



THE CITY OF CRANSTON

General

The City was established as a City in 1754 and incorporated as a city in 1910. The City covers a 28.7 square mile area immediately south of the City of Providence, Rhode Island. With a population of 79,269 as determined by the 2000 U.S. Census, the City is the third most populous municipality in the State of Rhode Island (the "State"). For the fiscal year 2004, the full value of real and tangible personal property in the City is approximately \$5,457,319,000. The City has an annual operating budget in excess of \$193,000,000. Primarily a residential community, the City contains many fine developments including Dean Estates, Glenwoods, Woodridge, Garden Hills, Garden City and Comstock Gardens.

Government

The City operates under a home rule charter adopted in 1962 (the "Charter"), providing for a mayor/council form of government with a nine-member City Council headed by a Council President. The Charter vests all legislative powers of the City in the City Council, including the ordering of any tax, the making of appropriations and the transacting of any other business pertaining to the financial affairs of the City.

Members of the City Council are elected for a term of two years. Term limits of four consecutive two-year terms for City Council members became effective with the November 2002 election. The Charter grants the City Council all powers to enact, amend or repeal ordinances relating to the City's property, affairs and government. The City Council also has the power to authorize the issuance of bonds or notes.

The Mayor is the chief executive and administrative officer of the City and beginning with the 2002 election, the Mayor is elected for a term of two years. Term limits of four consecutive two-year terms for the office of Mayor became effective with the November 2002 election. Mr. Stephen P. Laffey was elected to his first term on November 5, 2002 and took office on January 7, 2003. Mayor Laffey, a Cranston native, attended Cranston Public Schools and graduated magna cum laude from Bowdoin College with a Bachelor's Degree in Economics. He holds a Master's Degree in Business Administration in General Management from the Harvard Business School. The Mayor has had an extensive career in the investment industry. From 1992 to 2001, he held several senior executive positions at Morgan Keegan and Company, including Director of Research, Head of Equity Trading, Head of Institutional Sales, and Chairman of two venture capital funds. He completed his career at Morgan Keegan and Company as President and Chief Operating Officer. When the firm was sold in 2001, he headed the transition team to insure a smooth merger and subsequently moved back to the City of Cranston. Most recently, he has taught Finance and Security Analysis at the University of Rhode Island.

Pursuant to the Charter, it is the duty of the Mayor to provide to the City Council, at least once a year, a statement of the financial and general condition of the affairs of the City. The Mayor must also submit a proposed annual operating budget, a recommended capital program and a recommended capital budget. The Mayor appoints the Fire Chief, Police Chief and Director of Finance as well as other department heads and members of City boards and commissions.

Under the City Charter, the City has a Finance Department, headed by the Director of Finance appointed by the Mayor with the approval of the City Council. Reporting directly to the Mayor, the Director of Finance is in charge of the administration of the financial affairs of the City, with specific responsibility for assessing, collecting and authorizing the disbursement of all City money, for preparing and administering the annual City Budget, and for accounting of all financial transactions. Within the Finance Department are assessment, collections, information technology, purchasing, treasury, and accounting divisions. Jerome I. Baron was appointed Director of Finance in January 2003. He served for approximately ten years as Director of Finance in the City of Bridgeport, Connecticut, after serving for eleven years in the same position for the City of Providence, Rhode Island. Mr. Baron is a Certified

Public Accountant and a Certified Government Financial Manager. He holds an MBA degree from the University of New Haven and did his undergraduate work at Bentley College. Mr. Baron has completed the program for Senior Executives in State and Local Government at the John F. Kennedy School of Government at Harvard University. He is a member of the Government Finance Officers Association (the "GFOA"). He is also a member of the American Institute of Certified Public Accountants, the Connecticut Society of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, and the Association of Governmental Accountants. He is a past member of the Connecticut chapter of the GFOA where he served on its Board of Directors. Mr. Baron is a member of the Rhode Island Society of Certified Public Accountants and served two terms as Chairman of its Governmental Accounting and Auditing Committee. He is also a member of the Rhode Island GFOA and is a past member of its Board of Directors.

The City's Director of Administration is Paul Grimes. Reporting directly to the Mayor, he is responsible for managing all administrative aspects of the City's operations. He also serves as Chief of Staff and provides general policy advice to the Mayor and the executive management team. Prior to joining the City, Mr. Grimes was Vice President with Alsace Development International (ADI), an international foreign direct investment agency, where he was responsible for leading trade, investment, and other economic development initiatives between North America and the Eastern region of France. Prior to joining ADI, Mr. Grimes was Strategic Planning Analyst with the City of Anaheim, California. Mr. Grimes served as an officer in the U.S. Navy, and he served as a graduate fellow at the Environmental Protection Agency in 1994. Mr. Grimes holds a master's degree in Public Administration from Indiana University's (Bloomington) Graduate School of Public and Environmental Affairs and a B.A. in history and political science from Purdue University. While in graduate school, he studied under Indianapolis Mayor Stephen Goldsmith, a leading pioneer in fostering efficient, accountable, and responsive city government.

Public Education

A seven-member School Committee elected for a term of two years directs the general administration of the City's school system. The School Committee determines and controls all policies affecting the administration, maintenance and operations of the public schools in the City. The School Committee appoints a Superintendent of Schools who, as its chief administrative agent, heads the School Department and appoints and removes all School Department employees, except as may be provided otherwise by the laws of the State.

The City has 19 elementary schools, three middle schools and two secondary schools with a total enrollment, as of October 2003, of 11,222 students. The School Department has 1,938 professional staff members.

Enrollment in the City's public schools for the past five school years is displayed below:

<u>School Year</u>	<u>Enrollment</u>
1998-1999	10,785
1999-2000	10,906
2000-2001	11,042
2001-2002	11,155
2002-2003	11,269
2003-2004	11,222

The City is currently in the process of updating its school population projections. Modest enrollment declines are forecast for the next several years.

Government Services

Public Safety. The City's Police Department currently has 149 employees and the City's Fire Department has 202 employees.

Sewer System. Construction of the City's sewer system began as a Works Progress Administration project in 1939 and is continually being upgraded to meet the City's needs. This system consists entirely of sanitary sewers. Storm water is carried in a separate drainage system. The sewer system includes an estimated 235 miles of sewer mains, eight miles of force main, as well as many miles of lateral sewers.

There are 22 pumping stations in the sewer system. The eastern half of the City is entirely connected to the sewage system, where the Northwestern part of Cranston is partially connected with newer sewers built after 1972. The pumping stations are presently in the design stage of an ongoing rehabilitation program being funded through the State of Rhode Island Clean Water Finance Agency. The extension of the sewer system into newly developed areas of

southwestern Cranston was the subject of a \$500,000 federally funded U.S. Army Corps of Engineers Feasibility Study. No expansion of the sewer system is currently planned.

Wastewater Treatment Facility. The Cranston Wastewater Treatment Plant is located in eastern Cranston on the Pawtuxet River. In 2003, the average daily flow to the plant was 12 million gallons per day. The facility has a capacity of treating up to 23 million gallons per day, which is projected to serve the City's needs until 2019. The current facility, which went on line in 1983, replaced an older facility originally built in 1942. The wastewater treatment units include: preliminary treatment (two grit removal tanks and two induced air, grease flotation tanks), primary settling (three center feed circular clarifiers), and disinfection (one chlorine contact tank). Sludge collected from the clarifiers is dewatered by three presses and incinerated in two multiple hearth incinerators. The treatment plant accepts municipal sludge from other communities for a fee and also accepts residential sewage from private haulers for a fee.

On September 11, 1997, the City commenced leasing its wastewater treatment system for a base term of 25 years to Triton Ocean State LLC ("Triton") pursuant to a Lease and Service Agreement (the "LSA"). On December 31, 2001 Triton delegated its rights and obligations under the LSA to U.S. Filter Operating Services, Inc. (the "Company") and the LSA was amended and extended for five years. The City will remain the owner of the system. The City is obligated to finance and make regulatory capital improvements to the wastewater treatment system and to operate, maintain, repair and replace the system. Triton made an up-front contract payment to the City of \$48,000,000. The City is required to pay the Company monthly fees for performance of the Company's obligations under the LSA. It is anticipated that the source of monthly payments to the Company by the City will be sewer user fees assessed upon users by the City. The City continues to be responsible for assessing and collecting such sewer user fees. Sewer user fees are set by City ordinance.

In August 1999, the City entered into an agreement with Florida Power & Light where Florida Power & Light agreed to purchase the treatment plant's effluent for approximately \$500,000 a year. A \$14 million improvement program at the treatment plant was completed in 2001. The program improved the quality of the treated effluent from a secondary to a tertiary treatment system. These enhancements were required of the Company under the LSA, were funded by the Company, and are consistent with state and federal requirements.

