City of Woonsocket Budget Commission
City Hall
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Woonsocket, RI 02895
(401) 762-6400

Ms. Rosemary Booth Gallogly, Director
Rhode Island Department of Revenue
1 Capitol Hill
Providence, RI 02903

March 19, 2015

Dear Ms. Gallogly:

The Woonsocket Budget Commission ("Commission") seeks to return financial control of the City to its elected officials and administration. The Commission, with the assistance of State and City staff, has restored fiscal stability to the City such that powers of the Budget Commission are no longer necessary. The Commission previously approved a five year plan which was expected to eliminate the cumulative deficit by FY2017. The attached balanced five (5) year budget forecast for the period FY2016-FY2020, projects that the deficit will be eliminated in FY2015. The forecast reflects:

- Elimination of the FY2012 cumulative deficit of $6.3 million within the five year timeline required under R.I. General Laws 45-9-6(d).
- Tax increases required in FY2016 through FY2020 are projected to be 2.74 % in each year in order to ensure that each year's revenue are sufficient to meet that year's expenditures. This growth is lower than the previously anticipated 4% annual increases. Other levy growth scenarios are also presented to display options.
- Five year collective bargaining agreements with the unions modifying the active health care plan design and cost sharing, staffing levels saving in excess of $3.0 million in some years;
- Modifications to retiree medical benefits and pension cost of living adjustment (for those retirees in the locally administered pension plan) implemented through resolutions and agreements with the majority of the retirees saving in excess of $3.0 million annually;
- Reduction of the pension liability by $ 13.4 million, or 13 percent;
- Reduction in the liability for Other Post-Employment Benefits (OPEB) of $77.7 million, or 35 percent;
- Funding of 100% of pension annual required contribution (ARC) commencing in FY2014 (and OPEB ARCs commencing in FY2017);
- Creation in FY2017 of a Budget Reserve Fund in accordance with 2010 City Ordinance Chapter 7552, and building the fund with deposits of one percent of revenues each year. The fund would continue to grow until it reaches its cap of eight percent of revenue. The Commission's five year plan provides that by FY2020 there is a Budget Reserve Fund balance of $3.4 million.
- Investments in capital and infrastructure for the City and Schools; and
- Expenditure reduction initiatives.

The Commission developed an initial baseline budget projection for fiscal years 2013-2017 revealing a structural deficit of approximately $14-$18 million per year, excluding actuarial funding of Other Post-Employment Benefits (OPEB). The funding of OPEB would add approximately $14 million per year based upon the benefits then in place. Utilizing this baseline, the Commission formulated options to return fiscal stability to the City. The plan adopted and implemented was feasible in light of surrounding circumstances, and most important that was reasonable and necessary to ensure the structural stability of an ongoing governmental entity.

While the Commission was able to achieve savings through reductions in operating costs, it could not reasonably achieve its important purpose by cutting drastically into already diminished, even "bare bones," operations. Thus, it was both reasonable and necessary to look to savings in costs associated with current and former employees to restore fiscal stability. The estimated savings exceeds $6.0 million in the first four years of the plan.

Total Combined Estimated Fiscal Impact of City and Education Department Active and Retiree Collective Bargining Agreements, Memorandum of Agreements, Resolutions, and Reservations for Future Settlements

	1	2	3	4	5	6
	FY2014	FY2015	FY2016	FY2017	FY2018*	FY2019*
Total Active Savings	2,345,547	3,184,184	3,154,076	3,386,495	2,553,946	1,534,449
Total Retiree Savings	3,863,435	3,230,254	3,067,013	3,063,854	3,073,284	3,258,765
Total Active/Retiree Savings	6,208,982	6,414,437	6,221,089	6,450,349	5,627,230	4,793,214

*Savings projected for fiscal years 2018 and 2019 reflects both the continuation of savings for those contracts that have expired and the estimated savings for those contracts that have yet to expire. Local 670 and Local 3851 both expire on 6-30-17. Local 951 AFT Teachers, Local 951 AFT Paraprofessionals, and Local 1137 expire on 6-30-18. Local 732 and Local 404 both expire on 6-30-19.

Concessions from Active Employees

The City has entered into collective bargaining agreements with all collective bargaining units in the City. These contracts yield significant savings through concessions by active employees in health care benefits and modifications of their post-employment benefits. Nonunion employees are also impacted by the health care changes. As can be seen below, the health care savings were significant compared to the projected cost of continuing with the plans in place in FY2012. The savings for active health care changes is estimated to be over $1.0 million annually. The total estimated savings is over $3.0 million in FY2015 as shown below:

