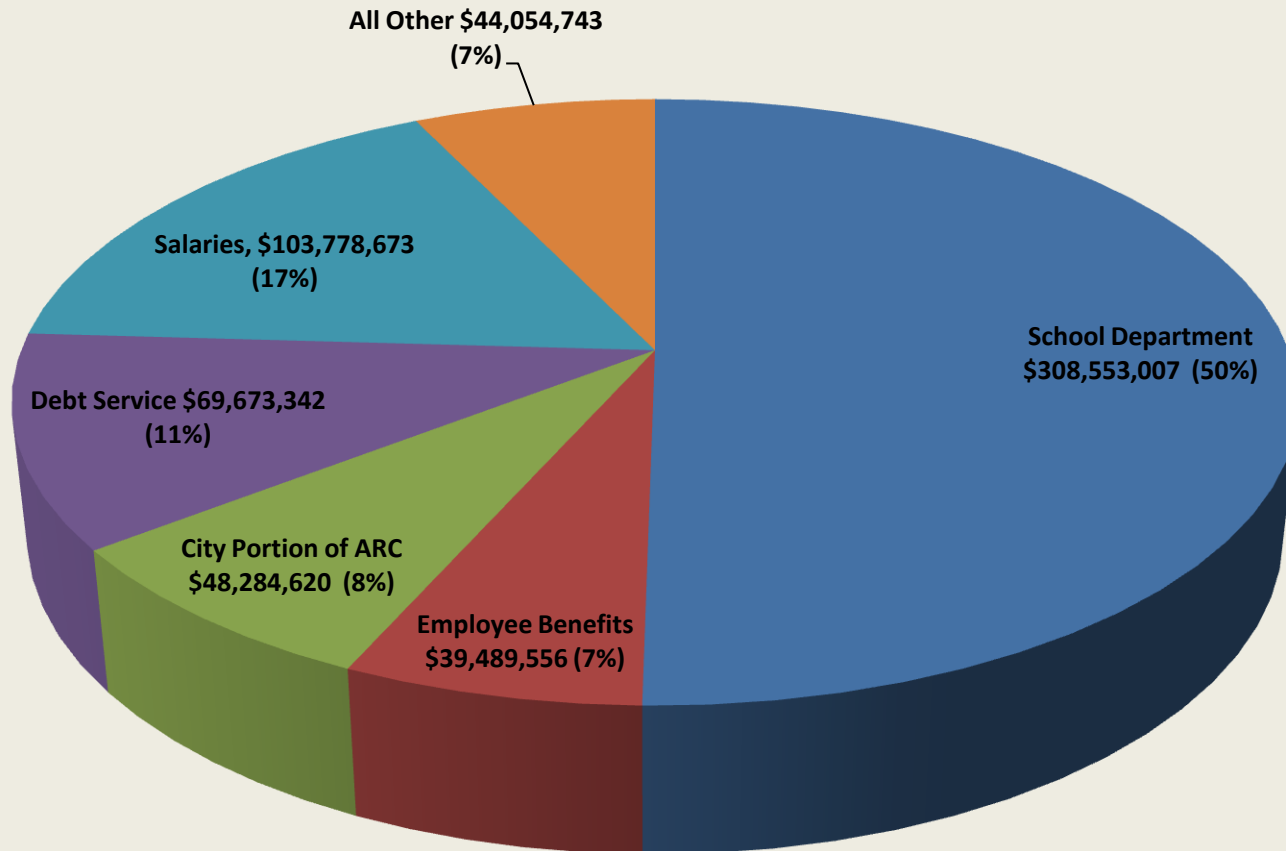
**Presentation to
City Council Sub-Committee on Pension Sustainability**

Gary Sasse, Financial Consultant to City Council

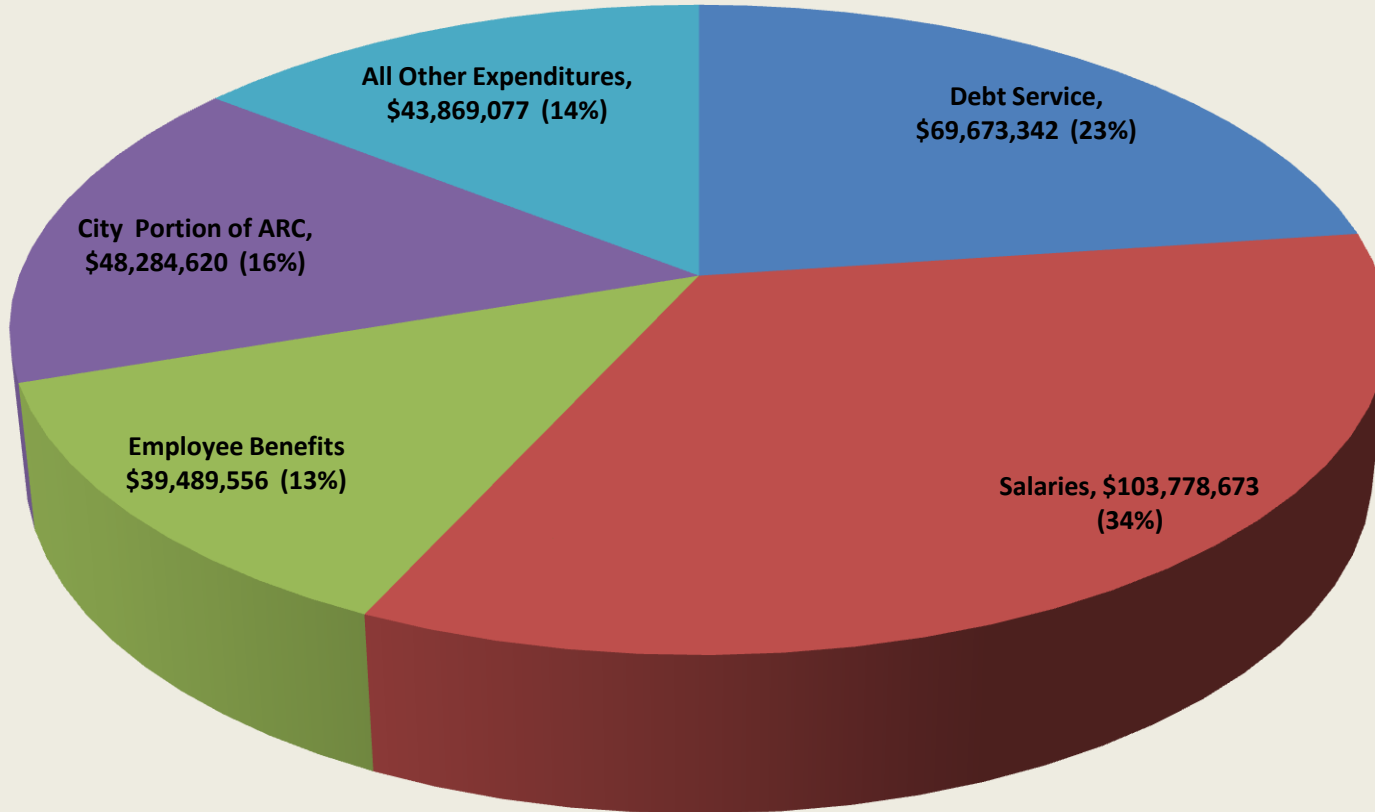
Matthew M. Clarkin, Jr., Internal Auditor

