To Synchronize or Not to Synchronize, and What is Our Debt Capacity Anyways?

Who Borrowed the Outstanding Debt

• City Borrowings	$14,813,690
• School Borrowings	21,654,000
• Total	$36,467,690

What Does This Mean in Dollars (Approx.)?

- A $25mm, 4%, 20 Year Bond will Cost -- $36.6 mm ($11.5mm Int.)
  Annual Int. & Prin. Payments = $1.8 mm

- A $25mm, 4%, 25 Year Bond will Cost -- $39.8 mm ($14.8mm Int.)
  Annual Int. & Prin. Payments = $1.6 mm

- A $25mm, 4%, 15 Year Bond will Cost --$33.5 mm ($ 8.5mm Int.)
  Annual Int. & Prin. Payments = $2.2 mm

What is this synchronization issue?

- East Providence's **fiscal year-end** is 10/31.
- East Providence is one of two municipalities (Scituate) in Rhode Island with a fiscal year-end that is not 6/30.
- The State of Rhode Island has a 6/30 year-end.
- East Providence maintains a **tax year** starting 7/1 and ending 6/30.
- Its **tax year** is out-of-synch with its **fiscal year,** that is tax year assessments are collected over **two** fiscal years, and each fiscal year collects revenues based on **two** different tax assessment years.

Why is it an Synchronization an Issue (part 2)?

- The big budget problem on the City with different fiscal and tax years is estimating the amount of property taxes that will be collected in any fiscal year.
- East Providence residents have the option of prepaying property taxes by 7/1 to collect an early pay discount that currently stands at 1.5%. Many exercise this option (escrows – approx $29 mm have to), but is it a big deal if they do not? Yes!
- Over 68% of current year tax revenues (approx. $69mm) are collected prior to 7/30.
- Current year tax collections have the **potential** to differ either way from year-to-year by several percentage points (each % point is approx. $1.0 mm of revenue), **however**, they have been remarkably consistent over the years.

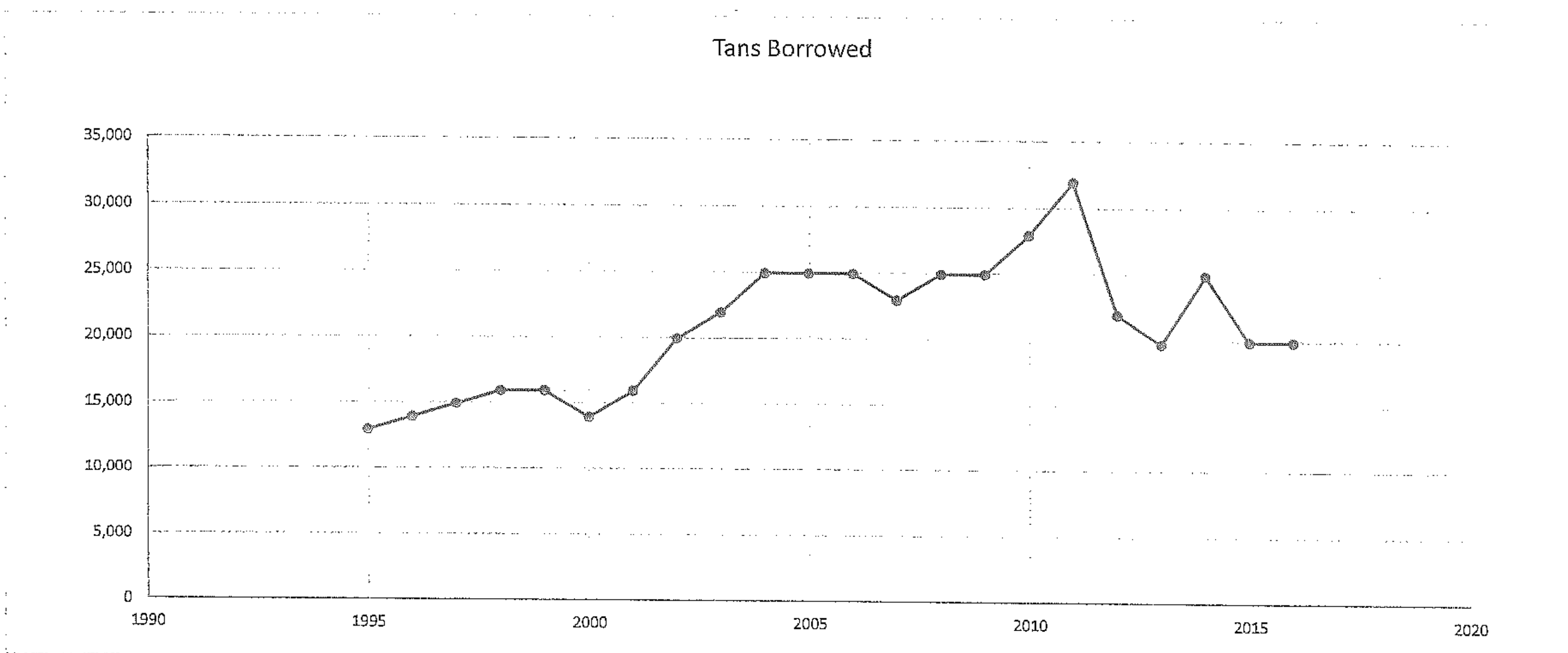
Why Care about the Early Tax Payments?

