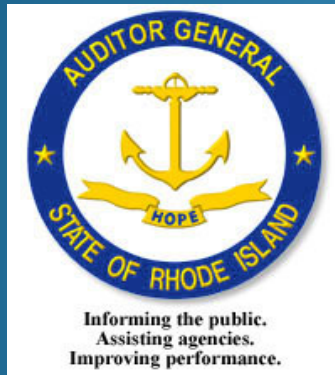


Rhode Island

Monitoring and Responding to Fiscal Distress Indicators

National Intergovernmental Audit Forum



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Office of the Auditor General - State of Rhode Island

Municipal oversight in RI -

- **Shared effort and responsibility**

- Division of Municipal Finance – Department of Revenue (Executive Branch)
- Office of the Auditor General – (Legislative Branch)
 - work very cooperatively – whenever possible “team” approach

- **Statutory powers have been strengthened**

- Fiscal Stability Act enacted due to City of Central Falls bankruptcy
- G.O. bond – granted a statutory lien in bankruptcy proceedings
 - Addressed the feared “contagion effect” on State and other municipal debt
- Recently extended to fire districts

Fiscal Stability Act

- Provides for 3 levels of increasing State involvement:
 - Fiscal overseer
 - Budget Commission
 - Receiver
 - communities can request, law outlines “triggers”, Director of Revenue invokes with concurrence of Auditor General
- Provisions of the Act have been used successfully -
 - City of Central Falls went through and emerged from receivership/bankruptcy
 - The Cities of Woonsocket and East Providence had budget commissions formed and now have been returned to local control
 - All 3 communities, as provided in the Act, have a continuing fiscal advisor/overseer in place to ensure compliance with the 5 year budget plan and monitor fiscal stability

Observations on the effectiveness of the Fiscal Stability Act

- Effective in restoring fiscal stability – emerge with a balanced budget plan for the next five years with ongoing oversight
- Difficult decisions and actions – Central Falls pensioners saw a significant reduction in their pension benefits – statutory lien provision for G.O. bonds diminished standing of pensioners – some took as much as a 55% reduction in their pension benefit
- Receivership/bankruptcy process is costly – an additional challenge for an already struggling community – costs for fiscal overseer and budget commissions are also borne by community
- Budget commissions require qualified appointees that serve without compensation – process can be tedious, frustrating, often draw the ire of taxpayers
- Wasn't successful for a recent fire district – lack of taxpayer support, high costs, and legal uncertainty regarding a planned tax increase caused the State to withdraw and return the district to local control
- Rating agencies have an expectation of State monitoring and intervention – provisions of the Fiscal Stability Act are viewed as credit positive

Ongoing muni monitoring in RI -

- Approval of requests to exceed property tax cap
- Quarterly budget to actual comparison reports to State
- Are they contributing 100% of ARC for pensions?
- Have they adopted a funding improvement plan for local pension plans deemed in critical status (less than 60% funded)?
- Plan to Auditor General to eliminate cumulative deficits in equal or diminishing installments over 5 years or less
- Submission of a five-year budget projection (including a scenario for 100% ARC funding for pensions and OPEB)
- Fiscal impact statement required for changes to healthcare, pensions and OPEB

Do monitoring procedures provide early warning of fiscal stress?

- Quarterly reporting is imperfect but can provide early warning – forces a certain discipline – ensures local decision makers have the information
- Requests to exceed property tax cap force an early look at a likely budget imbalance
- Failure to contribute 100% of the ARC is a strong indicator of fiscal stress or inability to adhere to their plan to improve the funded status of the pension plan.
- Inability to adhere to deficit reduction plan and the incurrence of new deficits are high indicators of increasing fiscal stress
- Analysis of how much of the property tax levy or annual budget goes towards required pension and OPEB contributions demonstrates impact of legacy costs relative to other communities

Pension contributions and funded status as fiscal stress indicators

- We have issued 3 reports on the status of locally administered pension plans – now preparing a 4th
- Concern over the poorly funded status of locally–administered pension plans resulted in a State Study Commission – required submission of funding improvement plans for plans less than 60% funded – recommendations made for a permanent oversight body
- Funding improvement plans – increasing ARC to 100% within 5 years – achieve 60 % funded status within 20 years
 - for some communities adoption of the FIP – forced benefit changes, COLA reductions, renegotiated CBA's
- Excerpt on next page from our report on the status of local pensions -

