

# Rhode Island's State Intervention and Distressed Communities

Association for Budgeting and Financial Management

John Simmons

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RIPEC

# What is RIPEC?

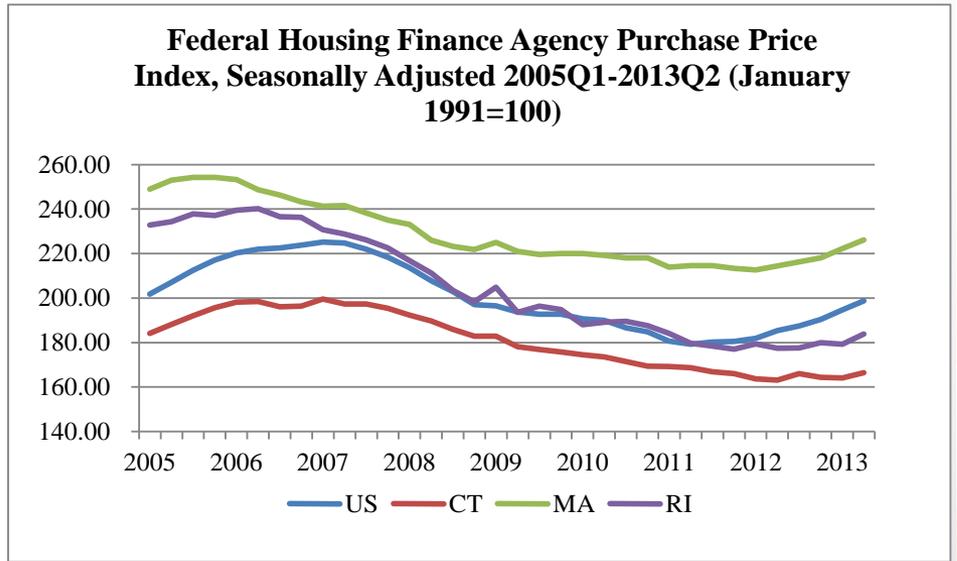
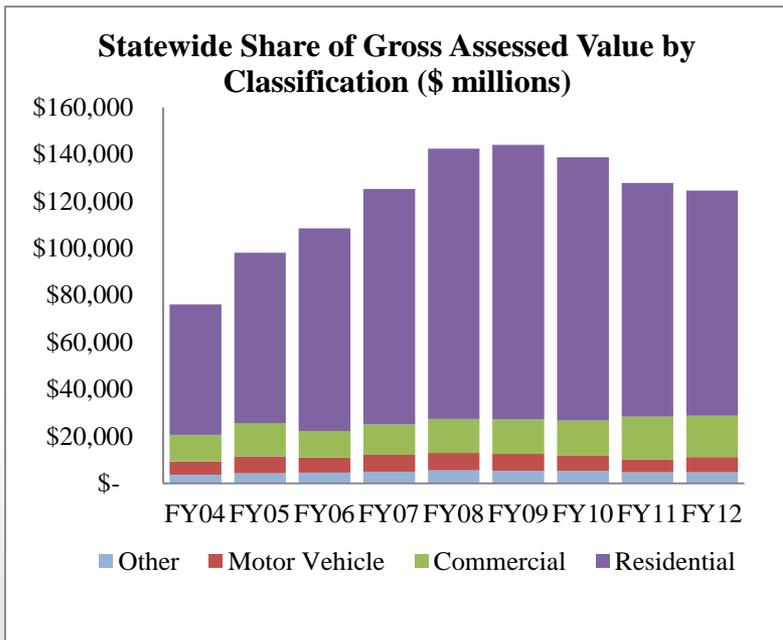
- RIPEC is an independent, nonprofit and nonpartisan public policy research and education organization.
- Organization founded in 1932.
- Primary purpose is to promote more efficient, economical and responsible government.

