

# Providence Pension Reform and Pension Obligation Bond Working Group

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MAYOR JORGE O. ELORZA  
CITY OF PROVIDENCE

Budget Overview and City Liability Projections  
Meeting #2

August 17, 2021

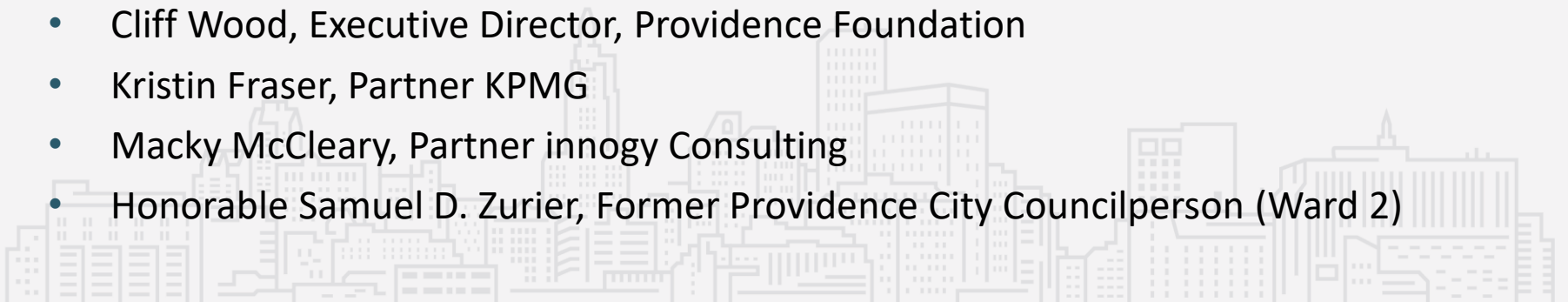


# Introduction of Mayor Jorge O. Elorza and City Council President John J. Igliazzi

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- Welcome and Introduction of Working Group Members:
- Rico Vota, Deputy Director of Legislative and Intergovernmental Affairs, Governor's Designee
- Stephen Whitney, Senate Fiscal Advisor-Senate President's Designee
- Rep. Camille Vella-Wilkinson (District 21) Speaker of the House Designee
- Councilwoman Helen Anthony, Providence City Councilor, Ward -2 -City Council President's Designee
- Pedro Espinal, Providence City Council President-Pro-Tem -City Council President's Designee
- Laurie White, President and CEO Greater Providence Chamber of Commerce
- Michael DiBiase, President and CEO Rhode Island Public Expenditure Council
- Cliff Wood, Executive Director, Providence Foundation
- Kristin Fraser, Partner KPMG
- Macky McCleary, Partner innogy Consulting
- Honorable Samuel D. Zurier, Former Providence City Councilperson (Ward 2)



# Presenters and Panelists in the Series

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- Seth Williams, Director Management and Budget Consulting  
PFM Group Consulting LLC
- Maureen Gurghigian, Managing Partner, Hilltop Securities, Inc
- Adam S. Krea, Managing Partner, Hilltop Securities, Inc
- Brian Whitworth, CFA Senior Vice-President, Hilltop Securities, Inc.
- Kathleen A. Riley, FSA,MAAA, EA, Senior Vice President and Actuary, Segal Company
- Eric Bertonazzi, Chairman, Chief Executive Officer and Chief Investment Officer,  
Wainwright Investment Counsel, LLC
- William M. Dolan, Attorney Shareholder  
Adler, Pollock and Sheehan P.C.
- Karen S.D. Grande,  
Partner Locke Lord LLP



# City of Providence Administration and City Council Staff Providing Support to the Group

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- Nicole M. Pollock, Chief of Staff, Mayor's Office
- Jeff Dana, City Solicitor
- Lawrence J. Mancini, Chief Financial Officer
- James J. Lombardi, III, Chief of Staff to City Council and City Treasurer
- Gina M. Costa, Internal Auditor
- Theresa M. Agonia, Chief of External Affairs, Mayor's Office
- Matthew Shumate, Deputy Chief of Staff, Mayor's Office
- Sara Silveria, Finance Director
- Krystle Lindberg, Deputy Finance Director and Budget Officer
- Emmanuel Echevarria, Chief Human Resources Officer
- Kenneth Chiavarini, Senior Deputy City Solicitor





