



DENNIS E. HOYLE, CPA
ACTING AUDITOR GENERAL
dennis.hoyle@oag.ri.gov

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

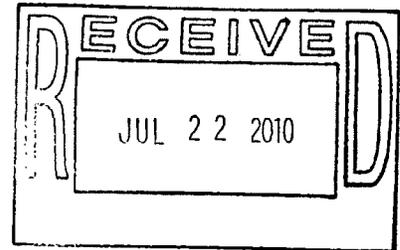
OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

July 21, 2010

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Gordon D. Fox, Chairman
Senator M. Teresa Paiva-Weed
Senator Dennis L. Algieri
Representative Nicholas A. Mattiello
Representative Robert A. Watson



As you well know, many of the State's cities and towns are experiencing severe financial challenges. I want to keep you apprised of the efforts of the Office of the Auditor General, along with the Department of Revenue, to address these challenges, specifically, the accumulated deficits and related cash flow problems in the City of Woonsocket and the Town of North Providence. Both communities have opted to address their accumulated deficits by issuing deficit funding bonds. Such bonds require the approval of both the Auditor General and the Director of the Department of Revenue prior to issuance (as required by General Law section 45-12-22.4).

The request by both communities to issue deficit funding bonds received careful consideration since such borrowings should not be readily embraced nor encouraged. However, considering the severity of the cash flow problems affecting both communities, coupled with bond rating downgrades and projections of further deficits, the more immediate remedy provided by the issuance of deficit funding bonds offered stability as well as funds to pay obligations, many of which were seriously overdue.

Approval of the deficit funding bonds was made contingent upon both Woonsocket and North Providence adopting stringent measures designed to improve their fiscal stability, reduce the likelihood of further deficits, and, in general, improve the financial administration of the respective communities. These conditions were communicated to Woonsocket and North Providence as prerequisites to the approval of the deficit funding bonds. Each community developed a deficit reduction plan centered around the issuance of deficit funding bonds and adoption of the prerequisites. Woonsocket and North Providence undertook a combination of charter amendments and legislative actions to implement various financial policy initiatives. These initiatives, among others, include, creation of a budget reserve account, adoption of five-year budget projections, and incremental progress towards full funding of locally administered pension and retiree health insurance plans, should provide the fiscal discipline that will better equip each municipality to weather future fiscal crises.

JOINT COMMITTEE ON LEGISLATIVE SERVICES

Page 2

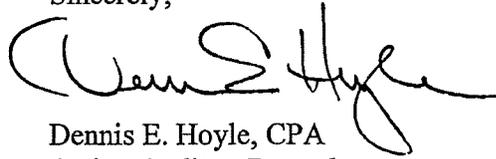
July 21, 2010

Both communities will need to be carefully monitored to ensure that the fiscal measures adopted as prerequisite to approval of the deficit funding bonds are in fact implemented. Such monitoring may need to be structured within the provisions of the recently enacted General Law - *An Act Providing for the Financial Stability of Cities and Towns Regarding the Oversight of Municipalities*.

I must acknowledge the very cooperative and productive relationship the Office of the Auditor General enjoys with the Office of Municipal Finance and Director Gallogly of the Department of Revenue.

Copies of the deficit reduction plans for the City of Woonsocket and North Providence are enclosed for your reference. Please call should you have any questions or require further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis E. Hoyle". The signature is fluid and cursive, with a large initial "D" and "H".

Dennis E. Hoyle, CPA
Acting Auditor General

Enc.

c: Rosemary Booth Gallogly
Honorable Stephen Costantino
Honorable Daniel DaPonte
Sharon Reynolds Ferland
Peter Marino

**CITY OF WOONSOCKET
DEFICIT REDUCTION PLAN**

June 30, 2010

The City of Woonsocket (City) requests approval from the Office of the Auditor General and the State Director of the Department of Revenue pursuant to General Law section 45-12-22.4 for the City to issue up to \$12,000,000 General Obligation Bond Anticipation Notes to be dated on or about July 15, 2010 and General Obligation Deficit Reduction Bonds due July 2011- 2015, and in connection therewith, hereby submits this Deficit Reduction Plan.

This Deficit Reduction Plan includes and references the prerequisites included in a May 11, 2010 letter to Mayor Leo Fontaine from the Rhode Island Director of Administration Rosemary Booth Gallogly and Acting Auditor General Dennis E. Hoyle, CPA.