# Overview

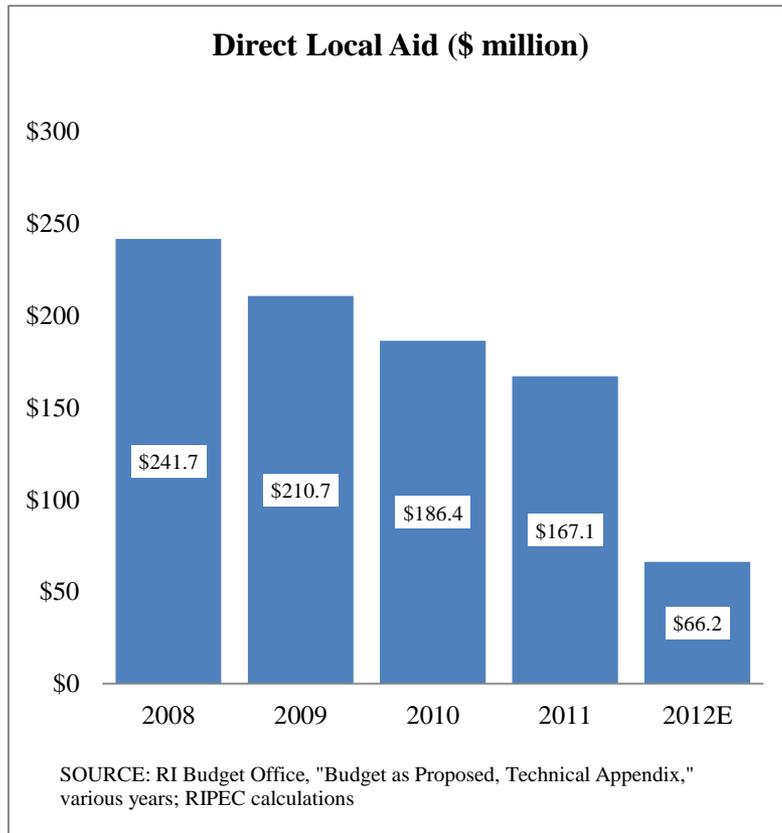
- Economic conditions of Rhode Island municipalities
- Central Falls background information
- Start of state intervention
- Result of state intervention
- Impact on Central Falls and other municipalities
- Questions for consideration

# The Great Recession

- The *Great Recession* took a particularly harmful toll on Rhode Island's municipalities. Between FY 2009 and FY 2012, Rhode Island's statewide assessed residential property values declined by 17.0 percent.
- Moreover, Rhode Island's single-family housing prices fell 30.7 percent between the second quarter of 2006—proportionately more than the national decline (11.7 percent) and the price decline of CT (19.2 percent) and MA (10.0 percent) during this same time period.

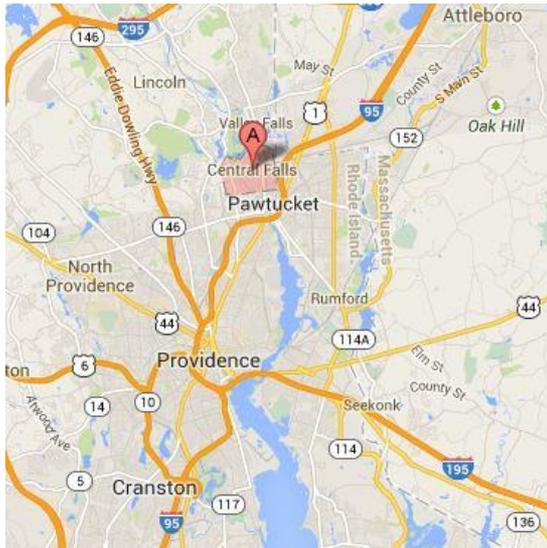


# Municipal Aid



- The negative economic impacts of the Great Recession were worsened by decreasing state aid to municipalities.
- Between FY 2008 and the 2012 enacted budget, direct local aid, excluding education aid, declined from \$241.7 million to \$66.2 million, a decrease of 72.6 percent.
- Meanwhile, Rhode Island's municipalities continued to enter into contractual agreements on topics such as labor, pensions, healthcare, etc without relief from state mandates, including binding arbitration for police and fire contracts.
- Pension assets declined during this time period requiring additional annual contributions.

# Central Falls: Background



- The most prominent case study of Rhode Island municipal distress is Central Falls, Rhode Island.
- Central Falls is a small Rhode Island city with an area of 1.20 square miles, and a population of approximately 19,300 individuals. It is located north of Pawtucket, Rhode Island—which is on the City of Providence’s northern border.
- In FY 2011, Central Falls had an anticipated deficit of approximately \$6 million (35.0 percent of its operating budget) on an approximate budget of \$17 million.
- It had continued substantial long-term obligations such as pension and other post-employment benefits. Outstanding liability was over \$80 million in FY 2010.
- While the city is not responsible for school funding, it has the highest tax burden in the state.

# Central Falls: Starting the Process

- In May 2010, the Mayor and City Council filed a petition with the Rhode Island Superior Court for a receivership without state approval.
- In June 2010, The RI General Assembly enacted, and then Governor Donald Carcieri signed, the Fiscal Stability Act into law. This Act provided a pathway and mechanism for communities to become debtors under Chapter 9 (an action not previously expressly allowed under state law).