March 6, 2012

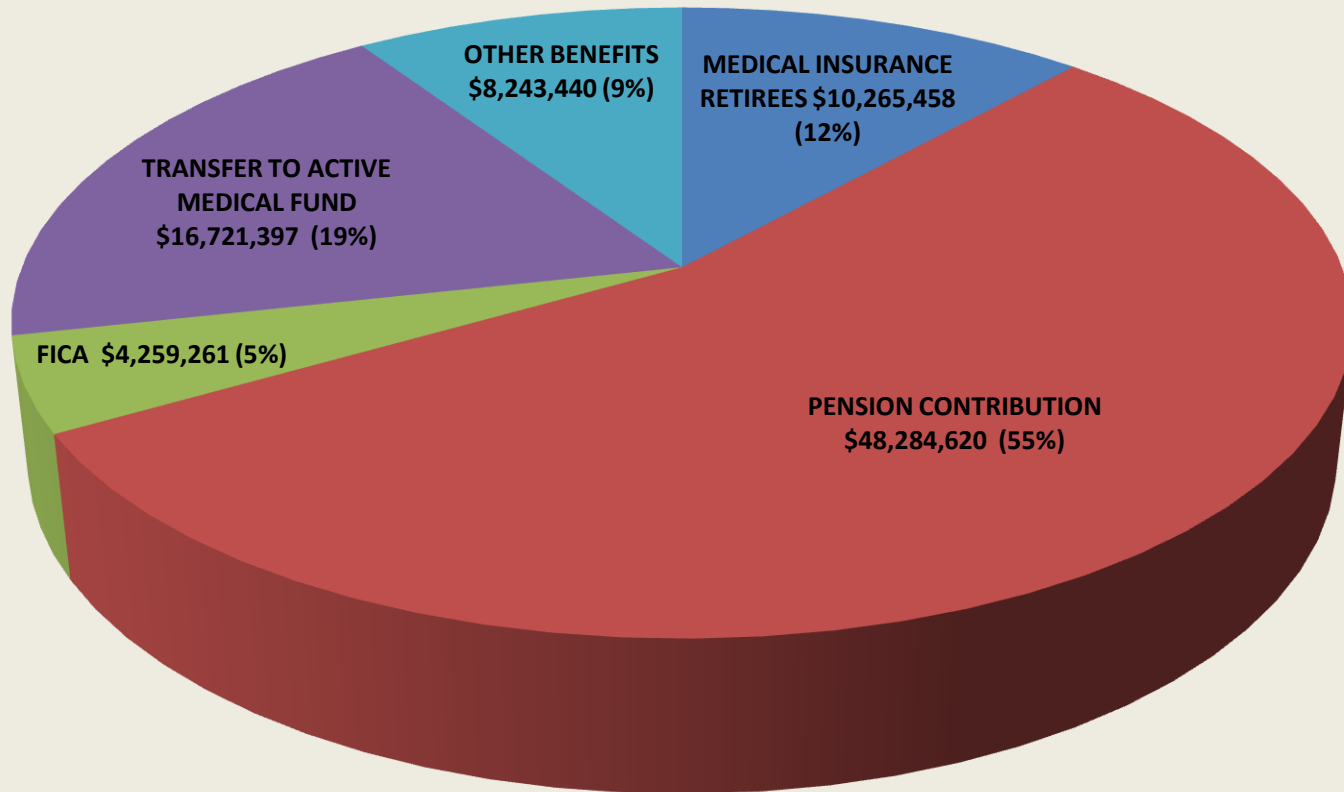
FY2012 Budgeted Expenditures (City & School)



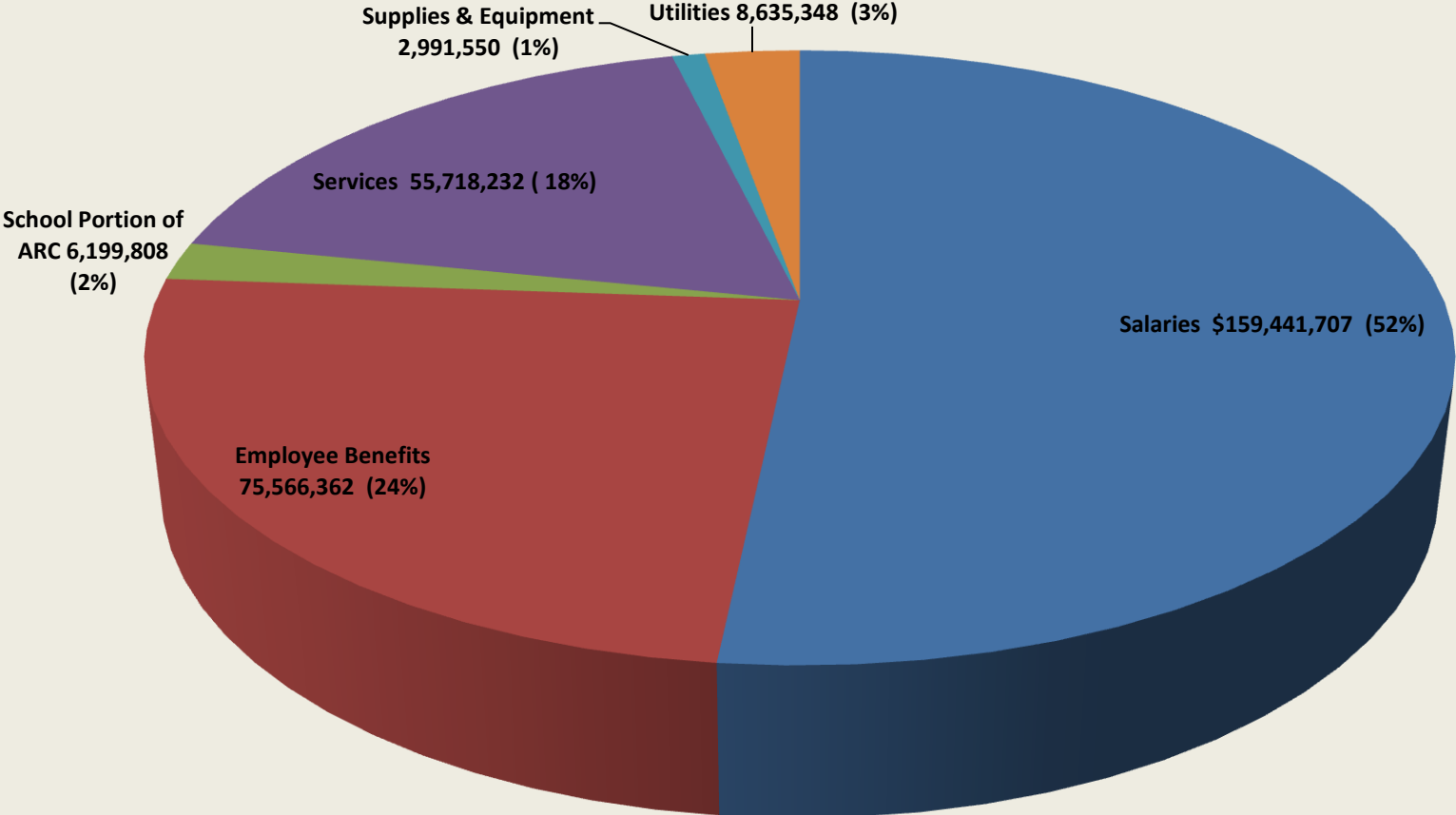
FY2012 Budgeted Expenditures (City)