The City has enacted an ordinance to request General Assembly approval of the issuance of the deficit reduction bonds. General Assembly approval to issue deficit funding bonds up to \$12,000,000 was obtained through the enactment of Public Law 2010-041 on June 12, 2010.

The City's deficit reduction plan includes the issuance of bond anticipation notes up to \$12,000,000 in fiscal year 2011 with issuance of the bonds by March 2011 in an amount equal to the audited cumulative deficits (General and Unrestricted School Funds) through the City's fiscal year ended June 30, 2010. The proceeds of the deficit reduction bonds will be used to eliminate the cumulative deficits in the City's General and Unrestricted School Funds and to fund the payment of accounts payable as certified by the City's independent auditor as of June 30, 2010.

The numbered items below correspond with the prerequisites included in the May 11, 2010 letter to Mayor Leo Fontaine from the Rhode Island Director of Administration Rosemary Booth Gallogly and Acting Auditor General Dennis E. Hoyle, CPA.

3. The City Council has approved an ordinance on June 21, 2010 (with second ratification scheduled for July 6, 2010), which shall obligate the City to meet the following requirements on a continuing basis:
 - a. Adopt balanced budgets to adequately fund operations and provide for the debt service payments on current and anticipated borrowings.
 - b. Establish an escrow account to be held by a trustee into which the City shall deposit a portion of property tax and/or other general revenue (sources) collections on a quarterly basis to provide for debt service on any long-term debt related to deficit financing in an amount equal to one quarter (1/4) of such debt service coming due during the fiscal year.
 - c. Continue to make 100% of the annual required contribution (ARC) to the Employees' Retirement System of Rhode Island for its teacher members and to the Municipal Employees' Retirement System for its municipal, police, and fire employee members.

**CITY OF WOONSOCKET
DEFICIT REDUCTION PLAN**

June 30, 2010

Take actions, including, but not limited to making annual appropriations, as will demonstrate that the unfunded pension liability as of July 1, 2009 in the City's Police and Fire Employee Pension Plan is extinguished by June 30, 2015 in compliance with Public Law 2002, chapter 10 which authorized the City to issue \$90,000,000 in pension obligation bonds to finance the plan's unfunded pension liability.

Obtain an actuarial valuation to measure the expense and liabilities related to other postemployment benefits (OPEB) as of June 30, 2010 which valuation shall be included in the City's audited financial statements for the year ended June 30, 2010 and (b) shall make incremental progress to fund 100% of the annual required contribution to the OPEB plan.

Make no expansion to pension and OPEB benefits while any debt related to the deficit funding is outstanding.

After any debt related to deficit funding has been retired, the City shall appropriate that portion of revenues which are dedicated to the repayment of such debt to fully fund the Town's pension and OPEB plans on an actuarially sound basis.

d. Establish a budget reserve account within the general fund to be funded no later than the first fiscal year following repayment of any debt related to deficit funding. The City shall deposit one percent of each fiscal year's estimated general revenue into this reserve account until a balance equal to 8% of the fiscal year's estimated general revenue within the general fund is achieved. Any extraordinary, non-recurring revenues realized by the City shall also be deposited to fund the budget reserve account. The City Council will also take steps legally required to amend the City's Charter to include this funding policy for the budget reserve account within the general fund such that the proposed Charter amendment will be presented to the voters of the City at the November 2010 general election. Such City Charter amendment shall specify the conditions and criteria for withdrawal from the budget reserve account and the mechanism and timeframe to restore the balance of the budget reserve account once a withdrawal has been made.

4. The City has provided the following:

- a. The City's plan to restore its bond rating to investment grade includes the issuance of the deficit reduction bonds as described herein as well as the adoption of various measures intended to improve the fiscal stability of the City. These include the creation of a budget reserve account (described in section 3d), development of five year budget projections and cash flow projections for the general and school unrestricted funds, resolution of the issues which resulted in a qualified opinion on the City's financial statements for the fiscal year ended June

**CITY OF WOONSOCKET
DEFICIT REDUCTION PLAN**

June 30, 2010

30, 2009, and committing the budgetary amounts used for debt service on the deficit reduction bonds to funding the City's pension and OPEB plans on an actuarially sound basis after the deficit funding bonds have been retired. Additionally, during the one-year period fiscal 2010-2011, the City will exhibit effective balanced budget control and maintain ample cash liquidity without the issuance of short term notes. In addition, all debt service, payroll and other cash requirements must be satisfied in a timely manner.

