

DEPARTMENT OF CITY CLERK

CITY HALL

SEPTEMBER 4, 1980

The Committee on Finance meets this day at 10:30 o'clock A.M. in the Chamber of the City Council, City Hall.

PRESENT: Chairwoman Brassil and Councilman Farmer.

Subsequently, Councilmen Paolino, Easton, Addison and Lynch join the Committee.

Also present are City Treasurer Napolitano and Acting City Controller Pitassi. (Rose M. Mendonca, Clerk.)

At 11:00 o'clock A.M. Chairwoman Brassil announces that the time for receiving the bids has expired.

City Treasurer Stephen T. Napolitano proceeds to open the bids in Public Session. The bids as submitted are read by City Treasurer Napolitano. The following are the bids submitted, each accompanied with a certified check in the amount of Three Hundred Eighty Thousand Dollars (\$380,000.00):

<u>BIDDERS</u>	<u>PRICE BID</u>	<u>INTEREST RATE</u>	<u>BOND MATURITIES</u>	<u>PREMIUM</u>
The Chase Manhattan Bank, N.A.;	\$19,000,000.00	8.8095	1981-2000	\$2,102.00
The First National Bank of Chicago ;				
Continental Illinois National Bank and Trust Company of Chicago ;				
Bear, Stearns & Co.;				
Southeast First National Bank of Miami; Alex Brown & Sons, Baltimore; Banc-Northwest, Chicago; American Securities Corp.				
Citibank, N.A.;	"	8.9864	"	-0-
Bankers Trust Co.;				
Salomon Brothers;				
The First Boston Corp.;				
Lehman Brothers Kuhn Leob, Inc.;				
Bank of America, N.T. & S.A.;				
Drexel Burnham Lambert Group, Inc.;				
Marine Midland Bank; Mellon Bank, N.A.;				
Ehrlich-Bober Co., Inc.;				
J.C. Bradford & Co.;				
United Virginia Bank; Stephens, Inc.				

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<u>BIDDERS</u>	<u>PRICE BID</u>	<u>INTEREST RATE</u>	<u>BOND MATURITIES</u>	<u>PREMIUM</u>
R.I. Hospital Trust National Bank; Morgan Guaranty Trust Co. and Associates	\$19,000,000.00	8.9183	1981-2000	\$2,008.00
Industrial National Bank of R.I. and Associates	"	9.25	"	-0-

Following the bid opening, Chairwoman Brassil announces that the Committee will retire to Committee Room "A" for study and tabulation of the bids.

Chairwoman Brassil reviews the bids submitted in Committee Room "A" for the members of the City Council who are present at this time.

The members and City Treasurer Napolitano state their disappointment as the interest rates are high.

Thomas Belcher and Frank Juchnick of the Industrial National Bank, the City's fiscal advisors are present.

Discussion ensues as to the short term notes the City renewed at 7 3/4% and questions as to the Bond sale, as the rate of interest is lower on short term notes.

Mr. Juchnick states the rate was low due to it being a short term period, as they are due September 12, 1980.

That was done by agreement with all the banks to put the notes on a short term period until the Bond issue was sold to determine the issue and the rate.

He further states they will be meeting again with the administration with a line of credit to renew the notes dated September 12.

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The meeting is set for Monday at 3:00 o'clock P.M.
by the City Treasurer.

Chairwoman Brassil questions the Three Million Dollars the administration has stated they will give the School Department as to whether or not that will shed another light on the finances of the City.

Mr. Juchnick states that usually has an affect but no one was aware of it at this time.

Questioned by Councilman Easton as to when the bids were prepared, Mr. Belcher states this morning to reflect the latest market conditions.

Considerable discussion ensues relative to the Bond market and the rate of inflation.

Councilman Easton states perhaps the City should not go into long term sale at this time, it might be better to go into short term.

Mr. Belcher states if the members think inflation will get under control and the economy will improve, that will be your decision. He would not take that risk. His advice is to sell. The City is getting the rate of interest at the tax exempt rate, which is less than the rate of inflation.

Councilman Easton states some of the members of the Committee feel that the financial condition of the City does not look palatable to investors. Whether or not they could say in six months time the City could come to grips with its financial problem better than it has in the past two or three months, they could get a better interest rate.