FY2012 Budgeted Employee Benefits (City)



FY2012 Budgeted Expenditures (School Dept.)



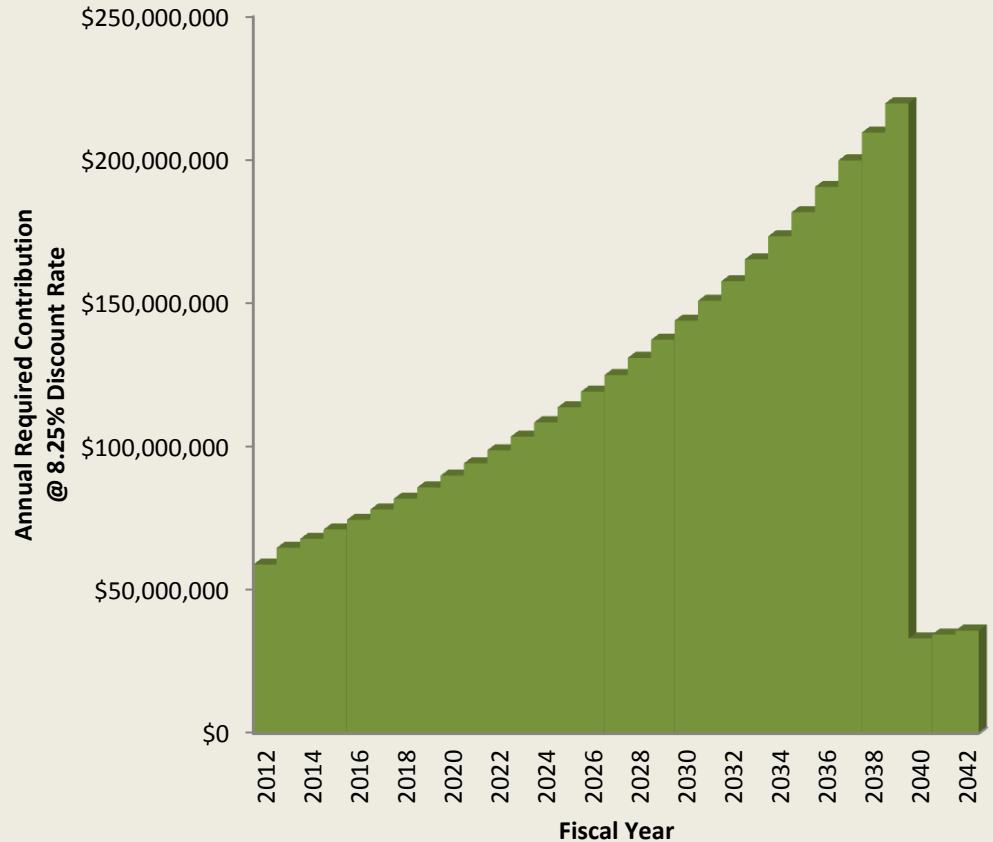
Budget Projections – Fiscal Years 2012 – 2017

	FY 2012 Approved Budget	FY2013 Projected Budget	FY2014 Projected Budget	FY2015 Projected Budget	FY2016 Projected Budget	FY2017 Projected Budget
Projected Revenue - City	\$430,177,546	\$425,807,826	\$422,364,523	\$423,060,441	\$424,069,109	\$425,104,746
Projected Revenue - Schools	\$183,656,396	\$189,836,277	\$196,016,158	\$202,196,039	\$208,375,920	\$214,555,801
Total Revenue	\$613,833,942	\$615,644,103	\$618,380,681	\$625,256,480	\$632,445,029	\$639,660,547
Projected Expenditures - City	\$305,280,935	\$325,727,029	\$337,050,673	\$344,181,898	\$348,838,359	\$351,347,453
Projected Expenditures - School	\$308,553,007	\$321,138,656	\$331,782,382	\$346,470,504	\$351,502,372	\$356,311,234
Total Expenditures	\$613,833,942	\$646,865,685	\$668,833,055	\$690,652,402	\$700,340,731	\$707,658,687
Proj. Budget Surplus/(Deficit)	\$0	(\$31,221,582)	(\$50,452,374)	(\$65,395,922)	(\$67,895,702)	(\$67,998,140)
<i>Source: Administration's Five-Year Budget Projection Report</i>						

Forecast of City's Annual Required Contribution 2012 – 2042

(Assuming an Investment Rate of Return of 8.25%)

Assuming an Investment Rate of Return of 8.25%, Providence's Annual Required Contribution (ARC) to the Employees' Retirement System is forecasted to increase from \$55.8 million in fiscal 2012 to \$207.4 million in fiscal 2039.