Water Supply System. The City's water supply needs in the eastern portion of Cranston are served by the Providence Water Supply Board, which services the majority of the City's residences and businesses. The Kent County Water Authority services a small number of residences in the southwest portion of the City. The western Cranston Water Supply System, which formerly serviced approximately 2200 residences in the western portion of the City, was transferred in 1997 to the Providence Water Supply Board. As part of that transfer, the Providence Water Supply Board agreed to make payments to the City equal to the City's debt service on its outstanding Water Bonds. The Providence system derives its supply from the Scituate Reservoir and five tributary reservoirs located in the City of Scituate. The entire watershed for these reservoirs covers 93 square miles with the reservoirs themselves comprising 24 square miles and storing over 41 billion gallons of water. The water supply and the distribution systems within Cranston will service the water supply needs of the City for the foreseeable future. To provide adequate supply for future growth of the western portion of the City, plans are being developed by the Providence Water Supply Board for the expansion of existing storage tanks and increasing pumping capacity.

Planning and Development

The City has had a Planning Commission since 1934. The City Planning Commission consists of the City's Finance Director, Public Works Director, a member of the City Council and four members appointed from the general public. The City's Planning Department has a planning staff of five full-time employees and an office of Economic Development, consisting of two full-time employees.

The City originally adopted a Comprehensive Plan in 1961. It adopted a revised Comprehensive Plan in 1992. The purpose of the Comprehensive Plan is to lend direction to the development of the City in areas of commercial and industrial development, traffic circulation, residential growth, schools, recreation and municipal services. The City Planning Commission has also adopted a five-year Capital Improvement Program. See "Capital Improvement Program" below. The City has amended its zoning, subdivision and land use controls to protect environmental resources and to encourage economic development.

Capital Improvement Program

Under the Charter, the City must adopt a capital budget each fiscal year and a capital improvement program for the next four fiscal years.

The chart below shows dollars expended for capital projects by category for the period 1981-2002, the amounts authorized for fiscal year 2003 and the total of such amounts.

<u>Department</u>	<u>Expended</u> <u>1981-2002</u>	<u>Authorized</u> <u>Fiscal Year 2003</u>	<u>Total</u>
Schools	\$37,886,789	\$3,835,000	\$41,721,789
Public Works	31,931,181	564,000	32,495,181
Safety Services	11,488,198	0	11,488,198
Recreation	9,625,444	321,000	9,946,444
Library	3,485,451	0	3,485,451
Senior Services	<u>2,005,000</u>	<u>0</u>	<u>2,005,000</u>
Totals	\$96,422,063	\$4,720,000	\$101,142,063

Debt service on school construction borrowings is currently subject to 30 percent reimbursement from the State and is subject to annual appropriation by the Rhode Island General Assembly.

The chart below shows actual and projected amounts spent in the City’s capital improvement program for fiscal year 2003 and 2004.

<u>Department</u>	<u>Fiscal Year 2003⁽¹⁾</u>	<u>Fiscal Year 2004⁽¹⁾</u>
Schools	\$3,835,000	\$4,037,000
Public Works	564,000	307,700
Safety Services	-0-	325,000
Recreation	321,000	60,000
Other	<u>-0-</u>	<u>240,500</u> ⁽²⁾
Totals	\$4,720,000	\$4,970,200

(1) All projects in this capital budget either have been or will be authorized by voter referendum except as funded by impact fees.

(2) Other: Open Space: \$107,500, Public Buildings: \$133,000.

Retirement Programs

The City provides pension benefits to substantially all municipal employees under three separate plans. The retirement plans for teachers, municipal employees, and certain personnel employed by the police and fire departments are administered by the State’s Retirement Board. The City pays the entire annual employer’s cost of the municipal employees’ retirement plan and 50 percent of the annual employer’s cost of the teachers’ retirement plan. The pension plan of the City’s Police and Fire Department employees hired before July 1, 1995 is administered by the City.

Police and Fire Pension Plan

The City’s Public Employee Retirement System covers certain Police and Fire Department personnel of the City. The Police and Fire Pension Funds are single-employer defined benefit pension plans that were established by the City in accordance with the Charter and State statutes. The pension plans are component units (reporting as Pension Trust Funds) of the City’s financial reporting entity.

Employees of the Police Department contribute 9.5 percent of their annual salary to the pension plan. Employees of the Fire department contribute 10 percent of their annual salary to the pension plan. If an employee leaves the employment of the City before 10 years of service, the accumulated contributions are refunded to the employee. Employees vest after 10 years. Employees are eligible for a full pension after 20 years of service.

For the fiscal year ended June 30, 2003, the City’s total payroll for all employees was \$26,104,716 and the City’s total covered payroll amounted to \$9,596,454. Covered payroll refers to all compensation paid by the City to active employees covered by the Police and Fire Pension Fund on which contributions to the pension plan are based.

Contributions from the City and employees are recognized as revenue in the period in which employees provide service to the City. Investment income is recognized as earned by the pension plan. Investments in securities are reported at fair value. There are no investments in, loans to, or leases with parties related to the plan.

Presented below is the total pension benefit obligation of the City's Police and Fire Pension Trust Funds. The amount of the total pension benefit obligation is based on a standardized measurement established by the Government Accounting Standards Board ("GASB") that, with some exceptions, must be used by a public employee retirement system. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases and any step-rate benefits.

Because the City's Police and Fire Pension Trust Funds use the standardized measure only for disclosure purposes, the measurement is independent of the actuarial computation made to determine contributions to the Police and Fire Pension Plan. The actuarial funding method used to determine contributions to the Police and Fire Pension Plan is explained below.

A variety of significant actuarial assumptions are used to determine the standardized measure of the pension benefit obligations and these assumptions are summarized below:

- The present value of future pension payments was computed by using a discount rate of 8 percent. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- Future pension payments reflect an assumption of a 3.0 percent cost of living increase after retirement.

The standardized measure of the unfunded pension benefit obligation based on an actuarial valuation performed as of July 1, 2003 is as follows:

	<u>Fire</u>	<u>Police</u>	<u>Total</u>
1. Actuarial Liabilities			
(a) Present value of benefits to be paid on account of active members	\$42,701,199	\$29,348,947	\$72,050,146
(b) Present value of benefits payable to retired members and beneficiaries	\$88,115,140	\$74,590,823	\$162,705,963
(c) Total actuarial liabilities	\$130,816,339	\$103,939,770	\$234,756,109
2. Assets for Valuation Purposes	\$7,529,170	\$10,431,212	\$17,960,382
3. Total Prospective Contributions by City	\$123,287,169	\$93,508,558	\$216,795,727
4. Unfunded Accrued Liability	\$114,199,551	\$86,247,094	\$200,446,645
5. Present Value of Future Normal Contributions	\$9,087,618	\$7,261,464	\$16,349,082
6. Present Value of Future Salaries of Present Active Members	\$32,853,300	\$24,432,700	\$57,286,000
7. Normal Contribution Rates	27.66%	29.72%	28.54%
8. Payroll	\$5,610,295	\$3,986,159	\$9,596,454
9. Normal Cost Including Interest			
(a) Employees	\$605,912	\$430,505	\$1,036,417
(b) City	<u>\$1,070,041</u>	<u>\$848,956</u>	<u>\$1,918,997</u>
(c) Total	\$1,675,953	\$1,279,461	\$2,955,414
10. City Contribution to Amortize Unfunded Accrued Liability over 35 Years	\$9,798,694	\$7,400,282	\$17,198,976
11. Total Contribution (Employees plus City)	\$11,474,647	\$8,679,743	\$20,154,390
12. Recommended City Contribution	\$10,868,735	\$8,249,238	\$19,117,973

An actuarial study was completed for the year ended June 30, 2003, which reported the required annual contribution and unfunded accrued pension liability. The actuarially determined contribution was determined using the attained age normal actuarial cost method. The unfunded actuarial liability was amortized over a 35-year period. The contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. According to the actuarial study, the funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pensions on a timely basis. Total

contributions to the Police and Fire Pension Plans in Fiscal Year 2003 amounted to \$14,454,833. The actuarially determined contribution amounts based on the actuarial report completed for the year ended June 30, 2003 reflected normal cost of \$2,955,414 and the amortization of the unfunded actuarial accrued liability of \$17,198,976 for a total contribution of \$20,154,390. The City has not funded the actuarially required pension contribution and has therefore reflected the unfunded contribution in the general long-term debt account group. Significant actuarial assumptions used to compute pension contribution requirements are the same as those used to determine the standardized measure of the pension obligation. Contributions made by the City and the police officers and firefighters represent 8.75 percent and 9.5 percent, respectively, of covered payroll for the year. (Also, see "CITY FINANCES – Recent Events", herein).

Police officers and firefighters hired on or after July 1, 1995 are no longer part of this plan but are now part of the General Municipal Employees Plan described below. Police officers and firefighters hired on or after July 1, 1990 and on or before June 30, 1995 had the option to elect which plan would cover their retirement.