Estimated Fiscal Impact for All Active Employee CBAs and Non Union Resolutions						
	1	2	3	4	5	6
Item Description	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018*****	**FY2019*****
Uniform Plan and Coshare Savings						
670 (CBA)	225,947	241,610	264,286	285,491	308,397	333,142
3851 (CBA)	35,944	41,749	42,953	47,445	52,407	57,887
1137 (CBA)*	108,104	142,574	166,947	178,633	191,137	204,516
Paraprofessionals (CBA)*	142,114	179,741	221,940	269,165	288,006	308,167
Teacher (CBA)*	377,772	404,606	433,342	464,120	496,608	531,371
Police (CBA)	159,025	144,862	161,916	180,163	199,687	220,579
NUNC/NUC (Resolution)	23,673	25,760	27,992	30,380	32,972	35,786
NU School / Administration	27,489	29,414	31,472	33,675	36,033	38,555
Fire (CBA)	-	26,301	46,012	67,104	89,671	113,819
Total GF Uniform Plan and Coshare Savings	**1,100,067**	**1,236,616**	**1,396,860**	**1,556,176**	**1,694,920**	**1,843,822**
COLA / Reorganziation / Staffing						
670 COLA (CBA)	(44,811)	(47,566)	(47,619)	(47,620)	(47,620)	(47,620)
670 Reorganization (CBA)	55,098	55,830	56,193	56,193	56,193	56,193
670 Dispatch Salary Scale Changes (CBA)	11,592	11,398	(4,074)	(4,074)	(4,074)	(4,074)
3851 COLA (CBA)	(9,288)	(10,282)	(10,259)	(10,181)	(10,181)	(10,181)
3851 Reorganization (CBA)	6,340	6,340	6,340	6,340	6,340	6,340
1137 COLA (CBA)*	-	(52,671)	(106,110)	(106,110)	(106,110)	(106,110)
1137 Reorganization (CBA)*	47,518	49,513	51,350	52,685	53,605	54,542
Paraprofessionals COLA (CBA)*	(19,824)	(39,937)	(60,155)	(80,640)	(101,293)	(101,293)
Paraprofessionals Reorganization (CBA)*	-	-	-	-	-	-
Teacher COLA (CBA)*	-	-	-	-	(713,604)	(1,579,111) **
Teacher Reorganization (CBA)*	-	-	-	-	-	-
Police COLA (CBA)	(100,544)	(245,487)	(338,724)	(453,422)	(568,944)	(801,495)
Police Reorganization (CBA)	1,222,886	848,167	877,006	1,045,968	1,062,221	1,079,612
NUNC/NUC COLA (Resolution)	-	-	-	-	-	-
NUNC/NUC Reorganization (Resolution)	-	-	-	-	-	-
NU School / Administration COLA	-	-	-	-	-	-
NU School / Administration Reorganization	-	-	-	-	-	-
Fire COLA (CBA)	-	-	(80,756)	(224,957)	(371,767)	(499,744)
Fire Reorganization (CBA)	-	1,282,284	1,315,872	1,487,718	1,484,658	1,511,786
Total GF Reorg/COLA Savings	**1,168,968**	**1,857,588**	**1,659,064**	**1,721,900**	**739,425**	**(441,153)**
Enterprise Funds Savings						
670 Uniform Plan and Coshare (CBA) *enterprise funds*	78,401	86,223	92,944	101,083	109,936	119,563
3851 Uniform Plan and Coshare (CBA) *enterprise funds*	16,969	20,417	22,182	24,308	26,637	29,189
670 COLA (CBA) *enterprise funds*	(24,545)	(22,347)	(22,660)	(22,659)	(22,659)	(22,659)
670 Reorganization (CBA) *enterprise funds*	6,473	6,473	6,473	6,473	6,473	6,473
3851 Reorganization (CBA) *enterprise funds*	2,228	2,228	2,228	2,228	2,228	2,228
3851 COLA (CBA) *enterprise funds*	(3,014)	(3,014)	(3,014)	(3,014)	(3,014)	(3,014)
Total Enterprise Funds Savings	**76,512**	**89,980**	**98,153**	**108,419**	**119,601**	**131,780**
Total Employee Savings with *enterpirse funds*	**2,345,547**	**3,184,184**	**3,154,076**	**3,386,495**	**2,553,946**	**1,534,449**

* Includes both local fund impact as well as non local fund resources which can be reallocated

** FY19 cost based on 2% COLA on last day of expiring contract, Teacher contract expires FY18

***Savings projected for fiscal years 2018 and 2019 reflects both the continuation of savings for those contracts that have expired and the estimated savings for those contracts that have yet to expire. Local 670 and Local 3851 both expire on 6-30-17. Local 951 AFT Teachers, Local 951 AFT Paraprofessionals, and Local 1137 expire on 6-30-18. Local 732 and Local 404 both expire on 6-30-19.

The Commission's goal was to achieve cost savings through agreement with current employees such that they would receive medical insurance coverage during employment under a **uniform plan** with a 20% contribution. Previously, there were numerous health care plans covering over 800 City and Woonsocket Education Department (WED) employees, with varying plan designs ranging from Blue Cross Classic to Healthmate. Co-shares varied for different employee groups, and often depended upon hire date. The police contract provided full family medical for life, with no migration to Medicare upon eligibility. The new uniform plan provided to all active employees has a deductible of $500 individual/$1,000 family plan. As of 07/01/2013 active employees from six of the seven bargaining units were transferred to the City's uniform health care plan with a 20% co-share either by agreement or enactment by the Commission. On July 1, 2014, upon expiration of their contract the Fire employee group was also transferred to the new plan.