Funding the ARC over the Next 10 Years

(Assuming an Investment Rate of Return of 8.25%)

Fiscal Year	Gross Tax Levy (4.0% Annual Increases)	Total City Annual Required Contribution (ARC)	Annual Pension Contribution (\$) Increase	Percentage Increase to ARC	Maximum Levy Increase Allowed By Law (4.0%)	Portion of Levy Increase (\$) Required to Fund ARC (92.6% Collection Rate)	Remaining Levy Increase Available to Fund All Other Expenditures (4.0%)	Percentage of Levy Increase Required to Fund ARC
2012	\$324,460,461	\$55,811,734						
2013	\$337,438,879	\$61,571,167	\$5,854,196	10.49%	\$12,978,418	\$6,322,026	\$6,656,393	48.71%
2014	\$350,936,435	\$64,524,833	\$3,100,452	5.04%	\$13,497,555	\$3,348,220	\$10,149,335	24.81%
2015	\$364,973,892	\$67,622,210	\$3,250,871	5.04%	\$14,037,457	\$3,510,660	\$10,526,798	25.01%
2016	\$379,572,848	\$70,870,327	\$3,408,626	5.04%	\$14,598,956	\$3,681,022	\$10,917,934	25.21%
2017	\$394,755,762	\$74,276,558	\$3,574,076	5.04%	\$15,182,914	\$3,859,693	\$11,323,221	25.42%
2018	\$410,545,992	\$77,848,643	\$3,747,600	5.05%	\$15,790,230	\$4,047,084	\$11,743,146	25.63%
2019	\$426,967,832	\$81,594,700	\$3,929,593	5.05%	\$16,421,840	\$4,243,621	\$12,178,219	25.84%
2020	\$444,046,545	\$85,523,247	\$4,120,470	5.05%	\$17,078,713	\$4,449,752	\$12,628,962	26.05%
2021	\$461,808,407	\$89,643,221	\$4,320,668	5.05%	\$17,761,862	\$4,665,948	\$13,095,914	26.27%
2022	\$480,280,743	\$93,963,995	\$4,530,641	5.05%	\$18,472,336	\$4,892,701	\$13,579,635	26.49%

ARC Funding as a Portion of Budget

(Assuming an Investment Rate Return of 8.25%)

- Based upon the Administration's five-year expenditure projections, annual tax increases will be required disproportionately to fund the ARC.

- For example, in FY2014 the ARC is projected to represent 9.65% of the total City budget. Yet, 24.81% of the levy increase of 4.0% is required to fund the increase to the ARC.

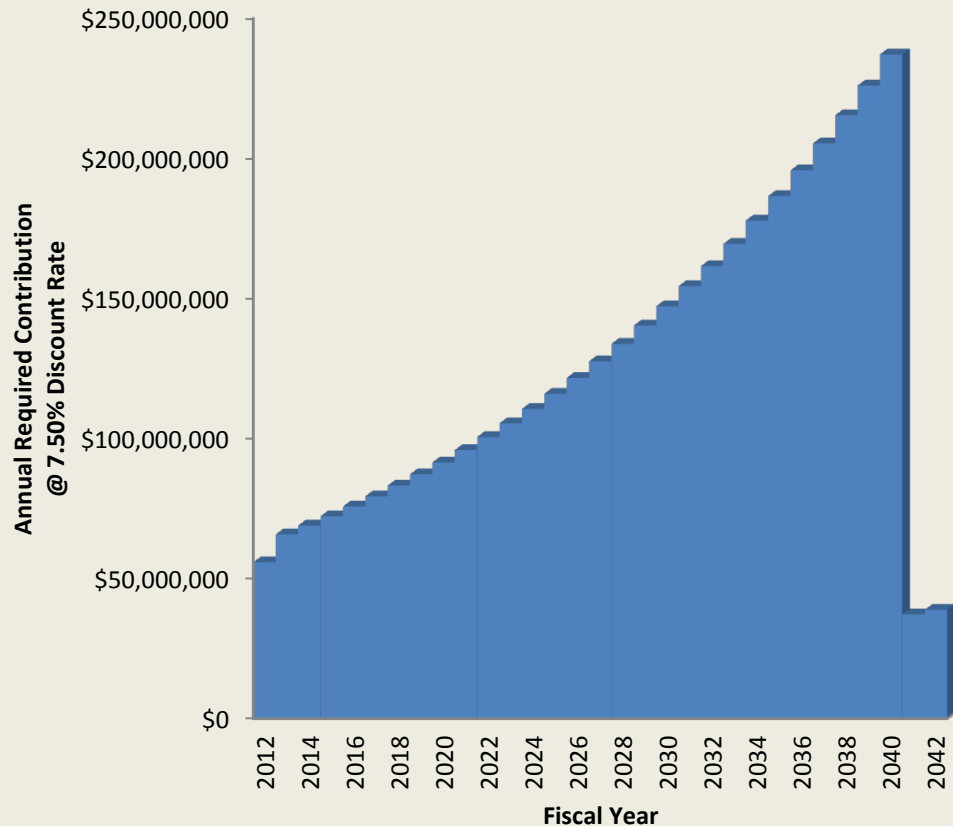
- The large increase in the FY2013 ARC is due predominantly to a lowering of the assumed discount rate from 8.50% to 8.25%.

Fiscal Year	Maximum Levy Increase Allowed By Law (4.0%)	Portion of Levy Increase (\$) Required to Fund ARC (92.6% Collection Rate)	Remaining Levy Increase Available to Fund All Other Expenditures (4.0%)	Percentage of Levy Increase Required to Fund ARC	ARC as a Percentage of City Budget
2013	\$12,978,418	\$6,322,026	\$6,656,393	48.71%	9.52%
2014	\$13,497,555	\$3,348,220	\$10,149,335	24.81%	9.65%
2015	\$14,037,457	\$3,510,660	\$10,526,798	25.01%	9.79%
2016	\$14,598,956	\$3,681,022	\$10,917,934	25.21%	10.12%
2017	\$15,182,914	\$3,859,693	\$11,323,221	25.42%	10.50%

Forecast of City's Annual Required Contribution 2012 – 2042

(Assuming an Investment Rate of Return of 7.50%)

Assuming an Investment Rate of Return of 7.50%, Providence's Annual Required Contribution (ARC) to the Employees' Retirement System is forecasted to increase from \$55.8 million in fiscal 2012 to \$226 million in fiscal 2039.