Trend Information—Historical trend information for the City's Police and Fire Pension Funds are presented below.

	<u>Fiscal Year⁽¹⁾</u>					
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net assets available for benefits as a percentage of the Pension benefit obligation applicable to the City's police and fire.....	8.2%	7.5%	9.8%	9.6%	10.0%	7.4%
Unfunded pension benefit obligation as a percentage of the City's annual covered payroll.....	2089%	2225%	1713%	1723%	1484%	1046%
City's contribution to the pension plan as a percentage of Annual covered payroll.....	0%	0%	0%	0%	0%	0%

(1)An actuarial valuation was not prepared in fiscal year ending June 30, 2000.

General Municipal Employee Plan

The City participates in the Municipal Employees' Retirement System ("MERS"), a cost-sharing multiple-employer public employee retirement system. The MERS includes one plan for general employees and two optional plans for police officers and firefighters. All City employees, except Police, Fire and Certified School Department personnel, participate in the MERS's regular program. The City's police officers and firefighters hired on or after July 1, 1995 are now included in the General Municipal Employee Plan. Police officers and firefighters hired during the period from July 1, 1990 to June 30, 1995 had the opportunity to join this plan or stay in the City's Police and Fire Pension Plan. See "Police and Fire Pension Plan" above.

The payroll for employees covered by the MERS for the year ended June 30, 2002 was \$18,168,369.

The MERS generally provides retirement benefits equal to 2 percent of final average salary per year of service. Such benefits are available to members at least age 58 with 10 years of service or after 30 years of service at any age. Under the 25-year service pension optional plan; police officers and firefighters may retire at age 55 if they have 10 years of service or after 25 years of service at any age. The benefit accrual rate is 2 percent of final average salary per year of service. Under the 20-year service pension optional plan; police officers and firefighters may retire at any age with 20 years of service. This optional plan provides a benefit equal to 2.5 percent of final average salary per year of service. Benefits are based on the average of the highest three consecutive years of earnings. The maximum benefit is 75 percent of such average salary.

The plan also provides non-service-connected disability benefits after five years of service, service-connected disability pension with no minimum service requirement, vested benefits after 10 years of service, survivors' benefits, and certain lump sum death benefits.

General employees are required to contribute 7 percent of their annual earnings, while police officers contribute 10 percent and firefighters contribute 11 percent. The City is required to contribute based on an actuarially computed amount for each municipality. The actuarial method used is the entry age normal cost with part of the City's unfunded actuarial liability funded over a fixed amortization period and the balance funded over the projected future payroll of current employees. The City contributed \$1,643,753 and \$1,285,541, to the plan in fiscal year ending June 30, 2002 and June 30, 2003, respectively.

The unfunded Actuarial Accrued Liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date less the actuarial value of assets. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MERS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Public Employee Retirement Systems and employers. At June 30, 2002, the City's actuarial accrued liability was \$91,029,401 and the plan's accrued liability was \$616,540,886. These figures were determined through an actuarial valuation performed as of June 30, 2002. The MERS net assets, available for benefits on that date (valued at amortized book value for bonds and at market value of stocks) were \$710,621,526, leaving a net asset available for future benefit credits of \$94,080,640. The City has an excess of assets over actuarial accrued liabilities of \$24,229,689.

The City does not have any investments or related party investments with the Municipal Employee's Retirement System. The City's contribution represented 16 percent of total contributions, which is required of all participating entities.

School Teachers' Retirement Plan

The City provides retirement benefits to its public school teachers through its participation in the Rhode Island Retirement System, a statutory, mandatory, statewide, cost-sharing multi-employer defined benefit plan, which first covered State teachers on July 1, 1949. This Teachers Retirement System is administered as a unified statewide system by the State Retirement Board, the composition of which is set forth in the pertinent State statute. The assets are held in the custody of the State Treasurer as an undivided single fund.

The actuarial costs of the retirement benefits are partially funded by employee contributions of 9.50% of the actuarial costs of the retirement benefits effective July 1, 2003. The actuary determines the net employer actuarial costs annually and as provided by the State Retirement Board to the Department of Administration certifies statute. Contributions are reported as a percent of payroll, payable in part by the State and in part by the City. The split between State and City is specified in State statute. For Fiscal Year 2001-2002, the State paid 40 percent and the City paid 60 percent.

The actuarial valuation prepared by Gabriel, Roeder, Smith & Company uses the entry age normal cost. The valuation assumes an annual salary increase on a scale of age/service. In addition, other actuarial assumptions are made for post-retirement increases and other contingencies as set forth in the published annual reports of the State Retirement Board. The following are comparative highlights for 1999 through 2002 for the Teachers System as a whole:

State Teachers System

	<u>Year Ending June 30,</u>			
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Active participants	14,710	14,092	13,607	13,282
Pensioners and beneficiaries	7,311	6,875	6,486	6,043
Inactive participants	1,042	1,392	1,245	1,286
Total participants	23,063	22,359	21,338	20,611
Net assets	\$2,754,225,451	\$3,111,666,873	\$3,570,250,173	\$3,303,567,692

	<u>Year Ended June 30,</u>			
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Employer contributions	\$74,648,349	\$83,519,617	\$99,296,418	\$72,516,012
Member contributions	\$72,376,644	\$68,721,274	\$64,314,209	\$61,907,050
Total contributions	\$147,024,993	\$152,240,891	\$163,610,627	\$134,423,062
Net miscellaneous income	\$1,267,172	\$1,882,190	\$1,199,025	\$962,985
Investment income	(\$261,591,103)	(\$392,313,258)	\$299,247,232	\$304,694,874
Total income available for benefit payments	(\$113,298,938)	(\$238,190,177)	\$464,056,884	\$440,080,921
Benefit payment	(\$244,142,484)	(\$221,147,344)	(\$198,033,116)	(\$174,730,119)
Excess of income over expenses	<u>(\$357,441,442)</u>	<u>(\$459,337,521)</u>	<u>\$266,023,768</u>	<u>\$265,350,802</u>

Source: Employee Retirement System of Rhode Island - Annual Reports 1999-2002

Actuarial costs and liabilities, as shown in the summary presentation, are determined in the aggregate for the Teachers Retirement System. Accordingly, employer contributions are first determined in the aggregate for all participating employers in this multi-employer system and are then expressed as a percentage of the aggregate participating payroll. For fiscal year 2002, the City applied 60 percent of this factor to its participating payroll (the remaining 40 percent of the employer cost is contributed by the State as well as the full cost of deferred contributions by the State).

With respect to the Teachers Retirement System, Gabriel, Roeder, Smith & Company, independent actuaries advising the Retirement Board have calculated the pension plan to be fully funded by 2032.

According to the statutory funding schedule, the combined contributions required each year by the City and the State will remain relatively level as a percent of payroll as the System moves toward funding the full actuarial liability. Ultimately, however, because the actuarial funding results in the accumulation of reserves that are invested, the required appropriation will be significantly less than would be required if the Teacher's Retirement System were on a pay-as-you-go basis.

Employee Relations

The City currently has 2,806 full-time employees including municipal, school, police and fire department employees. The current administration has been taking active steps to review its obligations under union labor contracts.

The City's uniformed police employees are members of the International Brotherhood of Police Officers, Local 301. The City's firefighters are members of the International Association of Firefighters, AFL-CIO, Local 1363. The Laborers' International Union of North America (LIUNA), represents the Public Works and Recreation Department employees and school crossing guards. All other municipal employees, including a small number of division heads, are represented by the Teamsters union.

The status of agreements with municipal employees is as follows:

- International Brotherhood of Police Officers Local 301 – expires on June 30, 2005
- International Association of Firefighters, AFL-CIO Local 1363 – expires June 30, 2006
- Teamsters union will expire on June 30, 2005
- LIUNA – Crossing Guards – expires June 30, 2005*
- LIUNA – Highway, Maintenance and Recreation employees — expires on June 30, 2005
- NAGE – Library employees – expires on June 30, 2005

The current status of agreements for school employees is as follows:

- Cranston Teachers' Alliance—expires August 31, 2005
- Cranston School Dept. Employees Local RI-153—expires June 30, 2005
- Cranston Association of School Administrators —expires June 30, 2005
- Cranston Association of Para-Professionals —expires August 31, 2005
- Cranston School Bus Drivers Local 8—expires June 30, 2005
- Cranston Public School Secretarial Employees Council #94 AFSCME Local —expires August 31, 2005
- Cranston Teacher Alliance—Technical Assistance—expires August 31, 2005
- Cranston Administrative Management Staff—expires June 30, 2005
- LIUNA – Bus Drivers and Mechanics – expires June 30, 2005

*See "CITY FINANCES-Recent Events" for information pertaining to the City's crossing guards.

PROPERTY TAXES

General

Under State law, valuations of real and personal property are assessed as of December 31, and the levy thereon may be paid in full or in equal quarterly installments without penalty, at the taxpayer's option. The City's fiscal year begins July 1, with taxes based on the prior December 31 assessment payable in full July 15 or quarterly thereafter.

