

Distressed Rhode Island municipalities face bankruptcy

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As Rhode Island's unemployment remains above 11 percent and bond traders continue to suck money out of the state, an increasing number of its municipalities face the prospect of bankruptcy. Like Central Falls before them, local governments are seizing on the financial crisis as a pretext to tear up contracts covering workers' retirement and health insurance benefits.

While the "Obama Recovery" continues to funnel profits into the pockets of the wealthy, Rhode Island's official unemployment rate increased from 11 percent to 11.1 percent in March, the Rhode Island Department of Labor and Training announced last week. The state lost 600 jobs from February to March.

The state government has responded to the economic crisis by cutting local aid to cities and towns by more than 20 percent since 2008. Providence, the capital, lost more than \$50 million in state aid over the last four years.

While Rhode Island's wealthier suburbs are still able to support themselves with property tax revenues, the same is not true in its cities. This month, a Public Policy Issue Brief published by the Rhode Island Public Expenditure Council (RIPEC) reported that in the "urban core" property taxes accounted for less than half of municipal general fund revenues in 2010.

As a result, local governments are forced to borrow money on the bond markets even as their ratings are lowered, in some cases to junk status. In March 2011, the city of Woonsocket issued \$11.5 million worth of bonds—equal to about 7.5 percent of its total fiscal year 2011 expenditures—just to pay off bonds it had issued the previous August. The state government, which still has a higher bond rating, is planning to sell \$118.5 million in bonds just to roll over existing debt.

The RIPEC brief also looked at four indications that a community is "Fiscally Stressed" or "Distressed": tax

levy as a percent of property value, per capita income, personal income as a percent of property value, and per capita full property value. Using these measurements, eight Rhode Island communities are currently "distressed": Central Falls, Cranston, North Providence, Pawtucket, West Warwick, Woonsocket and Providence, the state capital.

In March 2011, incoming Providence mayor Angel Taveras appointed a Municipal Finances Review Panel that reported a \$70 million deficit in fiscal year 2011 and projected a \$110 million gap for 2012. Taveras, a Democrat, reacted by closing five public schools, threatening jobs and cooperating with the unions to cut more than \$100 million from workers' wages and benefits (see "Providence, Rhode Island budget includes mass layoffs, spending cuts").

Providence has also gone hat-in-hand to the seven largest not-for-profits within its borders—including Brown University—asking them to increase their total payments in lieu of taxes from a paltry \$1.7 million to \$9 million. The latter figure represents only 10 percent of the property taxes these institutions would ordinarily pay, according to city financial statements.

As of the end of December, none of the seven institutions had increased its payments, but Brown continued to stretch the definition of "not-for-profit." Its outgoing president, Ruth J. Simmons, earned more than \$320,000 in 2008 and more than \$450,000 in 2009 as a member of the Goldman Sachs board of directors.

The crisis is causing infighting among local politicians. After discovering the size of the city's budget deficit, Taveras blamed it on his predecessor, David Cicilline. Cicilline, a fellow Democrat, is now in the US House of Representatives. Taveras then hired former judge Robert G. Flanders Jr., who oversaw the Central Falls bankruptcy last summer, as an adviser.

Flanders was fired from that position after telling *Bloomberg News* that bankruptcy was inevitable for Providence.

Central Falls, the first Rhode Island city to declare bankruptcy, is still struggling with the effects. In order to put the city's schools under the control of state education commissioner Deborah Gist, a bankruptcy court judge recently ruled that the Central Falls schools are not part of the city government.

East Providence, a separately incorporated city of 47,000, is also in crisis. In December, its director of revenue appointed a budget commission that is meeting at least weekly and debating ways to avoid running out of cash.

For years, East Providence has been in the habit of covering cash flow by borrowing against future tax revenues through Tax Anticipation Notes. Such stopgaps no longer hold up against the economic crisis, and the city's yearly budget deficits have climbed from \$1.2 million in 2007, to \$5.2 million in 2008, to \$7.2 million last year. In December, Moody's lowered East Providence's bond rating from Baa1 to Ba1, or junk bond status.

The state Department of Revenue has hired attorney Joseph Whelan to advise municipalities on how to rip up existing labor contracts. Whelan has just begun this work in East Providence, while telling its budget commission "that in his experience, the unions often come up with the best cost-saving ideas."

Moody's and Fitch's have also downgraded the bond ratings of the city of Woonsocket to below investment grade. Like other cities and towns, Woonsocket borrows large amounts just to roll over existing debt.

The city's school committee, which is facing a \$2 million budget deficit, imitated Central Falls and Providence by laying off all of its teachers so that it could attack their contract. The committee chairwoman told the *Woonsocket Call* that "we have been on a financial cliff and now we must look at extreme options."

In an effort to stymie political criticism from the right, Governor Lincoln Chafee recently told the state Senate that mismanagement by city and town governments did not cause these crises. A member of the Rhode Island Association of Firefighters responded that "all of you know that is not true," and that the decades-old practice of underfunding pensions is, in

fact, mismanagement.

A recent actuarial report on the Providence retirement plan, for example, documents that the funded ratio of police, fire, and management pensions decreased from 57.4 percent in 1994 to 31.9 percent in 2011.



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