Funding the ARC over the Next 10 Years

(Assuming an Investment Rate of Return of 7.50%)

Fiscal Year	Gross Tax Levy (4.0% Annual Increases)	Total City Annual Required Contribution (ARC)	Annual Pension Contribution (\$) Increase	Percentage Increase to ARC	Maximum Levy Increase Allowed By Law (4.0%)	Portion of Levy Increase (\$) Required to Fund ARC (92.6% Collection Rate)	Remaining Levy Increase Available to Fund All Other Expenditures (4.0%)	Percentage of Levy Increase Required to Fund ARC
2012	\$324,460,461	\$55,811,734						
2013	\$337,438,879	\$65,741,221	\$10,484,035	18.78%	\$12,978,418	\$11,321,852	\$1,656,566	87.24%
2014	\$350,936,435	\$68,864,322	\$3,298,243	5.02%	\$13,497,555	\$3,561,817	\$9,935,738	26.39%
2015	\$364,973,892	\$72,137,972	\$3,457,146	5.02%	\$14,037,457	\$3,733,419	\$10,304,038	26.60%
2016	\$379,572,848	\$75,569,476	\$3,623,753	5.02%	\$14,598,956	\$3,913,340	\$10,685,616	26.81%
2017	\$394,755,762	\$79,166,497	\$3,798,441	5.03%	\$15,182,914	\$4,101,988	\$11,080,926	27.02%
2018	\$410,545,992	\$82,937,073	\$3,981,603	5.03%	\$15,790,230	\$4,299,787	\$11,490,443	27.23%
2019	\$426,967,832	\$86,889,633	\$4,173,653	5.03%	\$16,421,840	\$4,507,185	\$11,914,655	27.45%
2020	\$444,046,545	\$91,033,018	\$4,375,024	5.04%	\$17,078,713	\$4,724,648	\$12,354,065	27.66%
2021	\$461,808,407	\$95,376,501	\$4,586,171	5.04%	\$17,761,862	\$4,952,668	\$12,809,193	27.88%
2022	\$480,280,743	\$99,929,808	\$4,807,572	5.04%	\$18,472,336	\$5,191,762	\$13,280,574	28.11%

* 7.50% Rate of Return on Investments and 4.0% Annual Tax Levy Increases

ARC Funding as a Portion of Budget

(Assuming an Investment Rate of Return of 7.50%)

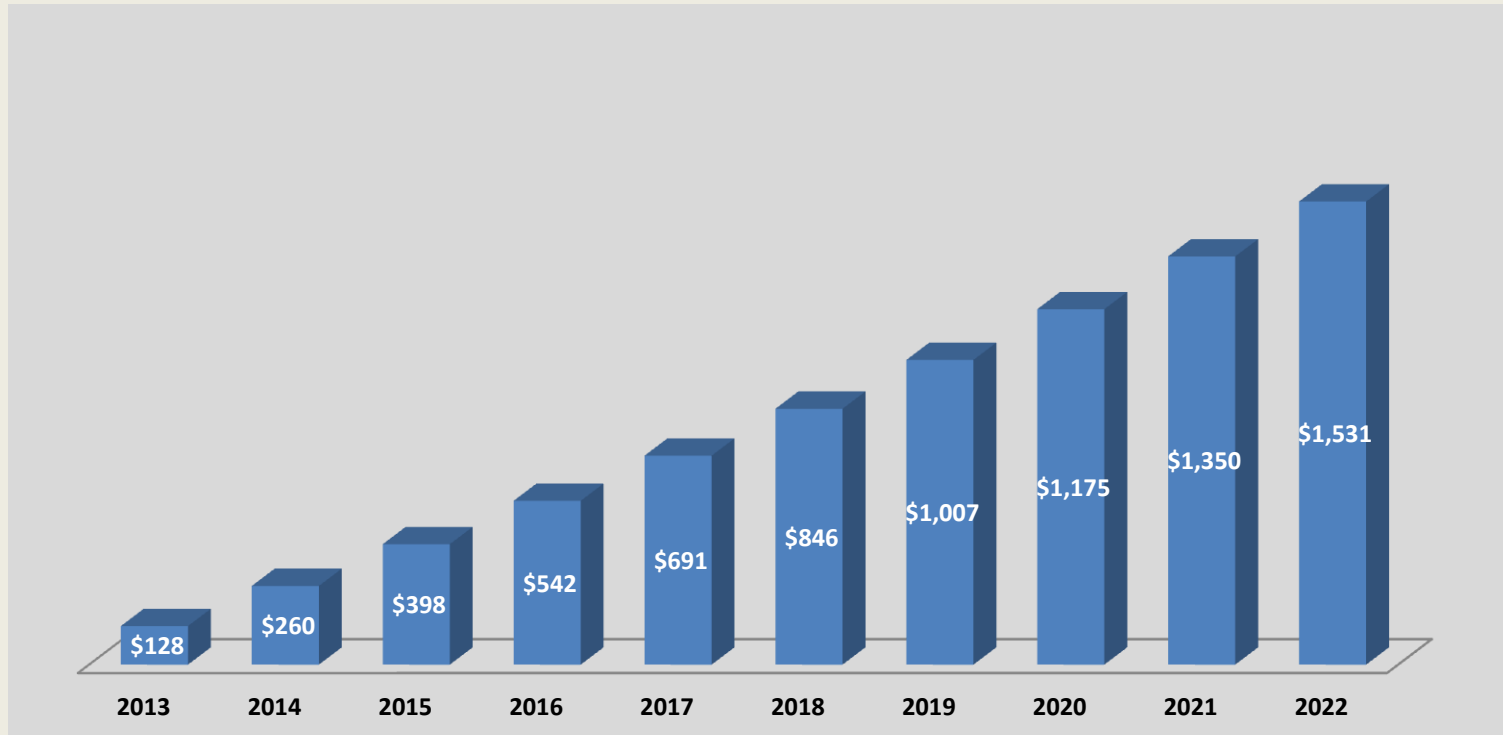
▪ Based upon the Administration’s five-year expenditure projections, annual tax increases will disproportionately be required to fund the ARC.

▪ For example, in FY2014 the ARC is projected to represent 10.2% of the total City budget. Yet, 26.4% of the levy increase of 4.0% is required to fund the increase to the ARC.

▪ The large increase in the FY2013 ARC is due predominantly to a lowering of the assumed discount rate from 8.25% to 7.5%.