The City has yearly tax sales for prior and current year delinquent real property taxes. Delinquent automobile excise taxes are collected in cooperation with the State Registry of Motor Vehicles. If automobile excise taxes have not been paid, information is supplied to the Registry of Motor Vehicles and motor vehicles may not be re-registered until excise taxes are paid in full. Delinquent personal property taxes and excise taxes are collected through an outside collection attorney. The City assesses an interest charge of 12 percent per annum on delinquent accounts.

The General Assembly has authorized the phase out of retail and wholesale inventory over the next several years. The loss of this revenue is to be reimbursed to the cities and towns by the State.

Motor Vehicle Excise Tax Phase Out

The General Assembly passed legislation during the 1998 Legislative Session that will eliminate municipal authority to levy an excise tax on motor vehicles and trailers after fiscal year 2007. Taxes shall be phased out beginning with tax bills generated for the 1999-2000 Fiscal Year by eliminating the lowest value vehicles from the tax roll first, while providing for lowering of taxes on all vehicles. This legislative directive requires all cities and towns to exempt the first \$3,500 (based on NADA valuation) in value on all motor vehicles subject to taxation in fiscal year 2001-2002. Thereafter, the value of the exemption will increase each year until a full phase-out is reached in fiscal year 2007. The adopted Motor Vehicle Tax Phase-Out also freezes the City's 1998 Tax Rate for motor vehicles for all future assessment periods.

To offset projected State budget deficits, in 2002, the General Assembly amended this legislation to extend this phase-out period until fiscal year 2008 and to establish the exemption current for fiscal year 2003 and thereafter at \$4,500. However, phase-outs occurring beyond fiscal year 2003 are subject to annual review and appropriation by the General Assembly. Therefore, no municipality may plan or rely on the continuation of this phase-out beyond fiscal year 2003 unless such phase-out is specifically approved by the General Assembly.

Tax Limitations

Section 44-5-2 of the Rhode Island General Laws provides that a city or City may not levy a tax in any year in an amount greater than five and one-half percent (5.5%) in excess of the amount levied for the prior year unless it qualifies for certain exceptions relating to loss of non-property tax revenue, emergencies or payment of debt service. Any levy in excess of five and one-half percent (5.5%) and qualifying under the provisions of Section 44-5-2 shall be approved by a majority vote of the governing body of the city or town, or in the case of a city or town having a financial town meeting, the majority of electors present and voting at the financial town meeting shall approve the excess levy. The City does not have a financial town meeting.

The City's 2003-2004 tax levy of \$136,756,193 was adopted under this procedure by unanimous vote of the City Council.

Section 44-5-2 makes it clear that nothing contained therein constrains the payment of obligations as prescribed by Section 45-12-1 of the Rhode Island General Laws, which provides that the outstanding notes, bonds, and contracts of cities and towns shall be paid and be fulfilled according to the tenor thereof and that all taxable property in each city or town shall be the subject of taxation without limitation as to rate or amount to pay general obligation bonds or Bonds of the city or town.

Furthermore, Section 44-5-2 provides that the amount levied by a city or town shall be deemed to be consistent with the five and one-half percent (5.5%) levy growth cap if the tax rate is not more than one hundred and five percent (105%) of the prior year's tax rate. In this manner, property assessment growth is captured within the base prior to application of the five and one-half percent (5.5%) limitation.

Assessed Valuations

Under State law, State municipalities are restricted from levying general taxes, except *ad valorem* taxes upon real and tangible personal property and an excise tax on motor vehicles.

Motor vehicles and trailers registered under the laws of the State are subject to an excise tax administered and collected by the City, assessed on the basis of the average retail price, determined pursuant to regulations of the State Vehicle Value Commission, or a uniform percentage thereof not to exceed one hundred percent (100%). The excise tax

levy applies to all motor vehicles and trailers in the city or town where the owner lives, where the principal place of business is located in the case of business entities or where customarily kept if customarily kept in some other city or town.

The following table sets forth the assessed valuation of real and personal property in the City as of December 31, for the calendar years indicated.

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽²⁾</u>
ASSESSED VALUATIONS:					
Real Property	\$3,387,033,100	\$3,425,766,400	\$3,471,476,900	\$3,526,107,500	\$5,050,532,200
Tangible Personal Property ⁽¹⁾	<u>672,320,596</u>	<u>670,265,695</u>	<u>726,632,739</u>	<u>763,362,568</u>	<u>787,898,647</u>
Total Assessed Valuation	\$4,059,353,596	\$4,096,032,095	\$4,198,109,639	\$4,289,470,068	\$5,838,430,847
Less Exemptions	<u>936,927,402</u>	<u>969,459,485</u>	<u>1,018,955,609</u>	<u>935,629,379</u>	<u>381,112,302</u>
Net Real and Tangible Property	\$3,122,426,294	\$3,126,572,610	\$3,179,154,030	\$3,353,840,689	\$5,457,318,545
Tax Rate Per \$1,000 Valuation	\$31.74	\$31.74	\$32.50	\$34.38	See Tax Rates

(1) Includes Motor Vehicle Excise Taxes

(2) Revaluation

Tax Rates

A Citywide revaluation of real estate was used in the preparation of tax bills for fiscal year 2004. Since the recent revaluation, the City has used multi-tiered tax. The tax rate for motor vehicles is capped in accordance with State law, as described above. The inventory tax rate is being decreased by 10 percent a year until the tax is phased out.

For fiscal year 2004, the City's tax rates are as follows:

Residential	\$22.40	Motor Vehicle	\$42.44
Commercial	\$29.70	Inventory	\$15.86
Tangible	\$33.60		

Taxable Property

The following table sets forth an analysis of taxable real and personal property in the City by class for the Fiscal Years 2001 through 2003.

<u>Class</u>	<u>City of Cranston</u>			<u>State</u>
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2003</u>
Residential	70.71%	69.7%	68.96%	70.97%
Commercial	14.09	14.52	15.16	15.85
Industrial	4.19	4.23	4.18	2.82
Utilities and Railroads	1.22	1.21	1.21	1.77
Motor Vehicles	9.55	10.14	10.29	8.13
Other	<u>.24</u>	<u>.20</u>	<u>.20</u>	<u>.45</u>
Total	100.00%	100.00%	100.00%	100.00%

Source: State of Rhode Island Department of Administration; Annual State Report on Local Government Finances and Tax Equalization.

Principal Taxpayers

The following table sets forth the principal taxpayers in the City and the assessed valuation of the property owned by such taxpayers as of December 31, 2002.

<u>Taxpayers</u>	<u>Tax Classification</u>	<u>Assessed Valuation</u>	<u>Tax Assessment (Fiscal Year 2004)</u>
Alfred Carpiionato.	Real Estate & Tangible	\$60,207,574	\$1,783,468.75
Gateway Woodside Inc.	Rea Estate & Tangible	55,353,482	1,644,361.83
Picerne Properties	Real Estate & Tangible	31,455,823	924,876.90
Cox Comm. Inc.	Real Estate & Tangible	24,976,700	825,750.42
Narragansett Electric Co.	Real Estate and Tangible	23,535,880	782,887.29
Lowes	Real Estate, Tangible, & Inventory	21,204,772	577,437.99
Brewery Parkade	Real Estate	20,447,800	607,799.66
Independence Park Property	Real Estate	18,143,400	538,858.98
Swarovski American	Real Estate & Tangible	17,498,759	556,362.40
New England Gas Company	Real Estate & Tangible	16,286,100	547,212.96

Tax Rate, Levy and Collection Record

The following is a schedule of tax rate, levy and collected taxes for the fiscal years indicated.