Concessions from Retiree Groups

The Commission could not restore fiscal stability without making some changes to the health and pension benefits provided to retirees and their beneficiaries. It sought to make those changes in reasonable and moderate way, however, in light of the surrounding circumstances confronting the City, which included the burdens already imposed and to be impose on other stakeholders, specifically employees and taxpayers. No action taken by the Commission affected the pensions of those City employees who were members of the state retirement system (Teachers Retirement System or the Municipal Employee Retirement System). The changes implemented by the General Assembly through adoption of the Retirement Security Act of 2011 determine both the pensions and local contributions to those pensions by the City. Certain other police and fire retirees are members of the locally administered closed pension plan, and those changes are discussed further below. Annual savings on retiree health care and pension costs are estimated to exceed $3.0 million:

Estimated Fiscal Impact of City and Education Department Retiree Memorandum of Agreements, Resolutions, and Reservations for Future Settlements

	1	2	3	4	5	6
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Coshare and Health Care Plan Savings/(Cost)						
Council 94/AFT/Non Union (MOAs/Resolutions)	736,093	760,168	725,390	719,832	717,845	773,034
Police/Fire (MOAs/Resolutions/Reservations)	1,612,342	1,413,086	1,258,623	1,236,021	1,220,440	1,323,731
Total Health Care Retiree Savings	2,348,435	2,173,254	1,984,013	1,955,854	1,938,284	2,096,765
COLA Savings on Closed Pension Plan (MOAs/Resolutions)	1,515,000	1,057,000	1,083,000	1,108,000	1,135,000	1,162,000 *
Total Retiree Savings	3,863,435	3,230,254	3,067,013	3,063,854	3,073,284	3,258,765

*FY14 COLA savings reflects the difference between the annual required contribution based on funding 100% of the unfunded liability over a 16 year amortization with no COLA in all years and the annual required contribution based on funding 100% of the unfunded liability over a 16 year amortization with a 3% compounded COLA every year. FY15 through FY19 savings reflects the difference between the annual required contribution based on funding 100% of the unfunded liability over a 22 year amortization with no COLA in all years and the annual required contribution based on funding 100% of the unfunded liability over a 22 year amortization with COLA based on the agreements and amended resolutions passed by the Woonsocket Budget Commission on December 23, 2014 which included a 2% compounded COLA every other fiscal year starting in FY2017 for all participating retirees and becoming yearly starting in FY2023, and provides that the 3% compounded Cost of Living Adjustment will be restored when the pension fund reaches 80% funding. In addition, those represented retirees who agreed to terms with the Woonsocket Budget Commission will receive a retroactive compounded cost of living adjustment of 2% for FY2015.

Pension

Nearly contemporaneously with its establishment, the Commission had to develop and adopt a Funding Improvement Plan for the local administered pension plan to comply with the mandate of the 2011 Retirement Security Act. The pension plan was only 56.7% funded, and therefore had reached critical status, of funding under 60% as of July 1, 2012.. As one can see, the locally administered police and fire pension plan's funding status exceeded 100% after the issuance of the pension obligation bonds in 2002, but suffered a severe drop in value after 2008.

The valuations for budget years 2013 and 2014 reflected above are based upon the existence of the Commission enactment that eliminated the 3% compounded retiree cola indefinitely and a sixteen year amortizations. The budgeted amounts in the five year plan are based on the actuary's estimates using same demographic information as 7/1/2015 valuation above, a 22 year amortization schedule and the final Funding Improvement Plan and Enactment approved by the Commission. The plans provisions, agreed to by a majority of retirees include periodic suspension of the COLA, and reduction from three percent to two percent of the COLA when granted, until such time the fund reaches an 80 % funding level, when the 3% COLA is restored.

The City had not paid 100% of the annual required contribution since 2007, and in FY2014 the Commission included $3,465,000 in the budget as an important first step to restore the health of the fund.

Woonsocket - Annual Required Contributions
Locally-Administered Pension Plan

Year	Statutory 5 Year ARC	Actual Contribution	Percent Contributed
FY 2007	-	35,200	0.0%
FY 2008	2,470,633	32,100	1.3%
FY 2009	*	26,200	
FY 2010	7,643,873	15,612	20.0%
FY 2011	10,484,317	1,011,371	9.6%
FY 2012	10,545,371	1,006,677	9.5%
FY 2013	11,275,000	103,880	8.9%
FY 2014	3,465,000	3,465,000	100.0%

*Unavailable - USI did not determine a 5 year valuation.

The 2002 law, which had authorized issuance of the City's obligation bonds, required that any unfunded liability be amortized over a five year period. Because the unfunded liability had grown so quickly, however, the ARC had reached $10.545 million in FY2012. The Commission included this sum in the baseline forecast, but recognized that meeting this statutory obligation was not reasonable, or even feasible. It therefore sought legislation to lengthen the amortization period to up to 25 years. The five year plan fully funds the ARC based upon an amortization period of 22 years.

The Commission negotiated modification of COLA benefits for the City's Closed Police/Fire pension plan to promote a sustainable, affordable plan that would deliver benefits and modified cost-of-living adjustments for the life of the plan. The City resulting agreements with certain Police and Fire retirees, supported by resolutions adopted by the Commission on December 23rd, 2014, include the following major changes to the Plan's benefits, amortization period, and contributions:

- 2% retroactive compounded COLA to the Plan's participants who agreed to terms with the Commission for FY2015.
- 0% COLA in FY2016

- 2% compounded COLA starting in FY2017 and for all members, including those who did not reach an agreement with the City, every other year thereafter until FY2023Commission2% compounded COLA starting in FY2024 and every year thereafter until the plan reaches 80% funded.
- 3% compounded COLA starting the year the plan reaches 80% funded (current projection by USI shows this benefit occurring in FY2033)
- Amortize the unfunded liability over a 22 year period starting in FY2015 and achieve 100% funding by the end of the 22 year period
- Contributions: starting with a base contribution of 3,548,00 in FY2015 and then USI scenario shows increasing the contribution by an estimated 2.5% annually, until the plan reaches 100% funding status

This is reflected in scenario 2014-9-12 updated 10/11/2014 and 1/30/2015 developed by the City's actuary, USI. Using a 22 year amortization schedule for both scenarios, this is expected to reduce the unfunded liability $13.4 million. The projected unfunded liability for FY2015 would have been $103.9 million if the three percent cola had remained in effect, and it is projected to be $90.5 million under the agreements. The reduction in the liability is $13.4 million, or 13 percent. The savings in the ARC is approximately $1 million annually.

