

Case Study Overview: Providence

In March of 2011, Providence Mayor Angel Taveras declared that the city was experiencing a “Category 5” fiscal hurricane. Less than a year later, he announced that the city was on the brink of bankruptcy. Taveras and city officials addressed a two-year, \$180 million budget gap through a combination layoffs and attrition, school closures, service cuts, major concessions from the city’s unions, and several other cost-cutting measures. These actions came against the backdrop of state takeover and, ultimately, the Chapter 9 bankruptcy of tiny Central Falls. The impoverished city of 19,000 was the first rescue attempt under the Rhode Island Fiscal Stability Act of 2010, with two more communities following shortly thereafter, and several more currently teetering on the edge. Providence’s progress shows the importance of taking the long view of city finances and the benefits of state laws that show a clear way out of crisis. In this case, the alternative – bankruptcy – meant organized labor and other stakeholders were willing to find common ground.

City Snapshot. Providence has struggled through the same deindustrialization and hollowing out that has afflicted many cities in the Northeast. The city’s population was 248,674 in 1950, but it had dropped to 179,116 in 1970 – the steepest decline of any city in the US for the same period. Today, Providence and other Rhode Island cities and towns remain sensitive to economic downturns; 25% of Providence residents live in poverty, is nearly 10 percent (compared to 7.5% nationally).

Fiscal Structure. Providence’s operating budget in 2014 is \$662 million. Most of the city’s spending is on people; payroll alone accounts for around 70 percent of the annual budget. Roughly half of the budget will go to the school district, followed by public safety and finance. On the revenue side, the city relies heavily on state aid and property taxes, each about 40% of all revenues.

Fiscal Circumstances. Unable to come to consensus around a 2011 budget, though it was seven months into the fiscal year, City Council members had already expressed serious concerns about the financial conditions of the city. Taveras’s first official action in office was to create a Municipal Finances Review Panel, with representation from state, city, and business community. The Panel was convened to “expeditiously review the current financial condition of all city departments” – including all “revenues, expenditures, liabilities, obligations, arrearages, projections, assumptions” in order to determine the city’s near-term (two-year) budgetary outlook. Their findings revealed dire financial straits:

- a structural deficit of \$70 million for FY2011 and \$110 million for FY2012 – on a \$638 million budget for the city;
- a heavy reliance on one-time fixes such as depleting reserve funds – leaving the city with a total of \$8.4 million in reserves (a little over 1% of the budget, down from 10% in 2008)
- an \$828 million unfunded liability in the city’s pension fund (a 34 percent funding level)
- other Post-Employment Benefits unfunded liability of \$1.5 billion.

Role of the State. In May of 2010, in response to an attempt to file for judicial receivership by the tiny city of Central Falls, the General Assembly passed and Governor Carcieri signed what has become known as the Fiscal Stability Act. The law allows for a three-step intervention into a local

government which has met at least two of several criteria in the law:

- **Step 1: Overseer** who has the power to oversee, monitor, review, and advise – but does not preclude elected officials’ ability to govern;
- **(if necessary) Step 2: Budget Commission** of five members (three appointed by the state, one who is the chief executive of the city or town, and one who is from the city/town council), and which has all the powers of the overseer plus the authority to govern on behalf of the city/town;
- **(if necessary) Step 3: Receiver** which has all the power of the overseer and the budget commission, and operates in place of the city/town elected officials.

Just weeks after the Fiscal Stability Act became law, the General Assembly passed a second law establishing the pecking order by which debtors of a city or town are paid. Bondholders of all debt, including general purpose general obligation bonds, were given priority lien on tax dollars in the event of a budget restructuring via intervention or bankruptcy – putting them ahead of employees, retirees, and, of course, taxpayers who will bear the brunt of any service cuts. Those interviewed in Providence acknowledged that the strength of the actions by the state – and the fact that the pensioners in Central Falls ultimately took large cuts in a bankruptcy proceeding – helped convince union leaders in Providence to negotiate with city officials.

Actions to Respond to the Crisis. Taveras and his staff undertook to fill the sizable gaps identified by the Financial Review Panel by every means necessary – a two-year dance on the brink of financial ruin, with each action “necessary, but not sufficient” on its own to chip away at the gap. These measures yielded \$67 million in savings. The remainder of the \$110 million gap was closed on the revenue side, through fee and property tax increases and payments from non-profits.

Analysis. The experiences of Providence and other distressed Rhode Island communities yield important lessons about confronting a fiscal crisis:

- **Laws and ordinances need to show a clear way out.** Though the state did not get involved in the City of Providence, the Fiscal Stability Act showed the alternative had Mayor Taveras not dealt with the problem head-on.
- **Exposing the extent of the problem is a big part of getting people to the table.** Mayor Taveras’s Municipal Finances Review Panel and another report by the Internal Auditor showed inarguably just how bad things were. The Mayor willingly handed over every forecast, document, or dataset requested by Unions and other negotiating partners.
- **Spread the pain.** All parties were required to sacrifice to deal with the city’s problems, through programmatic cuts, tax increases, and negotiations with all employees and retirees. People do not mind making sacrifices as long as they know they are not being singled out.
- **Take the long view.** Labor leaders no longer held out for the sweetest deal, but compromised for one which provided some security.

Conclusion. Though Providence avoided bankruptcy and is on its way back to fiscal stability, the city still feels the pain of the recession-era cuts implemented by the State and sluggish economic recovery. Given Rhode Island’s small size – it is comprised of only 39 cities and towns -- and the strong role of the state in local government finances, all eyes are on the 2014 gubernatorial election and whether Taveras will throw his hat in the ring or remain at the helm in city hall.