<u>Fiscal Year</u>	<u>Tax Rate</u>		<u>Net Adjustments</u>	<u>Net Levy</u>	<u>End of Year Collections (1)</u>	<u>Net Levy</u>	<u>June 30, 2003</u>	<u>Net Levy</u>
	<u>Per \$1,000.00</u>	<u>Gross Levy</u>				<u>%</u>	<u>End of Year Collections</u>	<u>%</u>
2003(3)	38.63(2)	\$141,507,106	\$13,545,522	\$127,961,584	\$125,690,321	98.23%	\$125,690,321	98.23%
2002	32.59(2)	\$115,745,728	\$12,095,449	\$103,650,279	\$102,588,301	98.98%	\$103,462,489	99.82%
2001	31.74(2)	\$133,804,708	\$32,987,861	\$100,816,848	\$100,124,698	99.31%	\$100,621,362	99.81%
2000	31.74(2)	\$133,064,516	\$31,725,069	\$101,339,446	\$98,472,257	97.17%	\$100,364,956	99.04%
1999	31.74(2)	\$128,605,636	\$27,680,890	\$100,924,746	\$98,913,349	98.01%	\$100,707,602	99.78%
1998	31.74(2)	\$126,702,690	\$26,250,555	\$100,452,135	\$98,451,001	98.01%	\$99,934,755	99.48%
1997	32.09(2)	\$126,719,399	\$25,246,847	\$101,472,553	\$99,602,209	98.16%	\$101,004,034	99.54%
1996	\$42.44	\$97,757,748	\$4,806,754	\$92,950,993	\$91,923,725	98.89%	\$92,342,782	99.35%
1995	\$38.79	\$88,391,591	\$4,278,481	\$84,113,110	\$82,976,012	98.65%	\$83,395,069	99.15%
1994	\$38.79	\$85,365,325	\$3,390,196	\$81,975,130	\$80,133,336	97.75%	\$81,270,621	99.14%

(1) The City has annual tax sales of property on which there are delinquent prior-year as well as delinquent current-year property taxes. Generally, quarterly installments are due July 15, October 15, January 15, and April 15. If by February no installments or only the July 15 installment has been paid, the property is placed on the tax sale list. The tax sale generally occurs in June. For years prior to Fiscal Year 1997 the remaining taxes due largely represent tangible personal property and current automobile excise taxes and prior year automobile personal property taxes. Delinquent automobile excise taxes are collected in cooperation with an outside collection agency and the State Registry of Motor Vehicles.

(2) See "Assessed Valuation" and "Tax Rates" above.

(3) Includes \$12,797,037 Supplemental Tax.

ECONOMIC CHARACTERISTICS

Population

Ranked third in population among the 39 cities and towns in the State in 2000, the City experienced a 4.2% increase in population from 1990 to 2000. Set forth below is a table of the number of inhabitants in the City for various years from 1920 to 2000.

<u>Year</u>	<u>Population</u>
1920	29,407
1930	42,911
1940	47,085
1950	55,060
1960	66,766
1970	74,287
1980	71,992
1990	76,060
2000	79,267

Source: U.S. Bureau of the Census.

Unemployment

The most recent labor market information summary indicates that annualized unemployment for the years indicated was as shown in the following table:

	<u>Annualized</u>							
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
City of Cranston	7.0%	5.2%	5.3%	4.7%	4.1%	4.0%	4.3%	4.8%
State of Rhode Island...	6.6	5.1	5.1	4.9	4.1	4.1	4.4	5.1
United States.....	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8

Source: Rhode Island Department of Labor and Training.

	<u>2003 Monthly</u>										
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>
City of Cranston	5.4%	5.5%	5.1%	4.9%	5.2%	5.8%	5.5%	5.1%	4.7%	4.4%	4.4%
State of Rhode Island	6.1	5.1	5.6	5.0	5.1	5.5	5.5	5.3	4.5	4.2	4.0
United States	6.5	6.4	6.2	5.8	5.8	6.5	6.3	6.0	5.8	5.6	5.6

Source: Rhode Island Department of Labor and Training.

Largest Employers

The largest employers in the City as of October 1, 2003 are listed below.

<u>Name</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Jan-Co	Restaurant	4,627
City of Cranston	Municipal Government	2,806
Swarovski Consumer Goods Ltd.	Jewelry/Crystal manufacturer	1,000
Citizens Bank	Bank	1,000
Taco, Inc.	Heating components	530
Ross-Simons of Warwick	Jewelry/Gift distribution	465
The Stop & Shop Co., Inc.	Supermarket Operator	400
Cranston ARC	Individualized Services	350
DB Kelly Associates	Security Guard Services	315
Professional Security Services, Inc.	Security Guard Services	280
Rise Performance Contracting	Energy Conservation and Mgmt	276
Thielsch Engineering Inc.	Consulting	263
Wal Mart Stores, Inc.	Retail outlet	237
North Safety Products	Safety products	225
Pepsi	Soft drink manufacturer	224
Lowe's	Hardware	210
Tasca	Automotive	171
Trader Publishing Co.	Publishing	122
McLaughlin & Moran	Alcoholic beverage Distributor	115
Cranston Print Works	Printing	108
Total		13,724

Source: City Office of Economic Development

Economic Development

The City of Cranston places a high priority on economic development initiatives in order to assure continued additions to the City's tax base and to improve opportunities for Cranston residents. The City has successfully implemented aggressive business recruitment and expansion programs and has reinvested heavily in its urban business corridors. Through a variety of forward thinking legislative initiatives, the City offers comprehensive investment incentives to increase the financial viability of the City's new and existing development areas.

The City has a commitment to the economic development of all of its available areas and strives to achieve a balance between appropriate land use and bringing higher quality jobs to its residents. With the assistance of the Department of Economic Development, the City has been a leader in bringing industrial and commercial development to its numerous sites over the past decade. Convenient highway access, ample water and sewer services, and a tradition of excellent municipal services combine to provide the type of environment that the business community seeks when considering expansion or relocation.

Industrial Parks

Howard Industrial Park, located at the interchange of Interstate Route 95 and State Route 37, was the City's major economic development success story of the 1970s and 1980s. The park houses 38 companies with a workforce of 3,000. Recognized as one of the premier industrial parks in the State, the park is home to several of the City's largest taxpaying companies. In spite of the trend of the jewelry industry to go overseas, the Howard Park is fast becoming a "business cluster" for jewelry manufacturing and distribution. This area is currently home to world famous Swarovski Crystal and Jewelry and Ross-Simon's national distribution. The area will soon include nationally known Tiffany Jewelry and a large local company is moving from Providence, Drew Easton Manufacturing.

Western Cranston Industrial Area - This new industrial park, located at the interchange of Interstate Route 295 and Route 14, continues to have strong interest and development as part of the City's important industrial tax base. Nationally known Con-Way Trucking recently opened a major new terminal on 13 acres. Three companies from

Massachusetts, Pro Tools, Bay State Florist and Detroit Diesel, will bring nearly 100 new jobs to this industrial area within a year. Approximately 85 acres of fully serviced industrial land with excellent highway access remain available for development.

Garden City Shopping Center Renovation

Originally developed in the 1950s, the Garden City Shopping Center was the first suburban shopping center in the State. The second phase of a \$20 million renovation and expansion project was completed several years ago. This revitalized retail area is the site of numerous public activities and a source of considerable civic pride.

Recent Development Initiatives

Cranston Parkade — The long awaited redevelopment of the seventy-seven acre former Narragansett Brewery property is nearing completion. The Brewery Parkade has over 400,000 square feet of retail shopping area including such well-known retailers including Lowe's, Kmart, A.J. Wright, Super Stop & Shop, and several smaller stores. Phase II, the office development phase, has begun with a new 120,000 sq. ft. complex to house the Katherine Gibbs School, which opened in January 2004 and accommodates over 1500 aspiring students. Additional office buildings are currently in the planning stages. National restaurant chain, Texas Roadhouse, is currently constructing a new facility in this area as well. This substantial and visible economic redevelopment effort along Rt. 10 is proving to be a catalyst for the redevelopment of other nearby former industrial sites.

Western Cranston Office/Retail Development — Taking advantage of a vacant 100-acre parcel at the interchange of Interstate Route 295 and State Route 14, the City revised its zoning of the site to approve the construction of a 200,000 sq. ft. retail complex and a 300,000 sq. ft. office park. The construction of the retail component of this development is completed, and is anchored by a Rojack's supermarket and a Wal-Mart department store. The office park will offer the corporate office client a landscaped business environment currently unavailable in the City.

Sockanosset Crossings — Site work has begun on the location of the State's long vacant "reform school" adjacent to the very successful Garden City Shopping Center. Recently approved plans call for a mixed use redevelopment which incorporates 368,000 square feet of retail, office, restaurant, and high end residential uses in both new and historically restored buildings. Five million dollars of State highway work currently underway will facilitate access to this project. The first phases of this scheduled work have been completed and owners are working towards a November 2004 opening.

Citizens Bank Expansion — The Citizens Bank technology service center, located in the former Davol Company, is already the City's single largest office employer. Citizens Bank is planning a major expansion of 90,000 square feet and another 700 jobs at this Cranston facility. Located in close proximity to both the Sockanosset Crossings Project and the Garden City Shopping Center, it provides an excellent complement to the retail and service establishments located nearby.

Tasca Ford Lincoln Mercury — Nationwide the largest Ford dealership, Tasca recently opened its new regional headquarters in Cranston. The project resulted in the redevelopment of formerly abandoned State property and created a state-of-the-art Ford Lincoln Mercury Dealership and Service Center that is a model for other Ford dealerships throughout the United States.

CITY INDEBTEDNESS

Except as explained below, under Rhode Island law the City may not, without special statutory authorization, incur any debt, which would increase its aggregate indebtedness not otherwise excepted by law to an amount greater than 3% of the taxable property of the City. Deducted from the computation of aggregated indebtedness is the amount of any borrowing in anticipation of taxes authorized by law and the amount of any sinking funds maintained by the City. The current three percent debt limit of the City is \$175,152,925 based on assessed valuations of taxable property as of December 31, 2002 of \$5,838,430,847. There is currently \$3,053,000 of outstanding debt of the City, which is subject to the 3% debt limit.