During negotiations, retirees expressed concern about the City's past practice of not funding the ARC and the investment performance of the fund. As part of the agreement, retirees and beneficiaries will be provided with an annual funding notice from the municipality including key information concerning the health of the pension fund.

Health Care

Modifications to retiree health care provisions include transfer to the same uniform plan design implemented City-wide for actives employees. This impacted over 300 early retirees (non-Medicare eligible). The plan has a deductible of $500 individual plan/$1,000 family plan. While the retiree settlement agreements accept the imposition of temporary fixed and declining dollar co-shares from FY2015 through FY2017, the deductibles of uniform plan will remain in place, as well as the mandatory migration to Medicare by all employees upon eligibility. Under the agreements, these co-shares decline by 5% during the five year plan. The savings from moving early retirees from Blue Cross Classic family ($23,186) to the Uniform family plan ($16,056) was approximately $7,130 for each family plan.

<u>Early Retirees</u>

- Early Retirees now receive medical coverage under the Uniform plan with a temporary fixed dollar co-share which also declines over the five year plan or alternative High-Deductible Plan with a lower fixed dollar co-share which declines.WED and City non-public safety Early Retirees now receive dental coverage with a co-share.

<u>Medicare Eligible-</u>

- In compliance with R.I. Gen. Laws § 28-54-1, eligible retirees not enrolled in Medicare (predominantly former police officers) enrolled in Medicare by deadline of April 1, 2013. Henceforth, all retirees enroll in Medicare upon eligibility.
- Medicare Retirees/Beneficiaries who satisfy the eligibility requirements under the contracts under which they retire or retired now receive coverage under a less

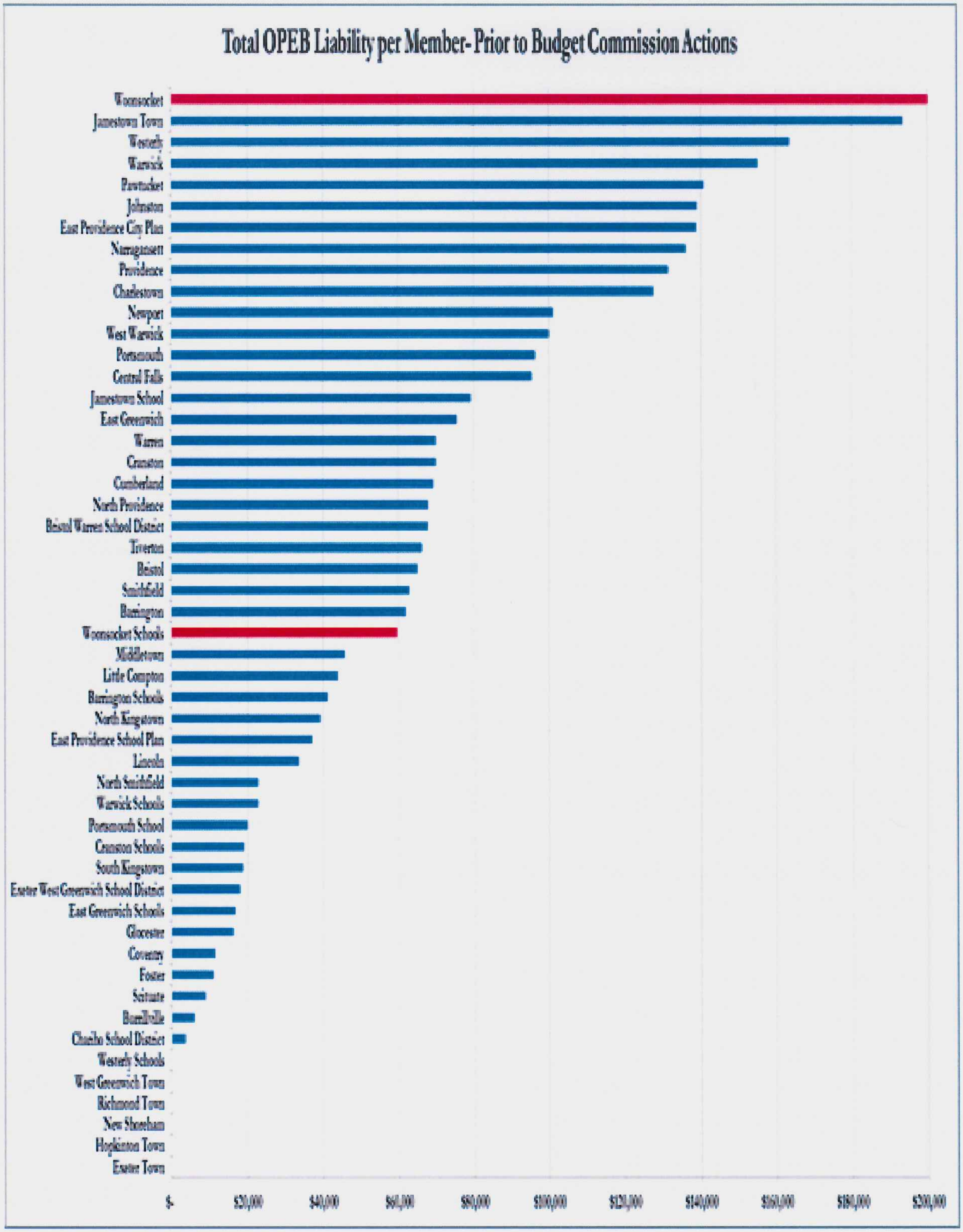
costly Medicare Part C plan (Blue Chip Plus) with option to "buy-up" to more costly plan (Blue Chip Preferred).

