



Office of the Auditor General

State of Rhode Island - General Assembly

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January 20, 2025

VIA ELECTRONIC MAIL ONLY

Members of the Warwick City Council
Warwick City Hall
3275 Post Road
Warwick, RI 02886

Dear Members of the Warwick City Council:

On December 19, 2024, I received notification, as required by Rhode Island General Law (RIGL), from the Warwick School Department Superintendent, Ms. Lynn Dambruch, of a projected (\$9.0 million) operating deficit for the fiscal year ending June 30, 2025. On January 13, 2025, I met with City and School officials in order to obtain financial information relative to the School Department's projected fiscal 2025 operating deficit. In that meeting, I found that the facts regarding the deficit were not in dispute and that both the City and the School Department understood the need to take immediate action.

In my opinion, the School Department and the City's executive and legislative branches must embark on an immediate course of action that cannot be met by existing statutory tools designed to address fiscal problems of lesser urgency than those facing the Warwick School Department. After careful consideration of the need for urgent action by the City, I write in support of the Resolution of the City Council, to petition the Rhode Island General Assembly to enact legislation to create a Warwick Public Schools Budget Commission. My support is driven by the following factors:

- The Warwick School Department is projecting a (\$9.0 million) operating deficit for fiscal year 2025. The operating deficit for fiscal year 2024, which is still under audit, approximated (\$1.3 million) which is projected to leave the School Unrestricted Fund in a cumulative deficit position as of June 30, 2024. These deficits occurred in fiscal years where the School Department received increases in State and Local Education Aid totaling \$6.8 million and \$4.6 million, respectively, for fiscal years 2024 and 2025. These facts highlight a trend in operational deficits that underscore the urgency of the fiscal crisis, and the need for immediate and extraordinary action by the City.
- Realization of the current projected deficit in fiscal 2025 could have significant adverse implications for the City. Immediate action is needed to substantially reduce the projected deficit prior to June 30, 2025. Failure to do so could negatively impact the City's credit rating on upcoming debt issuances, which would result in substantial increases in future borrowing costs.
- A proactive corrective action plan needs to be developed as required by RIGL §16-2-9(f) to address the projected deficit for fiscal 2025. The adoption of a fiscally responsible budget for fiscal 2026 is integral to any recovery plan. As such, the process of adopting the Fiscal Year 2026 Budget must include the crafting of a fiscally responsible and feasible deficit reduction plan. The proposed legislation would designate a Budget Review Commission with the responsibility and authority needed to meet this short timeframe.

- The City's fund balance reserves are not sufficient to absorb the projected operating deficit for fiscal year 2025. Warwick's percentage of unrestricted fund balance to the annual general fund total expenditures and other financing uses was 10.59% in the City's last issued audited financial statements as of June 30, 2023. This ratio is lower than the recommended Government Finance Officers Association reserve percentage of 17% (approximately two months of general fund expenditures) for municipalities.
- In conjunction with the need to address the current financial crisis faced by the School Department, a Budget Review Commission would provide the necessary dedicated resources and expertise to also prepare a 5-year budget forecast (required under RIGL § 44-35-10) that would allow improved planning and communication between the School Committee and City Council and minimize unexpected fiscal challenges from arising in future periods.
- The City's allowable incremental increase in the annual tax levy is capped at 4% per RIGL §44-5-2. Thus, the City has limited resources to balance future budgets which are already stressed by increased pension and OPEB contributions.

While the creation of a Budget Commission is an extraordinary course of action, the serious fiscal crisis in the School Department leaves no other responsible option. As required by RIGL §16-2-9(f), my office and other State officials will remain involved in discussions with the City and School Department until a deficit reduction plan is finalized.

Thank you for your consideration of my support for the proposed Resolution of the City Council and I look forward to continuing to work with the City and School Department to address the projected deficit in a timely manner while protecting the long-term fiscal stability of the City of Warwick.

Sincerely,



David A. Bergantino, CPA, CFE
Auditor General

C: Joint Committee on Legislative Services
Honorable Frank J. Picozzi
Members of the Warwick School Committee
Superintendent Lynn Dambruch