The State of Rhode Island General Assembly may, by special act permit the City to incur indebtedness outside the 3% debt limit. Bonds issued either within the 3% debt limit or by special legislation adopted by the General Assembly authorizing the City to incur debt are subject to referendum by the electors of the City. On June 30, 2003, the City had \$66,865,156 of debt outstanding that is outside the 3% debt limit.

In addition to debt authorized within the 3% debt limit and debt authorized by special act of the General Assembly, Rhode Island General Laws Section 45-12-11 authorizes the State Director of Administration, upon petition by a municipality, to authorize such municipality to incur indebtedness in excess of the 3% debt limit whenever the Director shall determine that the sums appropriated by the municipality or its funds available are insufficient to pay the necessary expenses of the municipality. The City has not requested the State Director of Administration to authorize indebtedness of the City under Section 45-12-11.

Comparative Statement of Outstanding General Obligation Debt

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
BONDED DEBT: Public Improvements	\$51,576,701	\$46,713,665	\$53,716,000	\$50,853,542	\$46,098,154	\$42,025,156
CERTIFICATES OF PARTICIPATION:	\$ —0—	\$ —0—	\$ —0—	\$ 5,130,000	\$ 4,890,000	\$4,640,000
BOND ANTICIPATION NOTES ⁽¹⁾ :	<u>\$ 6,920,000</u>	<u>\$ 5,575,000</u>	<u>\$ —0—</u>	<u>\$ 9,000,000</u>	<u>\$17,798,000</u>	<u>\$27,893,000</u>
Total	\$58,496,701	\$52,288,665	\$53,716,000	\$64,983,542	\$68,786,154	\$74,558,156
SELF-SUPPORTING DEBT:						
Water Enterprise	\$ 815,648	\$ 655,692	\$ —0—	\$ —0—	\$ —0—	\$ —0—
Sewer Enterprise	<u>6,351,295</u>	<u>4,886,950</u>	<u>7,388,000</u>	<u>5,948,556</u>	<u>4,448,683</u>	<u>3,065,353</u>
Total Self-Supporting	\$ 7,166,943	\$ 5,542,282	\$ 7,388,000	\$ 5,948,556	\$ 4,448,683	\$3,065,353

(1) State and/or Federal Aid Anticipation Bonds, Revenue Anticipation Notes and Tax Anticipation Notes are not included under BOND ANTICIPATION NOTES. See "CITY FINANCES - Outstanding Notes" herein for details.

Debt Ratios and Debt Per Capita

Fiscal Year	Population	Net		Estimated Full Valuation	Gross Bonded Debt and Bond Anticipation Notes ⁽⁴⁾		Ratio of Gross Debt to Estimated Full Value ⁽³⁾	
		Assessed Valuation ⁽¹⁾	Rate of Assessment ⁽²⁾		Gross Debt Per Capita ⁽³⁾	Estimated Full Value ⁽³⁾		
<u>Ended June 30</u>	<u>Population</u>	<u>Valuation⁽¹⁾</u>	<u>Assessment⁽²⁾</u>	<u>Valuation</u>	<u>Notes⁽⁴⁾</u>	<u>Per Capita⁽³⁾</u>	<u>Full Value⁽³⁾</u>	
1994	76,060	\$2,116,944,165	61.0%	\$3,470,400,270	\$80,059,000	\$1,053		2.31%
1995	76,060	2,193,876,880	60.8	3,608,350,132	80,987,000	1,065		2.24
1996	76,060	2,218,013,615	59.0	3,759,345,110	79,769,000	1,049		2.12
1997	76,060	3,163,479,271	96.9	3,264,684,490	73,890,000	971		2.26
1998	76,060	3,088,024,688	94.7	3,260,849,723	65,663,644	863		2.01
1999	76,060	3,102,955,930	89.9	3,451,563,882	57,830,947	760		1.68
2000	79,269	3,122,426,294	80.8	3,864,388,978	61,104,000	771		1.58
2001	79,269	3,126,572,610	76.0	4,113,911,329	65,802,098	830		1.60
2002	79,269	3,179,154,030	76.4	4,161,196,374	68,344,837	862		1.64
2003	79,269	3,353,840,689	76.8	4,366,980,064	72,983,509	921		1.67

(1) As of December 31 of the prior year; Net of personal exemptions and exempt property but not homestead exemptions.

(2) Rate of assessment as determined by the City's Tax Assessor.

(3) The debt ratios and debt per capita do not reflect State Aid for school construction received. The ratios do not reflect sewer assessments received for payment of sewer debt service and water charges.

(4) Excludes 2000 Certificates of Participation.

Outstanding Bond Authorizations

The following table sets forth information relating to the City's bond authorizations:

Public Laws	Chapter	Year	Description	Original Authority	Bonds Issued	Bond Anticipation		Remaining Authority
						Notes Outstanding		
	289	1994	Sewer Treatment Plant Improvements	\$7,000,000	\$700,000	\$0		\$6,300,000
	118	1996	School Improvements	\$8,700,000	\$8,700,000	\$0		\$0
	95	1998	Police Department Equipment & Facilities	\$900,000	\$725,481	\$0		\$174,519
	96	1998	Public Works/Highway Equipment	\$700,000	\$448,518	\$0		\$251,482
	97	1998	Fire Department Equipment & Buildings	\$2,500,000	\$2,403,688	\$0		\$96,312
	98	1998	School Buildings	\$2,545,000	\$2,357,001	\$0		\$187,999
	103	1998	Storm Drains	\$300,000	\$300,000	\$0		\$0
	104	1998	Recreational Facilities	\$2,000,000	\$1,671,430	\$0		\$328,570
	153	1998	Highway Improvements	\$2,000,000	\$1,773,756	\$0		\$226,244
	154	1998	Cranston High School West – Additions	\$5,975,000	\$5,975,000	\$0		\$0
	156	1998	Public Buildings	\$500,000	\$500,000	\$0		\$0
	111	2000	Police Station Construction, Furnishing & Equipment	\$13,100,000	\$164,247	\$0		\$12,935,753*
	115	2000	Highway and Traffic Control Improvements	\$4,000,000	\$1,531,223	\$0		\$2,468,777
	113	2000	Storm Drains and Public Works Equipment	\$900,000	\$246,893	\$0		\$653,107
	80	2000	Open Space Acquisition	\$1,000,000	\$481,090	\$0		\$518,910
	303	2000	Playgrounds and Athletic Fields	\$2,400,000	\$892,502	\$0		\$1,507,498
	112	2000	Schools and School Facilities	\$13,865,000	\$2,450,171	\$0		\$11,414,829
RI General								
Laws 45-12-2								
Ordinance No.								
	2002-22		Fire & Safety Equipment	\$2,445,000	\$325,053	\$0		\$2,119,947
	2002-21		Schools and School Facilities	\$2,925,000	\$0	\$0		\$2,925,000
	2002-18		Schools and School Facilities	\$2,727,947	\$2,727,947	\$0		\$0
					\$34,376,000	\$0		\$42,106,947

Actual Bonded Debt Service Requirements

The following table sets forth actual bonded debt service requirements for Fiscal Years 2004-2024

<u>Fiscal Year</u>	<u>General Obligation</u> <u>Prior to February 15, 2004</u>		<u>Sewer</u>		<u>General Obligation</u> <u>Issued February 15, 2004</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
6/30/2004	\$ 2,701,040	\$ 2,277,338	\$ 526,392	\$ 164,759	\$ -	\$ -	\$ 5,669,529
6/30/2005	2,190,000	2,045,385	203,567	105,293	1,355,000	1,064,761	6,964,006
6/30/2006	2,255,000	1,942,249	204,733	96,505	1,355,000	1,037,661	6,891,148
6/30/2007	2,325,000	1,831,459	205,932	87,654	1,355,000	1,010,561	6,815,606
6/30/2008	2,400,000	1,715,671	207,165	78,736	1,355,000	983,461	6,740,033
6/30/2009	2,475,000	1,599,849	208,433	69,751	1,355,000	949,586	6,657,619
6/30/2010	2,550,000	1,479,041	209,737	60,695	1,355,000	912,324	6,566,797
6/30/2011	2,630,000	1,350,855	211,077	51,568	1,355,000	871,674	6,470,174
6/30/2012	2,720,000	1,211,693	212,454	42,367	1,355,000	829,330	6,370,844
6/30/2013	2,815,000	1,060,025	213,871	33,089	1,355,000	784,615	6,261,600
6/30/2014	2,915,000	899,269	215,327	23,734	1,355,000	737,190	6,145,520
6/30/2015	3,025,000	730,419	216,824	14,298	1,350,000	672,950	6,009,491
6/30/2016	2,300,000	576,366	218,364	4,780	1,350,000	605,450	5,054,960
6/30/2017	2,330,000	439,731	-	-	1,350,000	538,650	4,658,381
6/30/2018	2,460,000	298,009	-	-	1,350,000	472,500	4,580,509
6/30/2019	2,600,000	151,384	-	-	1,350,000	405,000	4,506,384
6/30/2020	1,320,000	38,775	-	-	1,350,000	337,500	3,046,275
6/30/2021	-	-	-	-	1,350,000	270,000	1,620,000
6/30/2022	-	-	-	-	1,350,000	202,500	1,552,500
6/30/2023	-	-	-	-	1,350,000	135,000	1,485,000
6/30/2024	-	-	-	-	1,350,000	67,500	1,417,500
	\$ 42,011,040	\$ 19,647,518	\$ 3,053,876	\$ 833,229	\$ 27,050,000	\$ 12,888,213	\$ 105,483,876

(1) These are general obligation bonds with debt service being paid with non-property tax user fees.