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# Budget Overview

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## Presenters and Commentators:

- Sara Silveria, Finance Director, City of Providence
- Krystle Lindberg, Deputy Finance Director, City of Providence



# City of Providence Revenue Overview

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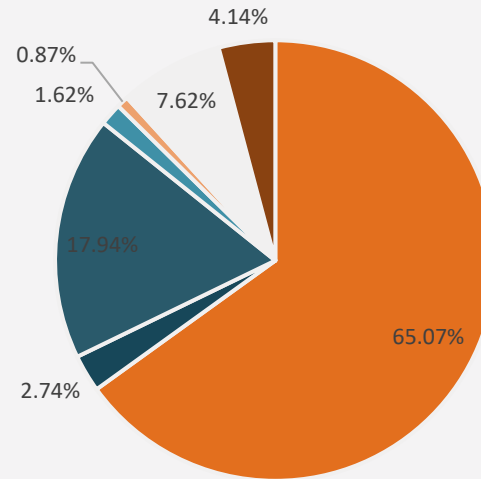
City's budget grows an average of 2% per year, approximately \$10M

Revenues are derived from the following sources

- Taxes
- State Aid
- Fines
- Departmental Fees (licenses, inspections, permits, parking meters, details, etc.)
- Local PILOTS
- Other Miscellaneous Receipts



# FY 22 Budgeted Revenues



- TAXES
- TAX STABILIZATIONS
- STATE REVENUE
- LOCAL PILOT
- INTEREST INCOME
- DEPARTMENTAL REVENUE
- OTHER INCOME



# Revenue Growth Constraints

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- Many departmental fees are set by State Statute
- Excise Tax Phase Out has capped the amount of excise tax revenue available to municipalities.  
Providence can expect to budget \$32M
- Property and Tangible Tax Levy growth are capped at 4%, but would put undue burden on our residents





# Residential Impact of Consistent Tax Increases to 4% Cap

Tax Year	Levy*	4% Cap Increase	Average Increase for Homeowner
Current Levy 2021	\$ 356,708,135	-	-
Year 1 at 4% Cap	\$ 370,976,460	\$ 14,268,325	\$ 777.48
Year 2 at 4% Cap	\$ 385,815,519	\$ 14,839,058	\$ 808.58
Year 3 at 4% Cap	\$ 401,248,140	\$ 15,432,621	\$ 840.92
Year 4 at 4% Cap	\$ 417,298,065	\$ 16,049,926	\$ 874.56
Year 5 at 4% Cap	\$ 433,989,988	\$ 16,691,923	\$ 909.54
<i>Average over 5 years</i>			\$ 842.22
<i>Total</i>		\$ 77,281,853	\$ 4,211.09



# PILOT Payments from The State and Local Sources

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- The State reimburses the City for 27% of the assessed values of property owned by hospitals, colleges and universities
- Total assessed values of these properties are \$3.6B.
- At the present commercial tax rate of \$36.70 per \$1,000 of assessed value, this would equate to \$131M in tax revenue



# PILOT Payments from The State and Local Sources

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- At the 27% reimbursement rate, the City receives a State PILOT payment of \$35.3M, a difference of \$95.7M from assessed taxes
- City also has local PILOT agreements with these institutions which bring in an estimated \$7M annually
- The local agreements are set to expire June 30, 2022 and 2023