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Mr. Belcher states that is if they feel the City will improve. There will be more bonds to sell at that time. If the City finances improve and the deficit is wiped out, the budget is balanced and inflation rates stay the same, with all this, yes, provided they do not spend any more money between now and then and stop the capital improvement program.

However, the City cannot do all that. The City cannot continue spending money and reduce short term debt.

Mr. Juchnick reminds the Committee they are recall bonds. In five years if the City has the money, the bonds can be recalled.

City Treasurer Napolitano cannot see going from short term to long term percentages but is of the opinion the City has no choice.

A gentleman from Bond counsel states it is the communities with the short term debt that have been going into trouble especially where there is no market to roll them over. Short term notes were 9¼% within the last year.

Considerable discussion ensues between the representatives of the bank, bond counsel and the members of the Committee.

Upon tabulation of the bids it is apparent that the Chase Manhattan Bank N.A. with a bid of Nineteen Million Dollars plus a premium of Two Thousand, One Hundred Two Dollars, (\$2,102.00) and interest rates of 8.8095% for 1981-2000 inclusive are the successful bidders and the Committee can proceed to award.

"For all but not a part, of a legally issued and properly executed bonds of the City of Providence, aggregating Nineteen Million Dollars (\$19,000,000.00) face value, described in and under the conditions set forth in your Notice

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of Sale dated August 18, 1980, as follows:

\$19,000,000.00 GENERAL OBLIGATION BONDS OF 1980

We will pay you face value plus a premium of Two Thousand One Hundred Dollars, (\$2,102.00), and accrued bearing interest the following rate per annum for the maturities specified as follows:

<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>	<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>
1981	10%	1991	8.10%
1982	10%	1992	8.30%
1983	10%	1993	8.40%
1984	10%	1994	8.60%
1985	10%	1995	8.75%
1986	10%	1996	8.90%
1987	8.10%	1997	9.00%
1988	7.70%	1998	9.10%
1989	7.80%	1999	9.20%
1990	8.00%	2000	9.25%

On motion of Councilman Easton, seconded by Councilman Addison, it is voted that the sale of Nineteen Million Dollars City of Providence General Obligation Bonds dated September 1, 1980, Authorized by Chapter 1980-16, 1980-17, 1980-18, 1980-19 and 1980-20, approved May 3, 1980, to THE CHASE MANHATTAN BANK, N.A.; THE FIRST NATIONAL BANK OF CHICAGO; CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO; BEAR, STEARNS AND CO.; SOUTHEAST FIRST NATIONAL BANK OF MIAMI; ALEX BROWN & SONS, BALTIMORE; BANCNORTHWEST, CHICAGO; AND AMERICAN SECURITIES CORP., at the price of Nineteen Million Dollars plus a premium of Two Thousand, One Hundred Dollars, (\$2,102.00) is hereby confirmed, that being the best bid received.

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Therefore, that Resolution confirming said sale be submitted to the City Council for approval.

Councilwoman Brassil thereupon declares the issue of Nineteen Million Dollars, City of Providence Bonds, awarded to THE CHASE MANAHATTAN BANK, N.A.; THE FIRST NATIONAL BANK OF CHICAGO; CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO; BEAR, STEARNS & CO.; SOUTHEAST FIRST NATIONAL BANK OF MIAMI; ALEX BROWN & SONS, BALTIMORE; BANC-NORTHWEST, CHICAGO; and AMERICAN SECURITIES CORP.

On motion of Councilman Easton, seconded by Councilman Addison, it is voted that the City Treasurer return to the unsuccessful bidders the checks which accompanied the proposals.

At 12:00 o'clock Noon representatives of the firm of Laventhol and Horwath are present by invitation.

Chairwoman Brassil reads to the members of the Committee a communication from that firm which reads as follows:

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LAVENTHOL & HORWATH



CERTIFIED PUBLIC ACCOUNTANTS

40 WESTMINSTER STREET
PROVIDENCE, RI 02903
(401) 421-4800

A MEMBER OF
HORWATH & HORWATH INTERNATIONAL
WITH AFFILIATED OFFICES WORLDWIDE

August 25, 1980

Councilwoman Brassil
Chairwoman of the Committee on Finance
City of Providence
Providence, Rhode Island 02903

Dear Councilwoman Brassil:

Because our audit engagement has not progressed to a point where we are able to report on any of the areas of concern to the Committee, we recommend that the meeting originally scheduled for September 5, 1980 be rescheduled for October 3, 1980.