- WED Medicare Retirees now receive prescription drug coverage through a more cost-effective Group Part D plan qualifying for federal subsidy instead of costly Medicare Rx rider (same value to retiree)

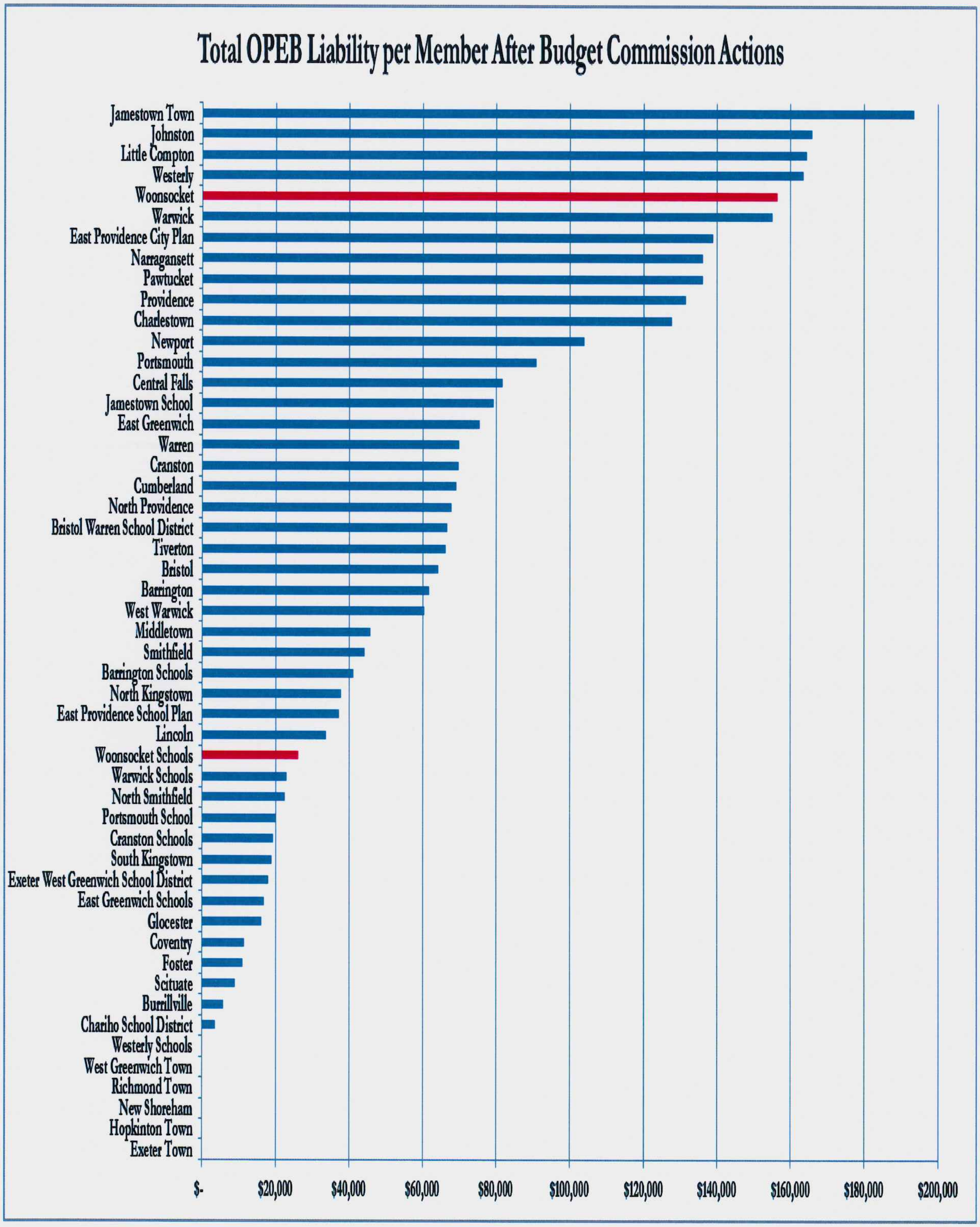
To assist those retirees who had not been required to enroll in Medicare, and to ensure enrollment by the federal deadline of April 1, 2013, the Commission held informational meetings, and City and WED retiree representatives worked with Commission staff representatives. Approximately 90 retirees and beneficiaries enrolled in Medicare by federal deadline of April 1, 2013. In total, the City provides over 400 Medicare plans to its retirees.