# PILOT Payments from The State and Local Sources

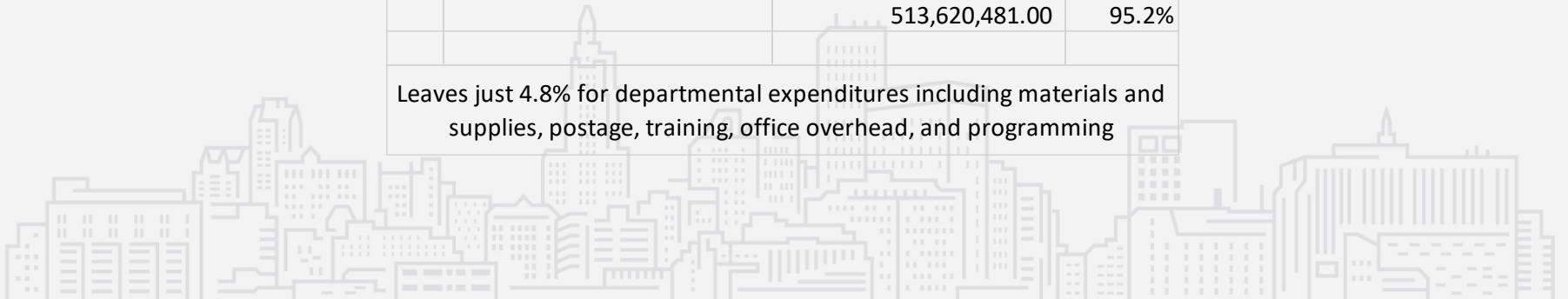
<b>Tax Revenue of State PILOT Eligible Properties if fully taxed by the City</b>	<b>Amount Received under the State PILOT Program</b>	<b>Amount Received Under Current Local Agreements Between the City and Anchor Institutions</b>	<b>Shortfall</b>
\$131M	\$35.3 M	\$7M	<b>\$89M</b>



# Expenditure Drivers

FY22 Budget		539,566,355.00	
Expenditures			
Salary		137,482,517.00	25.5%
School Appropriation		130,046,611.00	24.1%
ADC		77,758,071.00	14.4%
Debt Service		68,377,076.00	12.7%
OPEB		27,212,182.00	5.0%
Active Medical		20,531,226.00	3.8%
Other Benefits		15,425,324.00	2.9%
Garbage & Recycling		10,947,750.00	2.0%
Repairs, Main & Service		6,700,000.00	1.2%
Grants		6,354,750.00	1.2%
Utilities		7,110,247.00	1.3%
Contractual		5,674,727.00	1.1%
Snow Operations		1,073,090.00	0.2%
		513,620,481.00	95.2%

Leaves just 4.8% for departmental expenditures including materials and supplies, postage, training, office overhead, and programming



# Expenditure Trends

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- Annual Pension increase is approximately 5% per year, GF impact of \$4M
- Active and Retiree Medical Budget is projected to increase 2% per year, GF impact of \$1M
- Other items that increase the City's budget include wages, service contracts, software and licensing expenditures, bond and lease payments



# Pension Expenditure Growth

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- The current funding schedule demonstrates an average increase of 5% vs. revenue growth of approximately 2%
- By 2026 the City's Pension expenditure will grow to absorb 16.5% of all budgeted revenues or \$94.9M
  - FY22 Pension expenditure of \$77.8M represented 14.4% of all revenues





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# Pension Reform Overview

## Legal Constraints

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### Presenters and Commentators:

- Jeffrey Dana, City Solicitor, City of Providence
- William M. Dolan Esq., Adler Pollock and Sheehan





# Discussion of Pension Normal Cost and CBA Negotiation Reforms



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## Presenters and Commentators:

- Jeffrey Dana, City Solicitor, City of Providence
- Lawrence J. Mancini, Chief Financial Officer, City of Providence



# Example: FOP Fiscal Impact Statement

## 7/1/19 – 6/30/23

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### *Pension reform long-term impact:*

- **The net savings resulting from a reduction in the *Retirement System's Actuarially Determined Contributions (ADC) for Fiscal Years 2024 through 2040 are approximately \$31,720,000.***
- ***The present value of these savings as of July 1, 2023, discounted at the assumed investment return (7 percent) in the most recent actuarial valuation, is \$17,490,000.***
- The FOP pension ADC savings are primarily attributable to the increase in the employee contribution rate from 8% to 13.5% by July 1, 2022. The increase in the employee contribution rate reduces the employer normal payment.
- ***The net impact of the higher employee contributions and the negotiated wage increases are a reduction in the employer normal cost payment of approximately 26%*** (when the employee contribution rate increases are fully reflected). ***Stated another way, employer normal cost, as a percentage of payroll, decreases from approximately 17% of payroll to 12.5% of payroll.***

# Q & A

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City of Providence



# THANK YOU

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City of Providence