In addition, we have been notified by Mr. Glantz that the City is planning to switch to the accrual method of accounting for revenue recognition for the year ended June 30, 1980. (See the attached copy of the letter from the City Controller to the State Auditor General). Mr. Glantz has informed us that the fees for auditing work performed by us or additional accounting services to aid the City in the implementation of the accrual method of accounting will be assumed by his department as detailed in a separate engagement letter that will be sent to Mr. Glantz.

We will be pleased to discuss the above comments with you at your convenience.

Very truly yours,

LAVENTHOL & HORWATH

Donald S. Horowitz, Partner
Certified Public Accountant

DSH/bjw

Attachment

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STEVEN A. PITASSI
CITY CONTROLLER
WILLIAM J. DAYTON
MADELINE A. OAKLEY
ASSISTANTS



VINCENT A. CIANCI, JR.
MAYOR

THE CITY CONTROLLER
CITY HALL, PROVIDENCE, RHODE ISLAND 02903

August 12, 1980

MR. ANTHONY PICCIRILLI
AUDITOR GENERAL
OFFICE OF THE AUDITOR GENERAL
87 PARK STREET
PROVIDENCE, RHODE ISLAND 02903

Dear Mr. Piccirilli:

The City of Providence has been in the process of changing our Accounting System from the modified cash to the modified accrual method of accounting for several years. The Finance Director has advised me that he has sought recommendations from Accounting Firms that have audited the City Accounts and our Fiscal Agent, Industrial National Bank.

Attached you will find a copy of a letter from our Auditors, Laventhol and Horwath explaining the reasons why the City of Providence should be on the accrual method of accounting. Prior to Laventhol and Horwath the Accounting Firm of Peat, Marwick, Mitchell & Company who had previously audited the City of Providence for nearly eight years had also recommended that our City switch to the accrual method of accounting.

In a letter from Peat, Marwick and Mitchell Company addressed to the Mayor and members of the City Council on November 30, 1978 it states:

"As noted in our report, the City is not in compliance with generally accepted accounting principles as defined by the National Committee on Governmental Accounting, in that the City follows the practice of recognizing revenue on a cash basis. We recommend that the City consider the adoption of the accrual basis of revenue recognition, and those principles promulgated by the National Committee on Governmental Accounting and the American Institute of Certified Public Accountants."

After your Department reviews all the facts and correspondence to adopt the modified accrual method of accounting for the benefit of the City of Providence, we are certain that you will agree with the position of our accountants and Fiscal Agent, that it is indeed time that the City of Providence implemented the modified accrual method of accounting,

Yours truly,

Steven A. Pitassi
Steven A. Pitassi
Acting City Controller

SAP/ll
Enclosure

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Mr. Horowitz states what is in the letter basically is they will assist in the implementation of the change to the accrual method of accounting, and assist the Department in telling them what they have to do, audit it and the fees will be appropriated.

Chairwoman Brassil questions as to the change in the method of accounting when the budget has been submitted to the City Council on a cash basis.

Mr. Horowitz states they have a letter from City Solicitor Glantz that informs the administration does not need council approval. However, the State's Auditor General sent a letter back refusing permission. The City will not get permission until 1981.

A meeting was held with Mr. Piccirilli, Mr. Pitassi, the bankers and the auditors.

Questioned by Chairwoman Brassil as to who invited the auditors, Mr. Horowitz states, Acting City Controller Pitassi.

Councilman Lynch states as it stands now, they are to audit the books according to the agreement.

Mr. Horowitz states they are in between, and is of the opinion the City Solicitor should decide.

Councilman Lynch informs Mr. Horowitz the Committee will not accept what the City Solicitor says. The Committee contracted them for the audit of the books.

Mr. Horowitz states they are trying to be independent. They do not want to do anything that would affect their relationship with the Council. They had asked if the City could go on the accrual method for accounting purposes.

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Questioned by Councilman Lynch as to why the accountants asked the City Solicitor, Mr. Horowitz is of the opinion it is a legal question.

