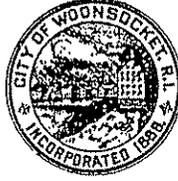


• City of Woonsocket
Rhode Island

10 0 46



June 17, 2010

Ordinance
Chapter
7552

RELATING TO DEFICIT FUNDING
FINANCING AND FISCAL REQUIREMENTS

WHEREAS, the City may issue Deficit Funding Bonds upon the satisfaction of certain conditions precedent and approval of the auditor general and the state department of revenue in accordance with R.I.G.L. § 45-12-22.4;

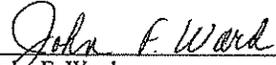
WHEREAS, the auditor general and the state department of revenue have indicated a willingness to approve deficit funding bonds upon passage of the provisions contained in this ordinance;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF WOONSOCKET, RHODE ISLAND, AS FOLLOWS:

- SECTION 1.** The City shall not adopt a budget unless such budget is allowed to adequately fund operations and provide for the debt service payments on current and anticipated borrowing.
- SECTION 2.** The City shall establish a restricted account 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 debt related to deficit financing in an amount equal to one quarter (1/4) of such debt service coming due during the fiscal year.
- SECTION 3.** The City shall 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
- SECTION 4.** The City shall make annual appropriations over a period of not to exceed five (5) years to the City's Police and Fire Employee Pension Plan in compliance with Public Law 2002, chapter 10 which authorized the City to issue \$90,000,00 in pension obligation bonds to finance the plan's unfunded pension liability.
- SECTION 5.** The City shall obtain an annual actuarial valuation to measure the expense and liabilities related to other post employment benefits (OPEB) no later than [June 30, 2010] and use good faith efforts to fund 100% of the annual required contribution to the OPEB plan.
- SECTION 6.** The City shall not expand OPEB benefits while any debt related to the deficit funding is outstanding. After any debt related to deficit funding has been returned, 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.

SECTION 7. The City shall 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.

SECTION 8. This Ordinance shall take effect on the eleventh consecutive day following its passage by the City Council as provided in Chapter III, Section 9, of the Woonsocket Home Rule Charter and all ordinances or parts of ordinances inconsistent herewith are hereby repealed.



John F. Ward

IN CITY COUNCIL June 21, 2010 - Read by title/^{amended} and passed for the first time.

IN CITY COUNCIL July 6, 2010 - Read by title and passed.

Signed and approved by Mayor Leo T. Fontaine - July 7, 2010

FOR AMENDMENT SEE ATTACHED

ORDINANCE RELATING TO DEFICIT FUNDING FINANCING
AND FISCAL REQUIREMENTS

WHEREAS, the City of Woonsocket may issue Deficit Funding Bonds and Notes upon the satisfaction of certain conditions president precedent and approval of the auditor general and the state department of revenue in accordance with R.I.G.L. § 45-12-22.4; and

WHEREAS, the auditor general and the state department of revenue have indicated a willingness to approve deficit funding bonds and notes upon passage of the provisions contained in this ordinance, as well as satisfaction of other pre-requisites listed in a correspondence dated May 11, 2010, from the Auditor General and the Director of the State Department of Administration/Revenue attached hereto as Exhibit A;

NOW THEREFORE IT IS ORDAINED BY THE CITY COUNCIL OF THE CITY OF WOONSOCKET AS FOLLOWS:

Section 1. The City shall not adopt a budget unless such budget is allowed to adequately fund operations and provide for the debt service payments on current and anticipated borrowing.

Section 2. The City shall establish a ~~restricted~~ 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 debt related to deficit financing in an amount equal to one quarter (1/4) of such debt service coming due during the fiscal year.

Section 3. The City shall 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.

Section 4. The City shall ~~make~~ take actions, including, but not limited to making annual appropriations ~~over a period of not to exceed five (5) years to,~~ 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 \$90,000,0090,000,000 in pension obligation bonds to finance the plan's unfunded pension liability.

Section 5. The City (a) shall obtain an ~~annual~~ actuarial valuation to measure the expense and liabilities related to other post employment benefits (OPEB) ~~no later than [June 30, 2010]~~ and ~~use good faith efforts~~ 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.

Section 6. The City shall not expand pension and OPEB benefits while any debt related to the deficit funding is outstanding. After any debt related to deficit funding has been returned, 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.

City's

Section 7. The As set forth in paragraph 3d of Exhibit A, the City shall 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.