OPEB Liabilities

An important goal of the Commission was to address the significant unfunded liabilities created by the Other Post-Employment Benefits (OPEB) provided to retirees. Similar to pension obligations, best practices call for the funding post-retirement health benefits as the benefit is earned and while the employee is working, to be set aside in a trust fund. Currently the City receives a contribution of one percent from the fire active employees, but otherwise pays for the benefits that are due in that year, which is considered "pay as you go" method. This results in a large unfunded liability for future generations. It is expected that the Governmental Accounting Standards Board will soon move to require similar reporting of OPEB benefits to make it more transparent if governments are not setting aside monies to fund future liabilities. As can be seen on the chart below, based upon the valuation of benefits which were reflected in the actuarial reports submitted by municipal entities in Rhode Island, Woonsocket was an outlier in terms of per capita OPEB liabilities for non-school employees. Prior to the reforms, the benefits included in the various current and prior collective bargaining agreements for active employees and retirees, resulted in a non-school per member liability of $200,090 and the school per member liability of $59,389. The table below shows the OPEB liability prior to the Commission's actions to modify health care plans and cost sharing in retirement compare to that in other Rhode Island municipalities.



The table below shows the OPEB liability after the Commission's actions to modify health care plans and cost sharing in retirement. Based on the concessions noted above relating to both active and retiree health benefits, and compared to data from most recent actuarial valuations obtained by the Division of Municipal Finance from other municipalities, Woonsocket's non-school liability per member liability has been reduced from $200,090 to $156,307, and the school liability was reduced from $59,389 to $26,081.



The table below depicts the improvement from an actuarial perspective, with the actuarial accrued liability being reduced by $77.7 million or 35%, and the annual OPEB ARC being reduced by $6.4 million or 40%. The majority of the liability is attributable to the City side..

Estimated Impact of Health Care Reform on City Woonsocket OPEB Obligation*				
	Pre- Reform	Post Reform	$ change	% Change
Acturarial Required Contribution	$16,041,229	$9,611,815	($6,429,414)	-40%
Actuarial Accrued Liability	$224,446,589	$146,774,879	($77,671,710)	-35%

Post Reform Breakdown of OPEB Liability		
	OPEB ARC	Actuarial Liabilty
City Actives		
Pro-Tech	$78,695	$658,151
Non Union	$45,271	$322,621
Municipal	$340,528	$2,487,072
Police	$1,262,363	$8,464,046
Fire	$1,668,097	$16,384,940
Subtotal actives	**$3,394,954**	**$28,316,830**
City Retired		
Pro-Tech	$116,259	$2,483,817
Non Union	$70,502	$1,526,445
Municipal	$526,749	$11,385,215
Police	$2,555,373	$54,711,928
Fire	$1,086,961	$23,182,816
Subtotal retired	**$4,355,844**	**$93,290,221**
Total City	**$7,750,798**	**$121,607,051**
School Actives		
School Support	$123,120	$1,158,173
Teachers	$879,751	$8,480,069
Teachers Assistants	$179,102	$1,985,529
Subtotal actives	**$1,181,973**	**$11,623,771**
School Retired		
School Support	$22,204	$434,338
Teachers	$614,943	$12,288,510
Teachers Assistants	$41,896	$821,209
Subtotal retired	**$679,043**	**$13,544,057**
Total School	**$1,861,016**	**$25,167,828**
Total Active and Retired	**$9,611,815**	**$146,774,879**

Other Expenses- The Commission has worked with the City and WED to identify possible savings from gained efficiencies, either through personnel changes, improved processes, or procurement procedures. Initiatives include, but are not limited to:

Improved Financial Management

- Secured the advancement of state education aid payments to stabilize cash flow, provide a workout for delinquent vendor payments, and saved interest costs for the City in FY2012, FY2013 and FY2014
- Created personnel supplements with significant coding capabilities that facilitates making changes in planning values and benefit rates and detail tracking of individual position costs including benefits
- Created an excel file as a tool to be used for forecasting preparation of the City and WED annual budgets.
- Required Fiscal Impact statements for all Commission actions
- Require City and WED Finance Directors to approve fiscal transactions prior to authorization by governing board
- Allowed for future implementation of a new WED Financial Management Information System(FMIS) to be implemented to accurately document budget preparation and projections during the fiscal year to ensure a year end balanced budget
- Implemented monthly reporting of all financial transactions that impact medical insurance experience in order to track this large self-insured expenditure.
- Budgeted for turnover allowance(attrition) to tighten WED budget
- The RI Division of Municipal Finance discovered that the City, as well as any other municipalities in similar situations, would be unable to tax a hospital if it were to convert to a private hospital. The City would also not be able to receive PILOT funds from the State. DMF staff wrote legislation which would allow the City to tax Landmark Hospital and exceed the tax cap in the year of conversion when the first taxes are received.
- The Commission implemented the RI Division of Taxation's Income Tax Refund Offset program which assists the City in collecting delinquent taxes. Implemented in FY2013, the program has resulted in diversion of $166,287 in income taxes refunds to the City for payment of amounts due to the City.