CITY FINANCES

Basis of Accounting

All Governmental Funds and Expendable Trust Funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation and sick leave which are not accrued and (2) principal and interest payments on general obligation long-term debt which are recognized when due.

Property-tax revenue due or past due at the balance sheet date and received within 60 days following year end is recognized as revenue because it is for the year just ended and is considered available to finance expenditures for that fiscal year.

All Proprietary, Non-expendable, and Pension Trust Funds are accounted for using the accrual basis of accounting. These revenues are recognized when they are earned and expenses when incurred.

The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy management control, accountability, or other purposes. The sewer operation is administered through an Enterprise Fund.

Financial Committee

On May 16, 2002 the City and the State of Rhode Island's Department of Administration entered into a Memorandum of Agreement (the "Agreement"). This Agreement established a committee, consisting of representatives from the State Department of Administration and the City. The charge of this committee was to ensure the reorganization and management of the City's finances.

The Committee is scheduled to terminate when the City completes a period of two consecutive fiscal years in which no operating deficit has occurred and has adopted an acceptable comprehensive plan to address the unfunded pension liability. If at any time during FY 2003 the City experiences two consecutive quarterly deficits or after the conclusion of FY 2003, the City, in the opinion of the Chairman, meets the criteria of Rhode Island General Laws Section 45-9-3, the Chairman shall have the authority to recommend that a budget and review commission be established under State law. The State's Director of Administration, the Mayor, the City Council President and the Superintendent of Schools executed this Agreement. The Committee last met in November 2002.

The City's FY 2002 audit was completed on December 30, 2002. The General Fund and operating deficit for FY 2002 was \$(240,985). The City's general fund balance at the close of FY 2002 was \$(1,426,679). The City's FY 2003 audit was completed on December 15, 2003. The General Fund had an operating surplus for FY 2003 of \$7,103,553. The City's general fund balance for FY2003 was \$5,676,874. It should be noted that the City's FY 2003 management letter contained no reportable conditions.

Recent Events

Since taking office on January 6, 2003, Mayor Laffey and the City Council have acted quickly to restore balance to the City's financial condition. A Five Year Recovery plan has been formulated in full cooperation with the State Auditor General. Specific elements of this recovery plan include:

- By City ordinance, the establishment of a Financial Review Board comprised of seven members, two to be appointed by the Auditor General, two to be appointed by the State Director of Administration, one to be appointed by the Mayor, one to be appointed by the City Council, and one by the School Department. The Auditor General selects the Chairman.
- The creation of an Internal Audit function
- A FY 2003 supplemental tax levy of \$12,600,000 (which has been authorized by the Rhode Island General Assembly) with a due date not later than June 30, 2003. The proceeds from the levy were used to eliminate accumulated deficits in the general, capital, special revenue and enterprise funds. The City has incorporated this increase in the fiscal year ending June 30, 2004 tax levy.
- Providing for performance and forensic audits in order to identify potential expenditure savings.

The City has also taken steps to address its unfunded accrued liability for the City-run pension plan for police and firefighters by adopting ordinances which eliminate automatic increases in pension benefits for certain retirees. Bargaining representatives for police officers and firefighters have entered into arbitration with the City pertaining to the validity of the ordinances. It is likely that any decision of the arbitrator will be appealed to the Rhode Island Superior Court. If the City is unsuccessful in eliminating the automatic increases, it is possible that the City's required annual contribution to the pension plan would increase. Current estimates are that any such increase would be approximately \$3 million per year.

School Budget

Rhode Island law requires each municipality to appropriate or otherwise make available to its school committee an amount sufficient to fund a basic education program, which program is determined by the State (Rhode Island General Laws Sections 16-7-23 and 16-7-24). However, whenever a city, town or regional school committee determines that its budget is insufficient to comply with these statutory requirements, the procedures set forth in Rhode Island General Laws § 16-2-21.4 are followed. Currently, the City is a defendant in an action brought by the School Committee pursuant to Rhode Island General Laws § 16-2-21.4. The School Department is seeking an additional \$3.2 million in appropriations from the City of Cranston. The City is vigorously contesting this matter, and the City asserts that the moneys sought by the School Department are not necessary for the school year.

Crossing Guard Contract

In July 2003, the City took steps to replace its current crossing guards with a private firm. The crossing guards sought, and were granted an injunction by Rhode Island Superior Court in September 2003. Pursuant to the injunction, the crossing guards were reinstated, pending the City's appeal of the injunction to the Rhode Island Supreme Court and the decision of an arbitrator as to whether the City had the authority to replace them. Although the current crossing guard contract will remain in effect until June 30, 2005, the decision of the arbitrator and/or the Supreme Court would impact whether the current crossing guards would continue to be employed under this contract with the City.

Reporting Requirements of Municipalities and School Districts

In June 2003, the Rhode Island General Assembly passed new financial reporting requirements for municipalities in order to ensure that municipalities and school districts monitor their financial operations on an ongoing basis and to prevent potential budget deficits (Rhode Island General Laws § 45-12-22 (the "Financial Reporting Act")).

Reporting

- The chief financial officer of the municipality must submit monthly reports to the municipality's chief executive officer, each member of the city or town council, and school district committee certifying the status of the municipal budget, including the school department budget or regional school budget.
- The chief financial officer of the municipality must also submit quarterly reports to the State Office of Municipal Affairs certifying the status of the municipal budget. The chief financial officer of the school department or school district shall certify the status of the school district's budget and shall assist in the preparation of these reports.
- If any reports project a year-end deficit, the chief financial officer of the municipality must submit a corrective action plan, providing for the avoidance of a year-end deficit, to the State Office of Municipal Affairs no later than thirty (30) days after completion of his or her monthly budget analysis.
- If, at the end of the fiscal year, the chief financial officer determines that it is likely that the city or town's general fund or combined general fund and unrestricted school special revenue fund will incur a deficit, the municipality must immediately develop a plan to eliminate the accumulated year-end deficit by annual appropriation over no more than five (5) years. This plan must be submitted to the State Auditor General for approval.

Restrictions and Requirements

- No municipality can sell long-term bonds in order to fund a deficit without prior approval by the Rhode Island Auditor General and the Director of the Rhode Island Department of Administration.
- No municipality can incur expenditures or obligate the municipality to expend unbudgeted amounts in excess of \$100,000 without first notifying the city or town council of the proposed expenditure and identifying the source of funding. Any such expenditure must be included in the chief financial officer's monthly report.
- No school committee or school department can incur accumulated unbudgeted expenditures in excess of \$100,000 without notifying the chief financial officer of the municipality of the proposed expenditure and identifying the source of funding. Any such expenditure must be included in the chief financial officer's monthly report.
- School committees, boards or regional school districts that are independent government entities within a municipality must cooperate in providing to the chief financial officer all information needed to formulate his or her reports and the deficit elimination plan.

Remedies

- If a municipality does not comply with the requirements of the Financial Reporting Act, the State Auditor General or State Office of Municipal Affairs, through the Director of Administration, may elect any or all of the following remedies:

- Petition the Superior Court for mandatory injunctive relief seeking compliance with the provisions of the Financial Reporting Act;
- In the event a municipality fails to provide a year-end deficit elimination plan, implement a financial review commission pursuant to Rhode Island General Laws Section 45-9-3; or
- Withhold State Aid.
- If a school committee or board fails to cooperate with the municipality or provide all information requested by the chief financial officer needed to formulate a plan:
 - The Auditor General or the Director of Administration may petition the Superior Court to order the school committee or board to cooperate; and
 - The Director of Administration may also direct the Rhode Island Controller and General Treasurer to withhold state aid from a school committee until the school committee or board cooperates in the formulation of the plan.