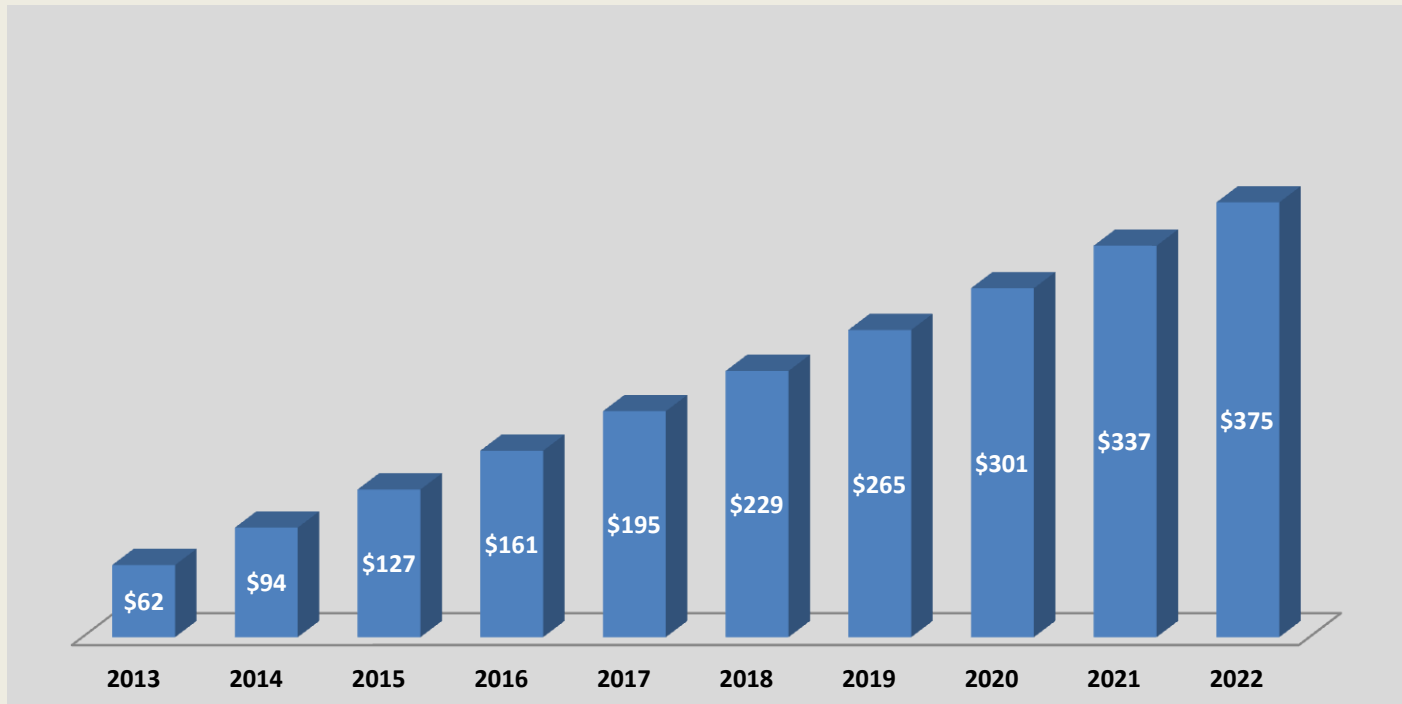
Fiscal Year	Maximum Levy Increase Allowed By Law (4.0%)	Portion of Levy Increase (\$) Required to Fund ARC (92.6% Collection Rate)	Remaining Levy Increase Available to Fund All Other Expenditures (4.0%)	Percentage of Levy Increase Required to Fund ARC	ARC as a Percentage of City Budget
2013	\$ 12,978,418	\$ 11,321,852	\$ 1,656,566	87.2%	10.1%
2014	\$ 13,497,555	\$ 3,561,817	\$ 9,935,738	26.4%	10.2%
2015	\$ 14,037,457	\$ 3,733,419	\$ 10,304,038	26.6%	10.4%
2016	\$ 14,598,956	\$ 3,913,340	\$ 10,685,616	26.8%	10.7%
2017	\$ 15,182,914	\$ 4,101,988	\$ 11,080,926	27.0%	11.1%

Cumulative Impact of Annual Maximum Tax Increases (4.0%) on a \$200,000 Owner-Occupied Property: 2013-2022



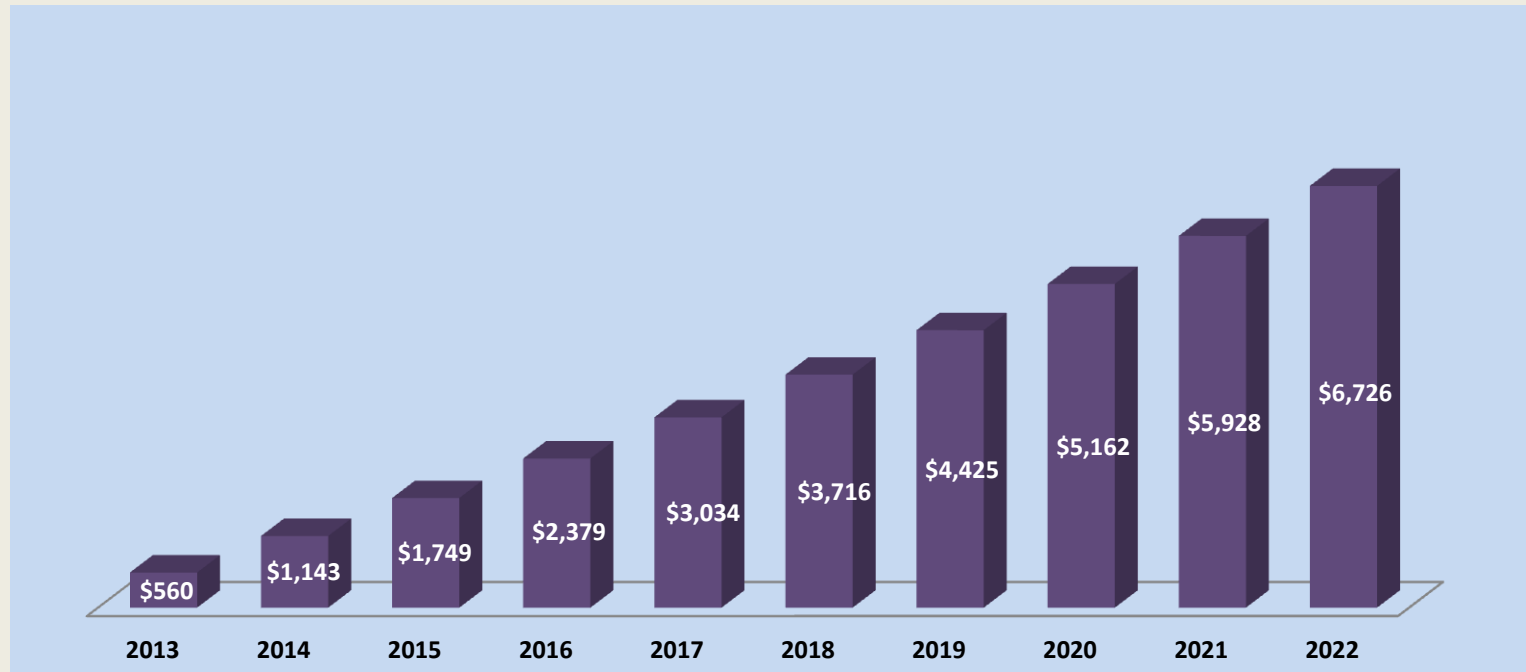
- Currently, a homeowner of a property valued at \$200,000 has an annual real estate tax bill of \$3,188.
- If real estate taxes were raised annually at the maximum allowed by state law (4.0%) over the next ten years, this homeowner would see their annual real estate taxes rise to \$4,719 for FY2022.
- Cumulatively, from fiscal years 2013 through 2022, this homeowner would pay an additional \$7,926 in taxes due to the annual 4.0% maximum tax increases.