- About 50% of what is not paid early will likely flow into the next fiscal year. If prepayment estimates are short by $3.0 mm, about $1.5 mm of revenue expected in the current fiscal year will be booked in the next fiscal year (Dec. & March qtly. payments).
- Every dollar missed in forecasting revenue hits the bottom line during that fiscal year.
- Missing a fiscal year revenue forecast because of timing of tax year payments could result in an unplanned budget deficit or surplus, in one year, and if not immediately recognized as such, a corresponding budget surplus/deficit in the next.
- Budgets can be missed, not due to poor management, but to the timing of tax payments.
- Worse, you may not recognize a revenue budget shortfall until it is too late to do anything on the expenditure side to offset it.
- In order to prevent a fiscal year deficit due to tax collection timing, it is always wise for EP to "conservatively forecast" revenues.

Can you Rely on First Look Estimates?
Variance Between Enacted & First Look

Year	School Aid
2017	$94K
2016	($ 58k)
2015	NA
2014	($159K)
2013	$40K
2012	$94K

TANS Have Been Around in EP for a Long Time



East Providence Experienced The Perfect Storm that Brought the Budget Commission

- The aftermath of the Great Recession
- Banks have pulled back on lending
- Central Falls filed bankruptcy
- The EP School Department continued to run a large deficit
- The City seemed powerless to reverse it
- The EP School Department had large outstanding bills
- Moody's downgraded EP below investment grade
- The City was running out of cash – Like it always does
- No bank wanted to lend EP TANS
- The Budget Commission entered in 2011

Step 2:

- Tax bills for the synchronized year starting 7/1/18 are sent out in late May-2018, and collections for that tax year begins in June-2018. All June 2018 collections will count as revenue for the new synchronized year, not for the 9 month stub year.
- We accomplish this by "accounting-wise" taking the revenues that we collected in June out of the stub fiscal year that ended 6/30/2018, and putting them (accruing) in the new fiscal year beginning 7/01/2018.
- Through the **magic** of accrual accounting, we have aligned, or **synchronized**, our fiscal revenue reporting with our tax assessment year.

The Problem Synchronization Brings & How to Fix It

- Per State Law – We cannot end a fiscal year with a deficit.
- A $40.0 million deficit for the stub fiscal year ended 6/30/2018 is a really **big** deficit.
- We fix this "Accounting" problem by borrowing $40 million.
- Borrowed funds received during the fiscal year ended 6/30/2018 will count as revenue for that year.
- The "Synchronization Bond" will move fiscal year-ended 6/30/2018 into a balanced status.

