



STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

ERNEST A. ALMONTE, CPA, CFF
AUDITOR GENERAL
ernest.almonte@oag.ri.gov

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

September 9, 2009

Mayor Joseph S. Larisa, Jr.
145 Taunton Avenue
East Providence, RI 02914

Dear Mayor Larisa:

I am writing in response to the plan for deficit elimination [hereafter "the Plan"] submitted to my office by the City of East Providence on August 31, 2009. The Plan which was submitted pursuant to Rhode Island General Law 45-12-22.3 purports to eliminate an accumulated deficit of \$5,235,195 as of October 31, 2008. Under the law, municipalities are required to submit a plan to eliminate an accumulated deficit in the city's general fund or combined general fund and unrestricted school special revenue fund. The Plan shall provide for the elimination of the accumulated year-end deficit by annual appropriation, over no more than five (5) years, in equal or diminishing amounts. The law, which was enacted with the active involvement of the Office of the Auditor General, was intended to require rapid response to fiscally distressed municipal finances. **Be advised that the Plan submitted by East Providence does not satisfy the requisites of the law by providing for elimination of the deficit in a fiscally responsible manner.**

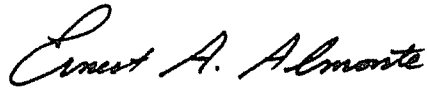
The City of East Providence and the School Department have a well established history of deficits. Unfortunately, the City has failed to adequately resolve its financial dilemma. The current Plan is similar to prior deficit reduction plans which proposed the sale of school buildings and dedicating meals tax revenue. I find this Plan does not provide sufficient detail. It includes speculative and uncertain elements, and does not provide calculations in support of the savings you assert will be realized. A serious deficiency in your Plan involves the teachers' union complaint pending before the Rhode Island Superior Court and the State Labor Relations Board. The Plan's failure to provide for a contingency in the event the union prevails in this litigation is unacceptable. Clearly, a ruling adverse to the City would undermine your Plan. I expect the City to address its course of action if the union prevails in this litigation. The Plan also fails to eliminate the accumulated deficit by annual appropriation, over no more than five (5) years, in equal or diminishing amounts as required by law.

Mayor Joseph S. Larisa, Jr.
Page 2
September 9, 2009

It is time for government officials to exercise leadership to resolve the accumulated deficit of \$5,235,195. I am particularly disturbed by the public statement that the City might elect bankruptcy as a course of dealing with its financial crisis. Having assessed financially distressed communities over the past 15 years, I can state that the City is not a candidate for bankruptcy. The City of East Providence is not unique in its financial challenges. Many communities are facing the same dilemma that is confronting East Providence. The suggestion of bankruptcy is not a financially responsible option. I respectfully suggest that the ramifications of a bankruptcy filing would be devastating to the City and serve to undermine efforts to resolve the crisis. These statements could impact negatively with credit rating agencies. The financial crisis in the City of East Providence requires government officials make difficult financial and political decisions. I am confident the City and School Committee are capable of making these decisions. The school deficit has been accumulating for too many years and must be immediately addressed in a financially responsible fashion. I expect your prompt compliance with RI General Law 45-12-22.3. When submitting your Plan, please provide a legal opinion by municipal counsel that the proposed actions are permissible under federal, state, and local law.

Please contact me at 222-2435 to advise me of your time frame in submitting a revised Plan.

Sincerely,



Ernest A. Almonte, CPA, CFF
Auditor General

C: All City elected officials
City and School appointed leadership
James F. McDonald
Lonnie Barham
Carolyn Dias
Peder A. Schaefer