ORDINANCE RELATING TO DEFICIT FUNDING FINANCING
AND FISCAL REQUIREMENTS

WHEREAS, the City of Woonsocket may issue Deficit Funding Bonds and Notes upon the satisfaction of certain conditions precedent and approval of the auditor general and the state department of revenue in accordance with R.I.G.L. § 45-12-22.4; and

WHEREAS, the auditor general and the state department of revenue have indicated a willingness to approve deficit funding bonds and notes upon passage of the provisions contained in this ordinance, as well as satisfaction of other pre-requisites listed in a correspondence dated May 11, 2010, from the Auditor General and the Director of the State Department of Administration/Revenue attached hereto as Exhibit A;

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Section 2. The City shall 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 debt related to deficit financing in an amount equal to one quarter (1/4) of such debt service coming due during the fiscal year.

Section 3. The City shall 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.

Section 4. The City shall 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.

Section 5. The City (a) shall obtain an actuarial valuation to measure the expense and liabilities related to other post employment 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.

Section 6. The City shall not expand pension and OPEB benefits while any debt related to the deficit funding is outstanding. After any debt related to deficit funding has been returned, 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.

Section 7. As set forth in paragraph 3d of Exhibit A, the City shall 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.



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

May 11, 2010

The Honorable Leo T. Fontaine
Mayor, City of Woonsocket
169 Main Street
Woonsocket, RI 02895

Re: City of Woonsocket Fiscal Issues – Request for Information

Dear Mayor Fontaine:

We would like to thank you for meeting with us on May 4, 2010; we thought the meeting was productive.

Based upon the recent downgrade of the City of Woonsocket's ("City") bond rating to Ba1 by Moody's Investor Service, we are considering various options available to us to help the City address its financial issues, including the establishment of a Budget Review Commission pursuant to applicable Rhode Island law.

To better understand the City's current financial position, we are requesting the following information:

1. What is the projected deficit for the current year and the accumulated prior year deficit? Explain the causes of the deficit compared to the adopted budget.
2. If a deficit funding bond were to be issued by the City, how would the City repay it? Please provide a five-year projection. Feel free to show multiple scenarios, with applicable assumptions outlined.
3. Did the City experience a deficit in any of the last five years? If yes, for each year specify what amount of the deficit in each year was attributable to the municipal side and the school district?
4. What was the City's general fund balance for each of the last five years?
5. What was the City's levy growth over the last five years? For each year, please state separately the growth for the residential and commercial levy.
6. What expenditure reduction initiatives has the City undertaken and achieved over the last five years?
7. What are the City's current health care provisions (e.g., co-share, co-pays, Plan 65, waivers...) for active municipal, fire and police employees, as well as retirees? Explain your plan of action for Other Postemployment Benefit (OPEB) analysis and funding.

The Honorable Leo T. Fontaine
May 11, 2010
Page 2

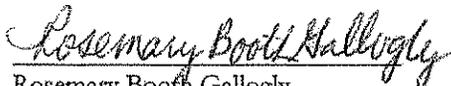
8. If there have been any recent changes in the City's contracts with municipal employees, explain those changes and the estimated financial impact of each change? For example, are there pay raises in the present contracts? If applicable, what givebacks, pay decreases, furlough days, increased co-shares... etc. have been implemented over the last five years?
9. When do each of these contracts discussed above expire?
10. What are the pension provisions for municipal, fire and police employees?
11. Did the City make its annually required contributions to its pension plans over the last five years? If not, please indicate the required contribution for each year and the amount contributed by the City in each year.
12. Please explain the pension obligation bond performance and the amount required to be appropriated under the applicable laws to the pension fund.
13. Please provide a detailed schedule of general obligation bond debt service by payment date through June 30, 2011.
14. What types of plans/options have been considered by the City concerning its water/wastewater treatment plants? Please explain any potential impact of those plans/options on user fees.

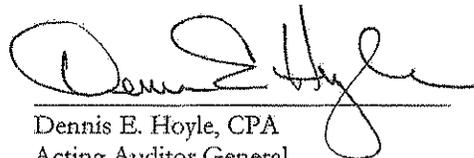
Please provide us with any additional information that might be helpful to us. We would appreciate if you could provide us with this information by May 24, 2010.

Attached is a draft of the "Pre-Requisites for a Deficit Bond Issuance" that has been developed.

If you have any questions please do not hesitate to call us or Susanne Greschner, the Chief of Municipal Finance, and Rina DiBenedetto, CPA, Senior Audit Manager, Office of the Auditor General.