Cumulative Impact of Annual Tax Increases Necessary to Fund ARC on Homeowner a \$200,000 Owner Occupied Property: 2013-2022 (Assuming an Investment Rate Return of 8.25%)



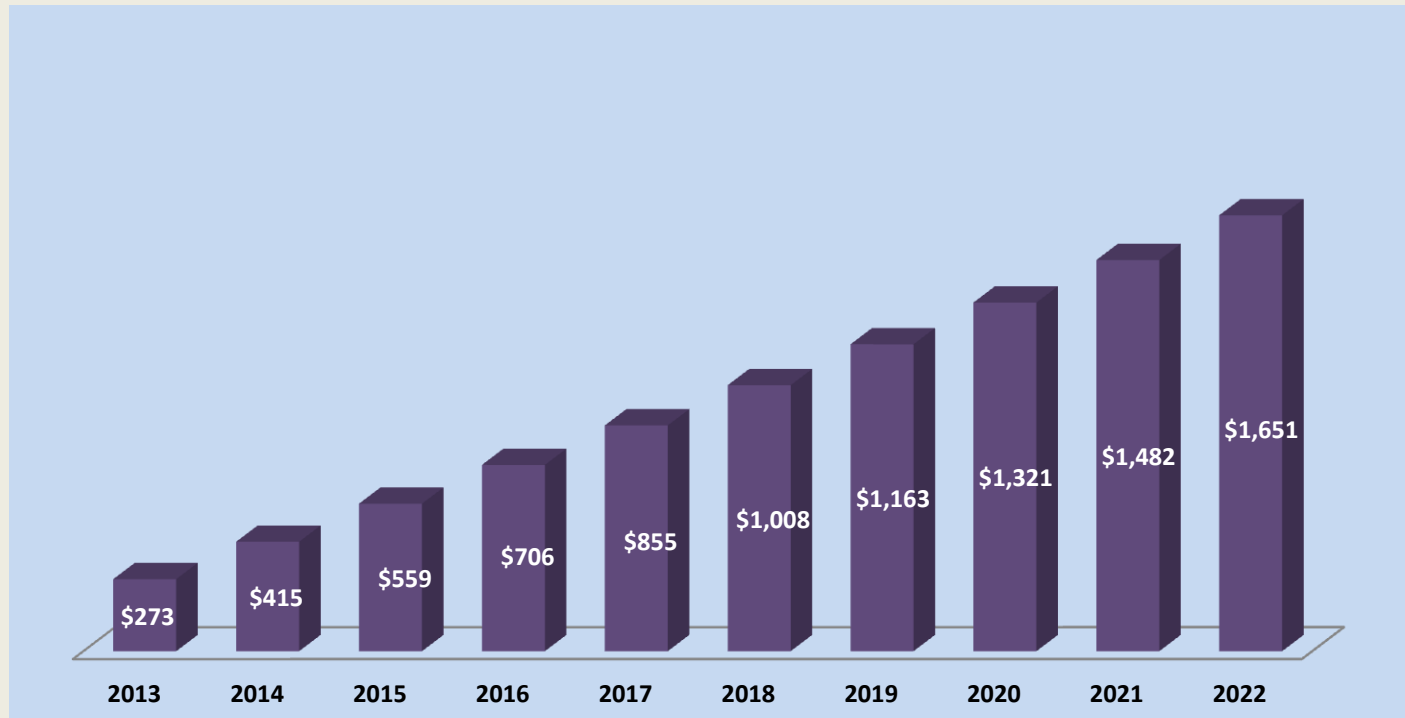
- Currently, a homeowner of a owner-occupied property valued at \$200,000 has an annual real estate tax bill of \$3,188.
- If real estate taxes were raised annually to meet only the increase in the ARC, this homeowner would see their annual real estate tax bill rise to \$3,562 for FY2022.
- Cumulatively, from fiscal years 2013 through 2022, this homeowner would pay an additional \$2,146 in taxes due to the annual tax increases required to fund the ARC.

Cumulative Impact of Annual Maximum Tax Increases (4.0%) on Retail Business “A”: 2013-2022



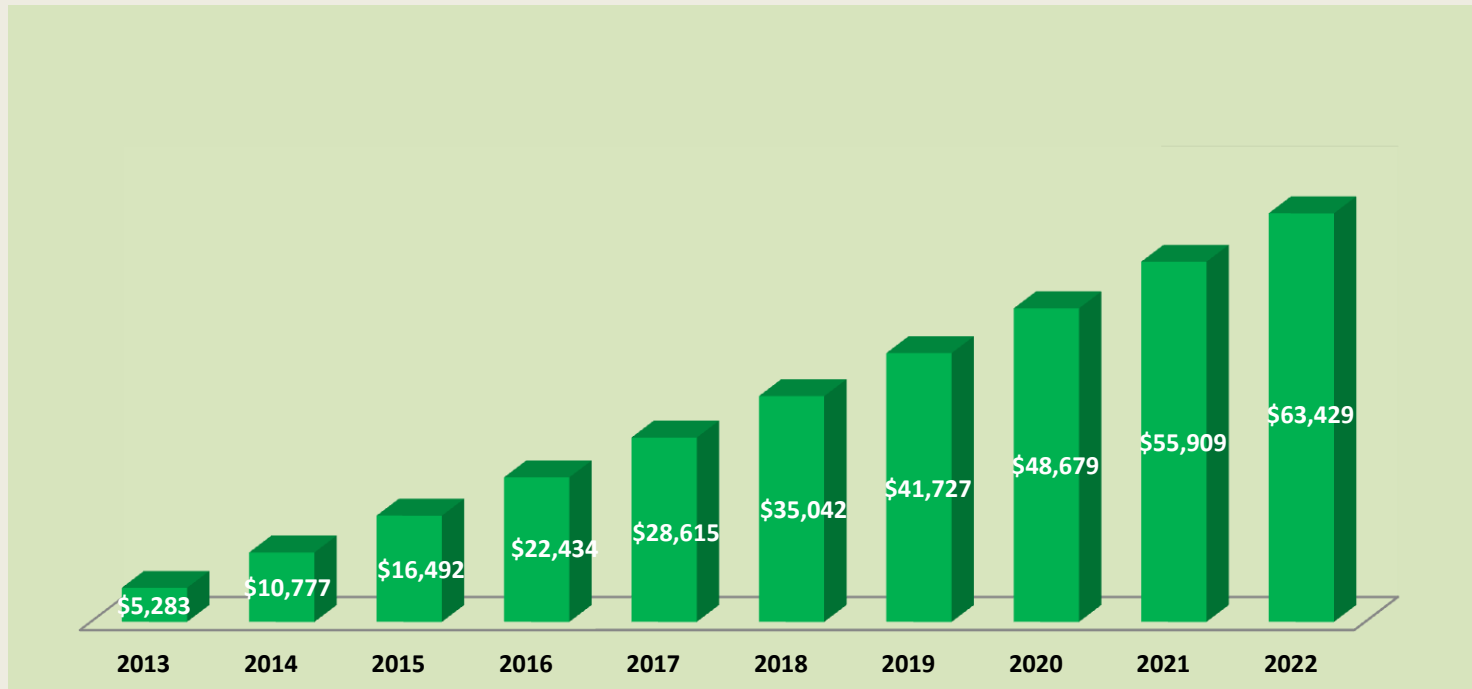
- Currently, Business A – a retail business - has an annual real estate tax bill of \$14,005.
- If real estate taxes were raised annually at the maximum allowed by state law (4.0%) over the next ten years, Business A would see its annual tax obligation rise to \$20,731 for FY2022.
- Cumulatively, from fiscal years 2013 through 2022, Business A would pay an additional \$34,821 in taxes due to the annual maximum tax increases.