Refund Offset Program
City of Woonsocket

Calendar Year	Amount	
2013	$ 69,929.01	
2014	$ 92,856.70	
2015	$ 3,500.96	Thru 3/2/2015
Total	$ 166,286.67	

Note: City of Woonsocket started the refund offset program on March 11, 2013

Operational Efficiencies

- Closed one elementary school prior to FY2013 school year based upon decreased enrollment
- Bid and changed the provider of stop loss insurance for self-insured medical benefit in FY2015, netting the City/WED over $0.3 million in projected savings per year
- Changed property insurance vendors starting in FY2014, netting the City over $0.2 million in projected savings per year.
- Reworked plan for implementation of Full Day Kindergarten to ensure financial impact to the City would be positive while providing expanded educational opportunities to the City's youth

Staffing

- Funded a Purchasing Agent position in order to improve procurement practices for both City and School. The responsibilities have been assumed by the finance directors and a full time person dedicated to this function will be able to assist city staff in preparing bids, monitoring bid process in accordance with state and local law, and identifying collaborative buying opportunities.
- Created position of Assistant Superintendent and eliminated Curriculum Director, and restored department heads at the Woonsocket High School.
- The Commission devoted time to address an issue relating to the non-union personnel policies in the School Department which was causing morale issues. The School Department had Individual Employment Contracts for some Administrative, Administrative Support and Technology positions but there were some employees were not covered by such contracts. Some contracts had expired. Working with the school administration, the Commission developed a consolidated benefit policy and template. The ultimate goal is that the School Committee will move forward and take action to approve a consolidated benefit policy and contracts where appropriate for certain Non-Union employees. The package prepared by the Commission and submitted to the School Committee as part of the transition package on 3-19-2015 are the following documents: Proposed Non-Union Benefits Document Policy Draft; Appendix A-1 Vacation Grandfathering; Appendix A-2 Personal Day Grandfathering ; Appendix A-3 Unused Sick Benefit at Retirement Grandfathering; Appendix A-4 Bonus Sick Days Grandfathering; Appendix B - Direct Purchase of Medical Benefits; Proposed Draft Contract for Principals

Management Analysis

- Commissioned a Special Education study that is currently in review
- Analyzed the financial implications of the methods of construction for the new water treatment plant. There was a longstanding dispute in the City regarding the type of construction to be used for building a new Water Treatment Plant (given mandates from DEM regarding discharge into the river). The Commission hired a legal firm with expertise in water treatment plants to analyze the options and provide a report. The City is now in the process of bidding this project under a

Design Build Operate method. In addition, contract negotiations were concluded with the unions and have addressed the fact a portion of the new plant operations (internal plant operations) would no longer employ City workers.. City employees will continue to perform work for the Water Department outside the plant.

Impact on Taxpayers

Taxes- The five year plan assumes a levy increases in FY2016–FY2020 of 2.74% annually. This simply means the five year plan would remain balanced with these levy increases based upon the forecasted expenditures and other resources. The Commission will not adopt the levy or budget for FY2016 or thereafter, and it is expected that the budget adopted by the City Council over the next five years may deviate from the five year plan presented by the Commission which could impact the levy amount.

In developing the initial five year plan, the Commission was targeting expenditure savings in several broad areas, but needed immediate relief provided through revenue generation. In July 2013, a supplemental tax was approved by the General Assembly. In addition, the law provided that supplemental tax in FY2013 become part of the base in FY2014 and every year thereafter. Total additional revenue generated annually by the initiative is about $2.5 million (this estimate excludes any increase in the levy).

Analyses presented by the Division of Municipal Finance revealed that Woonsocket's property taxes are generally higher than peer communities. The challenge facing the Commission was to enhance cash flow so that the City's bills could be paid on a timely basis, restore fiscal stability through expenditures reductions, and somehow moderate levy increases in order to make the City more attractive to commercial and residential taxpayers. In order to enable the City to be more competitive and more in line with neighboring communities in its commercial tax rate, the homestead exemptions were reduced from 39% in 2012 to 30% in FY2015.

The original five year plan had assumed that maximum tax levy increases of 4 percent would be required every year. While this provided resources needed to eliminate the cumulative deficit and fund projected expenses, the Commission recognized that this would place City taxpayers under a tremendous burden, and that the City's levy growth would be an outlier. In FY2015, the average total levy growth for all municipalities was 1.64%. The City's levy growth of 4.83% was third highest in the State that year, only behind Warren and Little Compton. The City was allowed to exceed the 4% cap due to the inclusion of revenues form Prime (Landmark) hospital.

As a result of better than expected results, the final adopted Five Year plan contains moderated levy increases. It should be noted that while the projected levy increases are less than the maximum levy increase of 4%, the City's relative standing will depend upon the growth in levy in other communities.

Trash Fee- In FY2014, the trash fee which generated approximately $1 million was eliminated.. The City now relies upon tax revenues rather than imposition of a separate additional fee to pay for this service..

Properties previously not taxed- The Commission requested that the Tax Assessor commence a legal review of properties which had for years been considered tax exempt to see if they could be brought back on the tax rolls. The FY2015 potential revenue collections totaled $558,847. Certain social clubs entered into PILOT agreements with the City resulting in a portion of the tax being paid.

Prime- The Department of Revenue drafted the legislation relating to the taxation of "for profit" hospitals to ensure that the City, and other municipalities would not lose out on revenues when hospital conversions occur. The Commission approved of the Prime (Landmark) PILOT agreement negotiated by the Mayor that generated additional revenue of approximately $900,000 to the City commencing in FY2015.

Inter-jurisdictional agreements- Approved of inter-jurisdictional agreements that generated additional revenue to the general fund of over $0.3 million in FY2014 and every year thereafter.