Locally-administered Pension Plans Considered at Risk as of June 30, 2014

Municipality	Pension Plan	Date of Valuation	Unfunded Actuarial Accrued Liability	GASB 27 Funded Ratio	% ARC Contributed	Deemed Critical Status -per RI GL 45-65-4(3)	GASB 67 Funded Ratio
Category 1 - Plan is significantly underfunded (<60%) and annual contributions are less annual required amounts.							
Johnston	Police (prior to 7/1/10) (c)	7/1/2014	\$ 59,103,806	22.48%	41.9%	√	15.80%
Johnston	Fire (prior to 7/1/99) (c)	7/1/2014	\$ 58,180,013	29.36%	41.7%	√	20.82%
Portsmouth	Employees of the Town of Portsmouth	7/1/2014	\$ 35,399,130	54.81%	75.9%	√	59.78%
Warwick	Police Pension I & Fire Pension Plan	7/1/2014	\$ 210,830,722	23.94%	71.8%	√	25.84%
West Warwick	Town Plan	7/1/2014	\$ 117,114,194	18.87%	50.6%	√	19.38%
Category 2 - Plan is significantly underfunded (<60%) but current contributions are near, equal to or exceed 100% of annual required amounts.							
Bristol	Police Pension Plan (prior to 3/22/98)	7/1/2014	\$ 13,847,733	49.98%	100.0%	√	52.99%
Central Falls	City of Central Falls Pension Plan	7/1/2014	\$ 24,966,746	20.07%	117.6%	N/A	20.46%
Coventry	Police Pension Plan	6/30/2014	\$ 62,228,359	12.87%	101.8%	√	12.71%
Coventry	Town's Municipal EE Retirement Plan	6/30/2014	\$ 14,170,167	32.18%	109.0%	√	32.77%
Cranston	Police & Fire EE's Pension Plan (prior to 7/1/95) (a)	7/1/2014	\$ 249,785,880	21.06%	106.5%	√	20.51%
Cumberland	Town of Cumberland's Pension Plan	7/1/2014	\$ 19,415,954	37.46%	104.3%	√	39.34%
Narragansett	Police Plan (prior to 7/1/78 - pay as you go)	6/30/2014	\$ 1,694,385	33.37%	96.7%	√	33.98%
Newport	Firemen's Pension Plan	7/1/2014	\$ 51,211,046	46.39%	100.0%	√	46.39%
Pawtucket	Post 1974 Policemen & Firemen ^(#)	7/1/2014	\$ 141,504,390	40.72%	100.0%	√	40.72%
Providence	ERS of the City of Providence	6/30/2014	\$ 894,336,839	27.44%	100.9%	√	29.08%
Scituate	Police Pension Plan	4/1/2014	\$ 12,256,192	34.94%	118.9%	√	n/a
Smithfield	Police (prior to 7/1/99) ^(#)	7/1/2014	\$ 19,231,932	23.61%	98.3%	√	23.61%

What percentage of the property tax levy goes to employer pension contributions?

Analysis included in our report – pension and OPEB contributions for all plans as a % of the annual tax levy (includes State plans for teachers, state-administered municipal plans, plus OPEB ARC - most are actually pay-as-you-go for OPEB)

- Average for all communities - 25% of the annual tax levy
- Communities well in excess of the average -
 - Town of Johnston 47.1%
 - City of Providence 43.8%
 - City of Pawtucket 41.2%
 - Town of Westerly 42.7%
 - City of Woonsocket 32.7%

A current situation - City of Providence

- Averted a severe fiscal crisis in 2011 through a series of actions – union concessions, pension reform, retiree healthcare changes (Medicare enrollment), payments from non-profit colleges and hospitals
- Incurred a deficit in fiscal 2012 of \$ 11 million – made some progress in reducing deficit in 2013 and 2014 to \$8.5 million
- New unaudited fiscal 2015 operating deficit of \$5 million despite recognition of significant non-recurring items (debt refundings, etc.)
- Pension plan only 29% funded
- Active monitoring by State – monthly status meetings, revised plan to eliminate the deficit requested, provisions of Fiscal Stability Act haven't been invoked

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