- c. The City's auditors will review and certify the listing of accounts payable prepared by the City and WED as of June 30, 2010.
 - d. The City and WED reached an agreement on how the proceeds from the deficit funding bonds will be allocated to meet both City and WED obligations (see Exhibit A).
 - e. The City demonstrated that the deficit funding bonds will not adversely impact its aggregate indebtedness (i.e., long-term debt divided by the full assessed value of taxable property).
 - d. The City and WED has demonstrated actions taken to achieve cost savings in the current fiscal 2010 budget, fiscal 2011 and future budgets.
 - e. The City Council has adopted a fiscal 2011 budget which includes interest on the Notes. The City intends to present future budgets which will clearly identify how the debt service payments on the bonds or bond anticipation notes will be met while the Notes and Bonds are outstanding.
5. The City and School adopted plans to implement the following recommendations regarding the budget development process:
- a. Revise budget estimation procedures where necessary to result in realistic expenditure estimates at the time the annual budget is adopted. Adopt revised budgets during the fiscal year, when necessary, to reflect updated estimates and circumstances.
 - b. Prepare revenue and expenditure projections for a five-year period for the general fund and school unrestricted fund annually, as part of the annual budget preparation process.
 - c. Prepare a detail cash flow projection for the general fund and school unrestricted fund for the entire fiscal year, monitor cash flow daily and analyze spending variances weekly.

**CITY OF WOONSOCKET
DEFICIT REDUCTION PLAN**

June 30, 2010

- d. The City, in conjunction with WED, has developed a revised funding allotment plan which will govern how the City's appropriations in support of the schools are made available on a periodic basis to fund obligations as they come due (see Exhibit B).

6. The City plans to achieve an unqualified auditor's opinion on the 2010 financial statements by taking the following action: (a) maintain adequate capital asset records, including infrastructure, and (b) comply with Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City will provide a corrective action plan to address the findings and recommendations resulting from the 2009 financial audit. The City Council shall establish an Audit Committee to monitor the implementation of the audit recommendations. The City shall report the status of the implementation to the Audit Committee on a quarterly basis.(see Exhibit C)

7. A performance audit of the WED has been awarded and will be conducted in accordance with generally accepted government auditing standards. It is anticipated that the report will be issued no later than March 31, 2011.

8. The proceeds from the bond anticipation notes and/or bond issuance will be held in trust and restricted for the payment of outstanding vendor invoices and obligations only. However, the proceeds from the bond issuance will also be used to retire any bond anticipation notes that may have been issued in anticipation of the bonds. The oldest payables, for both the City's general fund and the school unrestricted fund, will have priority for payment. The trust agreement will be specific as to protocols and processes for authorizing withdrawals from the trust. Any amounts owed to the State of Rhode Island, including real estate conveyance taxes collected by the City, and shared municipal court revenues, shall be included in the listing of payables prioritized for payment. The form of Trust is attached as Exhibit D.

**CITY OF WOONSOCKET
DEFICIT REDUCTION PLAN**

June 30, 2010

**CITY OF WOONSOCKET
SCHOOL DEPARTMENT**

By: Robert J. Gerardi, Jr., Ph.D.
Robert Gerardi, Superintendent

By: Stacey R. Bushy
Stacey Bushy, School Finance Director

By: Marc A. Dubois
Marc Dubois, School Committee Chair

CITY OF WOONSOCKET

By: Leo Fontaine
Leo Fontaine, Mayor

By: Tom Bruce III
Tom Bruce, Finance Director

By: John Ward
John Ward, Council President

In accordance with Rhode Island General Laws 45-12-22.4, the State Auditor General and the Director of the State Department of Revenue hereby approve the request of the City of Woonsocket, Rhode Island to issue up to \$12,000,000 General Obligation Deficit Bonds due March 2012-2016, and Bond Anticipation Notes in anticipation of the issuance of Bonds to be dated July 14, 2010 and due March 10, 2011 as outlined in the Deficit Reduction Plan dated June 30, 2010 as submitted by the City of Woonsocket.

STATE DEPARTMENT OF REVENUE

By: Rosemary Booth Gallogly
Rosemary Booth Gallogly
Director of Dept. of Administration
and Dept. of Revenue

Date: July 1, 2010

STATE AUDITOR GENERAL

By: Dennis E. Hoyle
Dennis E. Hoyle
Acting Auditor General

Date: July 1, 2010