Pension re-amortization- In order to lessen the immediate impact of City's closed Police/Fire pension obligations on the taxpayers and current City services, the Commission sought legislation from the General Assembly prior to the end of FY2013 that permitted the amortization schedule to increase from 5 years to up to 25 years. This legislation modified the 2002 pension obligation bond statute that had mandated an accelerated amortization of 5 years when the funding went below 100%. The Commission recognizes that re-amortization to 22 years will cost the taxpayers more in the long term, while providing short term relief, and therefore it is viewed as a "taxpayer contribution".

Infrastructure- The Commission's five year plan includes funding in the City and WED budget to address long neglected infrastructure. The Commission does not recommend the issuance of debt for these non-enterprise fund capital needs because the City's debt levels are amongst the highest in the State.

The Commission allocated $2.1 million to City capital needs and $800,000 to the WED capital upon completion of the FY2014 audit. The City's funds are partially allocated for the purchase of a fire vehicle and equipment for the consolidation of dispatch services, which is expected to produce ongoing staffing savings when implemented. There is $1.1 million remaining to be allocated to the much needed projects included in the FY2015 Capital Budget. The WED intends to utilize the $800,000 for projects to be contained in a Capital Plan which must be submitted to the RI Department of Education for approval by the Board of Education. Such a plan, if approved, will provide the path for an estimated overall 83% reimbursement from the State in the following year. This will allow the WED to complete additional projects with the State funds as they become available. This initial seed money, and continuing annual amount in future budgets, will produce leverage that will allow the WED to complete $15.2 million in projects over the five year period providing students with 21st century learning environments. This leverage produces $1.00 of capital spend for only 17 cents expended from the City's coffers.

Budget Reserve Fund – The City's ability to weather a fiscal storm is severely hampered by its lack of fund balance and cash flow. On June 12, 2012 Blue Cross sent a letter to the City threatening to terminate health care coverage for employees and retirees due to lack of payment. At the time, the City owed over $3.3 million in medical claims and administrative fees to the company. Fortunately, the crisis was averted by the State's enabling legislation which allowed for the Director of Revenue to seek advances of state education aid when the State is an oversight position. Non-payment of vendors and cash shortfalls which could threaten payment of general obligation bonds should be avoided, and one way to accomplish this is through the establishment of a budget reserve fund. The Government Finance Officers Association (GFOA) best practices call for a fund balance that is two month of revenue, or 16 percent of budget. The City's ordinance calls for an 8 percent cap on the fund. The Five Year Plan includes the funding of a Budget Reserve Fund starting in FY2017, pursuant to the ordinance(7752) adopted by the City Council on June 17, 2010. FY2017 is the year when the City's 2010 deficit reduction bond is repaid, so the plan provides for the contribution of one percent of revenues, or approximately $826,000 to be transferred into a separate account within the general fund to be used only when conditions warrant. This will also provide an increasing cash balance to bolster cash flow in low collection periods, or when there is an unanticipated budgetary event.

The Commission developed the major components of its Five Year stabilization plan considering the ratings agencies stated views on what would bring the City's rating up and what would bring the rating down. The Commission hopes that the rating agencies will recognize the improved financial position of the City due to implementation of the plan, noting specifically the elimination of the cumulative deficit, the reduction of its pension and OPEB costs, and the funding of 100% of the pension ARC, and starting in 2017, the funding of a budget reserve fund and the OPEB ARC. The City's Moody's bond rating is at B2 (review for possible downgrade) and the Fitch rating is at B (negative), so there is plenty of room to move up.

Risks to the Five Year Plan – The Commission recognizes that there are risks to the Five Year Plan as presented. The most significant risk relates to the ligation concerning the State Pension reform. A negative outcome for the State would result in a significant increase in pension contributions for the City for its MERS plans and its share of the Teachers' plan. It is estimated by the State's actuary that enactment of the RI Retirement Security Act will save the City $9.0 million in FY2016. Additionally, there is litigation pending against the City relating to actions taken to resolve the City fiscal crisis. Certain retired police are suing over the changes in health care benefits, certain taxpayers are suing over the implementation of the supplemental tax, and the former Superintendent is suing over the non-renewal by the Commission of her contract. Legal Counsel for the Commission has responded to each of the challenges to protect the City's financial position.

Another risk to the plan relates to the WED's funding under the current state funding formula for education. The five year plan assumes that the funding formula will continue to be administered based on the current legislative schedule. The funding formula provides the City with an estimated $2.64 million, $2.2 million and $1.6 million increases in FY2016 through FY2018. Another risk associated with the plan is the continued growth of Other Public Schools of Choice (OPSC) enrollments, as the loss in state aid and the requirement to pay tuition to the OPSC results in a net loss to the City. The reductions in expenditures which can be made as students are lost are not sufficient to compensate for the loss in revenue and tuition expense. By FY2020 the net impact is estimated to grow to $2.4 million (This does not include savings that might be achieved by school closures). Advocating for a change in the formula as it relates to the tuition payments and loss of revenue related to OPSC would mitigate the impact, and appears to be the best course of action for the City as it appears more likely to be successful given the current momentum.

The Mayor, as well as each of the City Council members and School Committee members will be provided with a complete binder containing materials relating to the Five Year Plan and the actions of the Commission.

Sincerely,

Dina Dutremble

Dina Dutremble
Chairperson, Woonsocket Budget Commission

Attachment: Five Year Plan

WBC/rbg