Chairwoman Brassil states the principal thought is the Committee hired the firm as independent auditors. They do not care what they do with the City Solicitor.

She states they did not ask him to change the accounting practices.

She informs the auditors that if they cannot act independently, the Committee can dismiss them.

Councilman Easton states the concern he raised was that he wanted to be sure they are getting an independent auditor who recognizes they are employed by the Finance Committee for good reasons, to maintain checks and balances. With the recent actions he questions whether or not the auditors understand they work with the Finance Committee.

Mr. Horowitz understands the concern of the members, in his mind, being professional, and states he has been told he can remain independent in doing this.

Chairwoman Brassil states Mr. Pitassi and Mr. Glantz have no right to tell him that.

Councilman Lynch states doesn't that raise a question in the auditor's mind as to the ethics of the switch?

Mr. Horowitz states he would like to do what is best for the City and he is of the opinion the accrual method would be good.

Discussion ensues on the matter and Mr. Horowitz submits the communication from the State Auditor General dated

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August 26, 1980 and transmitted to the Acting City Controller:



State of Rhode Island and Providence Plantations

GENERAL ASSEMBLY

Office of the Auditor General

87 PARK STREET
PROVIDENCE, RHODE ISLAND 02908

August 26, 1980

Mr. Steven A. Pitassi
Acting City Controller
The City Controller
City Hall
Providence, RI 02903

Dear Mr. Pitassi:

Thank you for your letter of August 12, 1980 in which you have advised this office that the City of Providence is contemplating a change in the future in its accounting policy with respect to revenue recognition, particularly property tax revenues.

Your letter indicates that:

1. the City's present accounting policy is to recognize property taxes as revenue in the fiscal year such taxes are received in cash.
2. the accounting policy being considered for use in the future is to recognize property taxes, less an allowance for uncollectible taxes, in the fiscal year in which such taxes are due and payable.

We note, from your letter, that the independent certified public accountants responsible for reporting on the City's financial statements have recommended such a change to the city for the past nine years but, for reasons unstated, such recommendations were not accepted by the City.

As you are aware, the contemplated change in accounting policy is a change from one acceptable accounting method to another acceptable method, which according to the "Uniform Accounting and Reporting Standards for Rhode Island Municipalities", issued by the General Assembly, Office of the Auditor General, requires the prior approval of this office. Such a change would be evaluated by this office from the viewpoint of not only acceptable accounting policy but also prudent financial management of not only the City's assets, but also its liabilities and present deficit.

Consideration would need to be given to the following:

1. the accumulated deficit of \$6,800,000 in the City's general fund at June 30, 1979, which, in compliance with General Laws 45-12-22, must be reduced in accordance with an approved financial plan.
2. the results of the City operations for its recent fiscal year ending June 30, 1980. We note that, based on unaudited financial statements released to the newspapers, the City will have an operating deficit of at least \$7,000,000 for this year and an accumulated deficit of at least \$13,800,000 at June 30, 1980. We understand that audited financial statement for this year will not be available for several months.
3. forecasts of its operations for the current fiscal year ending June 30, 1981.
4. the inability of the City's independent public accountants to express an opinion on the City's general fund financial statements for the fiscal year ended June 30, 1979 due to the City's inability to determine the extent of its liability with respect to its pension plan.
5. the one-time benefit to the accumulated deficit without any alleviation of the City's cash flow problems.
6. the acceptable timing of a change in accounting, if approved, with due consideration being given to coordination of the accounting change with the budgetary process, to advance and full disclosure to its taxpayers of the import of the change from an accounting and cash flow point of view, and the desirability of avoiding any suggestion that there is more than one surplus or deficit amount. We note that the City's fiscal adviser has suggested the fiscal year 1982 as the earliest year for making a change.

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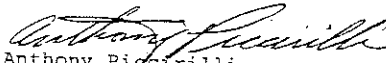
Mr. Lynch
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August 15, 1980

7. the propriety of accruing taxes (less allowance for ultimate uncollectibles) when such a substantial portion are past due prior years taxes, which realistically may not be available to finance the current year's operations. We note that at June 30, 1979 property taxes receivable of \$20,100,000 included past due prior year's taxes of \$12,500,000.
8. the rationale of the City's proposal to make a selective change in accounting, decreasing its deficit, when other changes in accounting, increasing its deficit, should be made, such as a change in the City's policy for accounting for and funding pension costs. If it is indeed time for a change in the City's revenue recognition policy, is it also not time for a pension cost policy that would plan for the annual full funding of, and accounting for, current service cost and a pro rata portion of past service costs amortized over a stipulated period?