Cumulative Impact of Annual Tax Increases at the Rate Required to Fund the ARC on Retail Business “A”: 2013-2022 (Assuming an Investment Rate Return of 8.25%)



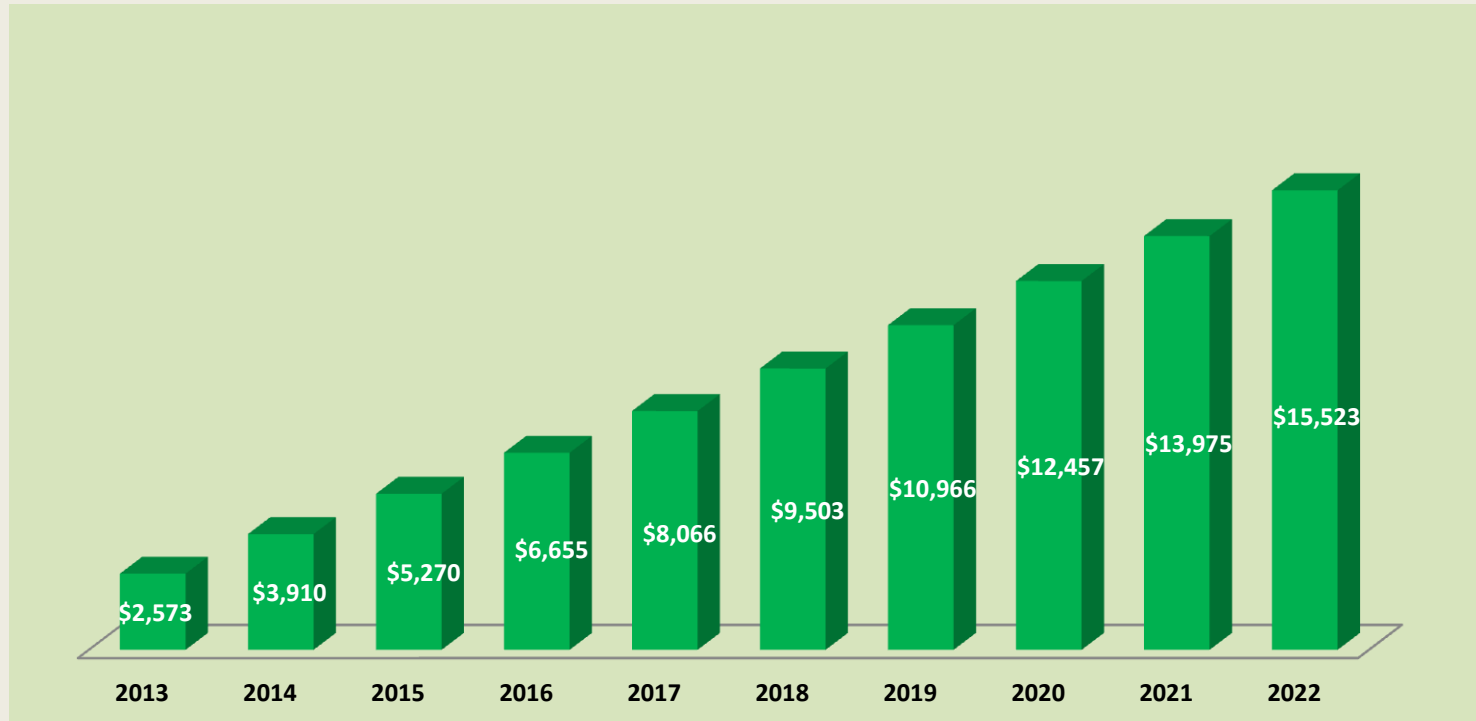
- Currently, Business A has an annual real estate tax bill of \$14,005.
- If real estate taxes were raised annually to fund only the increase of the ARC, Business A would see its annual tax obligation rise to \$15,656 for FY2022.
- Cumulatively, from fiscal years 2013 through 2022, Business A would pay an additional \$9,432 in taxes due to the annual tax increases required to fund the ARC.

Cumulative Financial Impact of Annual Tax Increases (4.0%) Manufacturing Business “B”: 2013-2022



- Currently, Business B has an annual real estate tax bill of \$132,076.
- If real estate taxes were raised annually at the maximum allowed by state law (4.0%) over the next ten years, Business B would see its annual tax obligation rise to \$195,505 for FY2022.
- Cumulatively, from fiscal years 2013 through 2022, Business B would pay an additional \$328,387 in taxes due to the annual 4.0% maximum tax increases.

Cumulative Impact of Annual Tax Increases at the Rate Required to Fund the ARC – Manufacturing Business B: 2013-2022 (Assuming an Investment Rate Return of 8.25%)



- Currently, Business B has an annual real estate tax bill of \$132,076.
- If real estate taxes were raised annually to fund only the increase of the ARC, Business B would see its annual tax obligation rise to \$147,599 for FY2022.
- Cumulatively, from fiscal years 2013 through 2022, Business B would pay an additional \$88,897 in taxes due to the annual tax increases required to fund the ARC.