Sincerely,


Rosemary Booth Gallogly
Director
Department of Administration


Dennis E. Hoyle, CPA
Acting Auditor General
Office of the Auditor General

RBG/sg/ceo

cc: Thomas Bruce, Finance Director
Susanne Greschner, Division of Municipal Finance
Rina DiBenedetto, Office of the Auditor General

CITY OF WOONSOCKET
PRE-REQUISITES FOR A DEFICIT BOND ISSUANCE

1. The City shall seek the necessary legislative authorization to issue deficit funding bonds to fund the City's accumulated deficit in the general fund and school unrestricted fund.
2. The City Council must adopt an ordinance to provide legal authorization for issuing deficit funding bonds, including any bond anticipation notes (if applicable).
3. The ordinance(s) shall also obligate the City to meet the following requirements on a continuing basis:
 - a. The City must adopt balanced budgets to adequately fund operations and provide for the debt service payments as a result of the anticipated borrowing.
 - b. The City must earmark a portion of property tax and/or other general revenue (sources) collections into a restricted escrow account on a quarterly basis to provide for debt service on the deficit funding bonds.
 - c. The City must:
 - 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.
 - Make annual appropriations to the City's Police and Fire Employee Pension Plan 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. When an annual report discloses that the assets of the plan are not sufficient to fund the City's obligations to the pension plan and the pension bonds are still outstanding, the enabling legislation requires the City to make annual appropriations to the plan, over a period not to exceed five years, in order to amortize the unfunded pension liability.
 - Obtain an actuarial valuation to measure the expense and liabilities related to other postemployment benefits (OPEB) no later than June 30, 2010 and make incremental progress towards funding 100% of the annual required contribution to the OPEB plan.
 - Make no expansion to pension and OPEB benefits while the deficit funding bonds are outstanding.
 - Earmark that portion of revenues which are dedicated to the repayment of these bonds to first fully fund the Town's pension and OPEB plans on an actuarially sound basis after the deficit funding bonds have been retired.
 - d. The City must establish a budget reserve account within the general fund to be funded no later than the first fiscal year following repayment of the bonds. One-percent of each

CITY OF WOONSOCKET
PRE-REQUISITES FOR A DEFICIT BOND ISSUANCE

year's estimated general revenue should be directed 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 should be earmarked to fund the budget reserve account. The City's Charter should also be amended to include this funding policy for the budget reserve account within the general fund. The City Charter shall also 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. Prior to issuing deficit funding bonds, the following items must be provided:
 - a. Outline plans to restore bond rating to investment grade or above.
 - b. The City must provide justification for the amount of deficit funding bonds requested to be issued supported by the City's most recent audited financial statements. Both the City and the Woonsocket Education Department (WED) must provide current cash flow projections, listing of accounts payable, and a current fiscal 2010 budget projection (as of the date submitted).
 - c. One comprehensive listing of accounts payable should be provided which includes both the general fund and the school unrestricted fund; however, the obligations of each fund should be clearly segregated. The City's auditors must review and certify the listing of accounts payable prepared by the City as being accurate and complete.
 - d. The City and WED must reach an agreement on how the proceeds from the deficit funding bonds will be allocated to meet both City and WED obligations.
 - e. The City must demonstrate 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).
 - f. The City and WED must demonstrate actions taken to achieve cost savings in the current fiscal 2010 budget, fiscal 2011 and future budgets.
 - g. The City Council must adopt a fiscal 2011 budget which clearly identifies how the debt service payments on the bonds or bond anticipation notes will be met.
5. The City must adopt and promptly implement the following recommendations regarding the budget development process:
 - a. Identify the reasons for budget variances highlighted in the fiscal 2009 budget to actual comparison schedule included in the City's fiscal 2009 financial statements. 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.

CITY OF WOONSOCKET
PRE-REQUISITES FOR A DEFICIT BOND ISSUANCE

- b. Prepare revenue and expenditure projections for a five-year period for the general fund and school unrestricted fund. The plan should detail revenues by source and expenditures by category for each of the five years with an appropriate inflation factor(s) applied to expenditure projections. The amount of state aid to municipalities (separately identified by each source) shall be identified within each year. Debt service and capital expenditures should be separately identified. The dollar amounts and the percentage increase should be shown between each fiscal year. Annually, the five-year projections should be updated 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. Identify any planned short-term borrowing for cash flow purposes.
 - d. Develop, in conjunction with WED, 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.
6. The City must provide a corrective action plan to achieve an unqualified auditor's opinion on the 2010 financial statements. The plan must address the action to be taken to (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 must also 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.
7. The Chief Executive Officer of the City shall cause to have a performance audit of the WED conducted in accordance with generally accepted government auditing standards by a qualified certified public accounting firm to be completed no later than March 31, 2011.
8. The proceeds from the bond anticipation notes and/or bond issuance must be held in trust and must be restricted for the payment of outstanding vendor invoices and obligations only. However, the proceeds from the bond issuance must 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 should 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.