Bond Givith – Bond Takith

- The Synchronization Bond has to be paid back, interest and principal.
- Municipal Accounting rules mandate that repayment of debt be recorded as an expenditure in the year paid.
- Every year for the life of the bond, EP will have to cover the entire amount of debt repayment through its annual budget.

- The Synchronization Bond can be paid back in as little as 10 years, or as many as 20 years.
- The term of the bond will determine how much EP will have to allocate in its budget for annual bond repayment.

Reasons not to Synchronize

- The annual cost to repay the bond over 10 years is high ($5.2 mm).
- The City will have little financial flexibility to fund other projects. It will be possible, but will require fiscal discipline.
- Annual bond repayment costs over a 15 year ($4.0 million) or a 20 year ($3.4 million) period, will give the City fewer year-to-year budget constraints, but will result in a higher cumulative interest burden ($10 mm vs. $18 mm vs. $27 mm) over the life of the bond. The longer EP pays off the bond, the more interest is involved.
- Synchronization essentially wipes out $40 mm of EP's existing debt capacity.

Synchronization Does Have Fiscal Benefits After a Number of Years

After 13 Years – EP Saves With Synchronization

20 YEAR COMPARISON OF INTEREST

	TANS INTEREST PROJECTIONS					SYNC BOND	DIFFERENCE			
YEAR	2% increase 2% TAN	Interest rates from Frist Southwest	COI	Interest + COI	ANNUAL TAN INTEREST	SYNC BOND INTEREST	YEARLY DIFFERENCE	TOTAL DIFFERENCE	FISCAL YEAR	YEAR #
2027 Estimate	16,170,083	6.12%	17,800	410,525						
2027 Estimate	16,170,083	6.12%	17,800	600,834	1,046,959		1,046,959	(27,767)	2027	Yr 13
2028 Estimate	16,493,485	6.23%	17,800	426,261						
2028 Estimate	16,493,485	6.23%	17,800	623,866	1,085,727		1,085,727	1,057,961	2028	Yr 14
2029 Estimate	16,823,354	6.20%	17,800	432,693						
2029 Estimate	16,823,354	6.20%	17,800	633,279	1,101,572		1,101,572	2,159,533	2029	Yr 15
2030 Estimate	17,159,821	6.16%	17,800	438,499						
2030 Estimate	17,159,821	6.16%	17,800	641,777	1,115,877		1,115,877	3,275,410	2030	Yr 16
2031 Estimate	17,503,018	6.20%	17,800	450,174						
2031 Estimate	17,503,018	6.20%	17,800	658,864	1,144,637		1,144,637	4,420,047	2031	Yr 17
2032 Estimate	17,853,078	6.24%	17,800	462,140						
2032 Estimate	17,853,078	6.24%	17,800	676,377	1,174,116		1,174,116	5,594,163	2032	Yr 18
2033 Estimate	18,210,140	6.25%	17,800	472,138						
2033 Estimate	18,210,140	6.25%	17,800	691,010	1,198,748		1,198,748	6,792,911	2033	Yr 19
2034 Estimate	18,574,342	6.18%	17,800	476,187						
2034 Estimate	18,574,342	6.18%	17,800	696,936	1,208,723		1,208,723	8,001,634	2034	Yr 20
					18,242,418	10,240,784	8,001,634	8,001,634		

50,240,784

What Can Come to the Rescue of a Missed Revenue Budget?

- EP now has an approx. $11.0 mm "Rainy Day Fund".
- Missed revenue budgets due to timing of collections from having to deal with a non-synchronized year would be an acceptable reason to utilize it.
- The "Rainy Day Fund" can help resolve an annual deficit due to tax collection shortfalls, state funding shortfalls, and dramatic increases to healthcare (which has a 6/30 year-end).
- Synchronization may not be as crucial now as it was before the "Rainy Day Fund".