This office does not agree with the proposal, as outlined in your letter, to change the City's method of accounting for revenue. The proposal has been made without any evaluation of the change in the context of the City's plans for financial management of its affairs and without a plan for implementation.

We suggest that the City develop, and present to this office, a formal request for approval for a change in accounting. The request should include the financial information and address the concerns enumerated in the two preceding paragraphs.

Sincerely,


Anthony Piccirilli
Auditor General

c: Thomas H. Belcher,
Senior Vice President
Industrial National Bank,
Fiscal Agent of the City

Donald S. Horowitz, Partner,
Laventhol & Horwath,
Auditors of the City

Councilman Lynch is of the opinion if the City of Providence were to change to the accrual method of accounting at the start of the next fiscal year it would be the proper time to have the change. The City has started fiscal year 1980-1981 on the modified cash system.

They have completed June 30, 1980 on the modified cash system. He knows that Peat, Marwick, & Mitchell made comments back many years to the effect that the City should go to the accrual method of accounting inasmuch as many municipalities do that. If it is going to be done, and that is up to the administration, he would think the proper time would be prior to the start of a fiscal year.

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Chairwoman Brassil states the budget is submitted on a cash basis. They have no right to change it following submission of the budget.

She informs the gentlemen her big problem is the firm put the auditing work behind to do work for the administration and in her opinion, that is not an independent auditor.

The auditor states it was also the availability of people and scheduling problems as they had two people leave and they had to make scheduling changes.

Questioned by Chairwoman Brassil as to whether this would be a conflict and as to whether or not they would do this in private business, Mr. Horowitz states yes, they would and be open to both parties.

They would also work to the interest of both parties if they thought that would be a conflict of interest they would withdraw. This had no bearing on auditing the current year's figures as to their accuracy.

Councilman Lynch commends Mr. Piccirilli, the State Auditor General's action, and he has read the letter from Acting City Controller Pitassi asking him what has to be done to change to the accrual method.

Councilman Lynch questions the auditors as to what they think of the ethics of changing the method of accounting at this point.

Mr. Horowitz states anything that might lower the cost to the City of a Bond issue should be good.

Mr. Horowitz further informs the members they were called in being told this was an extreme emergency to do

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this for the City. That is why they did it. The City's books are not closed yet.

He informs the members he has done no work with respect to the accrual method. He will not proceed in the future until he gets the Committee's approval.

Councilman Easton states there is no question as to the method the members want the books audited under. The other question is the timeliness of the audit.

He questions as to the reason they cannot submit a progress report if they have started working.

The auditor states prior to them speaking to the members on any questions they have relative to the audit, they desire to speak to the people involved first.

Councilman Lynch refers to the problems involved when Peat, Marwick & Mitchell were the auditors with respect to the lack of communication with the Finance Committee and the members do not want that to happen again.

Chairwoman Brassil informs the auditors when they receive a directive from the administration, the members of the Committee would like a copy, to determine their opinion.

It is the concensus of the members that a meeting be scheduled for Friday, October 3, 1980, at 11:00 o'clock A.M. with auditors and that they shall report on all major items at that time.

The Clerk is directed to correspond with Anthony Piccirilli the Auditor General of the State of Rhode Island, informing him the members have received his correspondence to Mr. Pitassi relative to the accrual method of accounting and

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requesting input as to the decision that will be made and further inform him that the budget for the fiscal year ending 1980-1981 is presently pending before this Committee and that the members are of the opinion that if the City is allowed to change their method of accounting, it should not be prior to submission of the budget by the Mayor prior to May 15, 1981 or fiscal year ending June 30, 1982.

ADJOURNMENT: On motion of Councilman Addison, seconded by Councilman Easton, the meeting is adjourned at 12:50 o'clock P.M.

Copied

Jld

Rose M. Mendonca
Clerk

Compared

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