Budgetary and Audit Procedures

The City Charter provides that no later than March 1 all departments in the City must submit preliminary estimates of expenditures to the Director of Finance. The City Assessor must submit an estimate of valuation subject to tax. The Mayor and Director of Finance, no later than April 1, must submit to the City Council an operating budget and features of the capital improvement program. The City Council acts on the budget not later than May 15. The City Council may increase, decrease or strike out items of the budget as submitted by the Mayor provided that the balanced relation between expenditures and receipts is preserved. Within 48 hours after the budget is returned to the Mayor, he may veto any changes to the budget made by the City Council. A two-thirds vote of the City Council may override the veto of the Mayor.

The City of Cranston adopted its fiscal year 2003-2004 budget by a unanimous vote of the City Council. The budget contained the following items to achieve structural balance: Property tax collections assumed to be collected at 96% of the current levy; a required reserve of \$750,000; and, a contingent reserve of \$250,000. Set forth below is a budget summary of the City for Fiscal Years 2002, 2003 and 2004.

City Budgets (2002-2004)

	<u>Adopted 2002</u>	<u>Adopted 2003</u>	<u>Adopted 2004</u>
Revenues			
Tax Collections	\$105,864,979	\$124,101,686	\$130,762,861
State Grants	\$14,839,918	\$22,958,572	\$21,378,620
Other Revenues	\$14,415,402	\$6,186,376	\$6,448,238
Surplus Appropriations	-0-	-0-	-0-
School Department	<u>\$33,055,273</u>	<u>\$35,108,620</u>	<u>\$35,108,620</u>
Total Revenue	\$168,175,572	\$188,355,254	\$193,698,339
Less: School Department	<u>(\$33,055,273)</u>	<u>(\$35,108,620)</u>	<u>(\$35,108,620)</u>
Total Net Revenue	<u>\$135,120,299</u>	<u>\$153,246,634</u>	<u>\$158,589,719</u>
Expenditures			
City Administration	\$64,570,601	\$73,659,295	\$81,755,200
Debt Service	\$10,580,172	\$17,698,683	\$10,195,793
School Department	\$93,024,799	\$95,124,893	\$101,747,346
Less: School Revenue	(\$33,055,273)	(\$35,108,620)	(\$35,108,620)
Net School Department	<u>\$59,969,526</u>	<u>\$60,016,273</u>	<u>\$66,638,726</u>
Total Expenditures	<u>\$135,120,299</u>	<u>\$151,374,251</u>	<u>\$158,589,719</u>

The City's fiscal position is reported monthly by the Director of Finance to the Mayor and City Council. The report compares revenues received and expenditures paid or encumbered against budgeted revenues and expenditures.

The Charter additionally provides that a comprehensive annual report must be prepared and submitted to the Mayor and the City Council containing a statement of financial operations for the preceding year.

The City Charter provides that not later than three months before the expiration of each fiscal year, the Council shall engage and contract for the services of a certified public accountant or a firm of certified public accountants to make a financial audit of the City. Such audit shall commence at the close of each fiscal year.

**GENERAL FUND
COMPARATIVE BALANCE SHEET
For the Fiscal Year Ended June 30⁽¹⁾⁽²⁾**

Assets	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Cash and Investments	\$8,311	\$5,226	\$2,931	\$6,944	\$5,712
Property Taxes Receivable	106,093	107,056	107,191	118,457	141,154
Due from Governmental Units	3,486	3,452	3,686	3,939	3,909
Due from Other Funds	6,898	14,634	11,370	12,059	6,326
Other	967	316	18	39	137
Total Assets	<u>\$125,755</u>	<u>\$130,684</u>	<u>\$125,196</u>	<u>\$141,438</u>	<u>\$157,238</u>
Liabilities					
Accounts Payable and Encumbrances	\$5,712	\$2,674	\$6,492	\$3,918	\$6,478
Due to Other Funds	0	6,572	5,360	2,991	34
Deferred Revenues	109,882	116,217	116,129	124,326	145,050
Notes Payable	0	0	750	11,630	0
Total Liabilities	<u>\$115,594</u>	<u>\$125,463</u>	<u>\$128,731</u>	<u>\$142,865</u>	<u>\$151,562</u>
Fund Balance	10,161	5,221	-3,535	-1,427	5,676
Total Liabilities and Fund Balance	<u>\$125,755</u>	<u>\$130,684</u>	<u>\$125,196</u>	<u>\$141,438</u>	<u>\$157,238</u>

(1) Prepared from audited financial statements

(2) Values in Thousands

GENERAL FUND
COMPARATIVE STATEMENT OF REVENUE RECEIPTS AND DISBURSEMENTS
For the Fiscal Year Ended June 30⁽¹⁾⁽²⁾

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenues					
General Property	\$100,353	\$102,322	\$103,540	\$108,565	\$130,881
Intergovernmental and Departmental	1,715	7,380	2,356	2,780	7,050
Licenses and Permits	1,445	1,255	1,595	1,689	2,127
Fines and Interest on Late Payments	4,255	938	1,143	1,244	1,169
Interest on Investments	1,050	926	518	154	216
Other Revenues	5,481	5,867	4,701	9,226	9,718
Total Revenues	\$114,299	\$118,688	\$113,853	\$123,658	\$151,161
Expenditures					
City Administration	\$5,864	\$5,331	\$8,155	\$7,909	\$12,006
Public Safety	33,665	37,229	42,977	42,191	47,166
Public Works	9,335	9,394	8,374	8,400	8,244
Parks & Recreation	1,156	1,269	1,520	1,722	1,690
Public Libraries	2,176	2,278	2,635	2,472	2,522
Senior Services	2,624	2,860	3,028	2,807	2,772
Other	422	5,492	673	1,023	8,143
Capital Outlays	0	0	0	2,521	377
Debt Service	7,193	7,864	6,558	8,138	7,228
Total Expenditures	\$62,435	\$71,717	\$73,920	\$77,183	\$90,148
Excess of Revenues Over (Under) Expenditures					
	\$51,864	\$46,971	\$39,933	\$46,475	\$61,013
Transfer (To) From Other Funds					
	(51,828)	(54,482)	(55,536)	(58,724)	(63,536)
Other Financing Sources:					
Proceeds From Leasing	0	0	0	2,521	0
Transfers In	0	2,571	6,668	9,487	9,626
Net Proceeds from Debt Refunding of GO Bonds	0	0	179	0	0
Net Changes in Unreserved Fund Balance for the year	\$36	(\$4,940)	(\$8,756)	(\$241)	\$7,103
Fund Balance (Deficit)					
Previous Year	\$10,125	\$10,161	\$5,221	(\$3,535)	(\$1,427)
Adjustments to Prior Year	0	0	0	2,349	0
Restated Fund Balance (Deficit) Prior Year	\$10,125	\$10,161	\$5,221	(\$1,186)	(\$1,427)
Fund Balance (Deficit) Ending	\$10,161	\$5,221	(\$3,535)	(\$1,427)	\$5,676

(1) Prepared from audited financial statements.

(2) Values in Thousands

* Excise Phase-out Reclassified for presentation purposes

State Grants and Aid

Pursuant to Rhode Island General Laws Sections 16-7-15 to 16-7-34, as amended, the State provides school operations assistance aid to each municipality and school district in the State, subject to annual appropriation by the General Assembly. The statutes provide for reimbursement of school expenditures based on a formula, which adjusts the reimbursement ratio based on the relative equalized valuation of property and median family income relative to the State as a whole. There are no assurances, however, that the Rhode Island General Assembly will continue this program or appropriate sufficient funds for its implementation. State Aid is subject to pro-rata reduction in accordance with State law. Under this program, the City received \$31.9 million for fiscal year 2003, which represented 28 percent of the total school expenditures for that year of \$114.4 million. The school aid is based on the actual expenditures for the year immediately preceding the prior year and commitments (exclusive of debt service). Additionally, in Fiscal Years 2001 and 2002, the City received \$1.1 million and \$1.3 million, respectively, in school construction aid and received \$1.6 million for fiscal year 2003. The City has budgeted \$1.6 million in fiscal year 2004. The State provides school construction aid to Rhode Island municipalities for the cost of building new public schools subject to annual appropriation by the Rhode Island General Assembly. All new construction is eligible to assistance of a minimum of 30 percent of the full approved cost of such buildings. Commencing with Fiscal Year 1991, school housing project cost has included the cost of interest payment on any bond issued after July 1, 1988. Annually the assistance level is increased or decreased by utilizing a formula which takes into account the equalized weighted assessed valuation and the debt service burden of the City compared with the State average of the communities as a whole. The City's share ratio for fiscal year 2004 is 36.2 percent.

In addition to school operations aid and school construction aid, municipalities in the State have received additional aid through the State General Revenue Sharing program. For Fiscal Years 2002 and 2003, the City received \$2,662,372 and \$2,898,349, respectively, in such aid and has budgeted \$2,898,349 in fiscal year 2004. All State grants and aid are subject to annual appropriation by the Rhode Island General Assembly.

The City also received aid from the State for Public Service Corporations Tax (Telephone Tax), partial reimbursement for library debt service costs, and hotel tax from City hotels equal to 1 percent of gross receipts.