**The Fiscal Stability Act addressed the fundamental questions of the state's role in bankruptcy:**

- 1) Should there be state intervention?**
- 2) If so, under what conditions?**

# New Rhode Island State Intervention Process



## Powers and role of Fiscal Overseer

- Compel operational performance audits or similar studies
- Approval of new collective bargaining agreements
- Employ own staff

## Powers and role of Budget Commission

- All powers of fiscal overseer
- Approval of spending and borrowing, including capital budgets
- Levy taxes
- Issue debts
- Personnel authority, including hire/fire
- Suspend local rules and regulations

## Powers and role of Receiver

- All powers of budget commission
- All powers granted to city and town officials relating to financial issues, including education
- Declare bankruptcy

## Powers and role of Receiver (bankruptcy)

- All powers of receiver
- Formulate plan of adjustment
- **Unilateral power to reject or accept any or all existing executory contracts**
- NOTE: this is the first instance in which powers are granted beyond the normal powers of local officials

# Progressive State Intervention

- In Rhode Island, the Fiscal Stability Act determined that a series of steps be taken before final declaration of bankruptcy.
  - The actions include analysis, fact finding, and a declaration of fiscal stress.
  - A receiver's actions needed court approval before labor contracts and other commitments could be unilateral altered. This tipped the scale in a fundamental way.
- This granted the receiver the flexibility to go to court to vacate pensions, or other benefit commitments, which expanded the available options for improving the city's finances.
- Prior to the four step process, the Governor must determine the level of state intervention. A set of principles is used by the Governor and the Department of Revenue to make this decision.
- At the conclusion of the intervention, there is continued monitoring of the state to determine whether requirements are met.

# Central Falls: Impact

- The receiver was granted all the powers of the city's elected officials and was charged with overseeing the city's finances. The receiver had the ability to hire, fire, negotiate contracts, ordinances, etc. However, the education system was a state-run and financed system, and was, therefore, not under the receiver's purview. This receivership law was upheld by the RI Supreme Court in March 2011.
- In June 2011, the General Assembly recessed without providing emergency local aid to Central Falls. However, the General Assembly did pass legislation that guaranteed that municipal general obligation bondholders would be paid back first, even in the event of bankruptcy.
- In July 2011, Justice Flanders proposed a restructuring plan that would have cut retiree pensions by up to 50.0 percent. This was rejected by retirees. In August of 2011, Justice Flanders filed for Chapter 9 bankruptcy—the first municipal bankruptcy filing in the history of Rhode Island. The legality of this filing was challenged by several union groups.

# Central Falls: Results

- Once under bankruptcy, the city reworked its collective bargaining agreements with police, fire, and general employees. New agreements between the receiver and the public safety employees, as well as the retirees, were approved in January 2012 by the bankruptcy judge—contingent upon a General Assembly appropriation of about \$2.0 million. As a result of these new agreements, challenges to the legality of bankruptcy have all been dismissed.
- The plan reached back to retirees as well as active employees to provide a wide ranging solution.
- The court approved a five-year strategic plan that improves all these component pieces such as: a mandated plan of five-year tax increases; the hiring of a finance person with a contract; and reporting requirements.

# Rhode Island State Intervention

- Each step of this process:
  - Provided enhanced state intervention;
  - Limited the control of local officials;
  - Widened the expectations of change; and
  - Provided additional options for the state to implement change.
- However, this process also:
  - Expanded opposition of the local officials;
  - Expanded opposition of organized labor; and
  - Expanded opposition of some segments of the local community.

# Other Rhode Island Municipalities

- Central Falls now has no receiver, a new Mayor, and a new City Council. It has continued to follow its mandatory five-year plan.
- By the end of 2010, the state had intervened in two other distressed municipalities: Woonsocket, and East Providence. East Providence is no longer under state intervention, but Woonsocket still has a Budget Committee.
- The Central Falls example has changed the context of conversations throughout the state, especially in regard to bringing labor unions to the table to negotiate. The authority and the reach of the receiver opened up the ability of municipal government to reach agreements with unions with the threat of bankruptcy.
- Outstanding municipal pension issues also continue to be examined through an ongoing Locally Administered Pension Committee.

# Intervention Considerations

- What role should the local elective officials have in the process?
- Should the process circumvent existing state law?
- Should education be included in control issues?
- Where along the spectrum of intervention do you allow the renegotiation of contracts?
  - Should pension changes (active versus retirees) be allowed? If so, when?
  - Should health care changes (active versus retirees) be allowed? If so, when?
- What are the municipality's obligations to bondholders?
- What party has the ability to be the catalyst for intervention?
- What principles must be met before action?
- What are the political ramifications of state interference?
- Who pays for the cost of the receiver?
- What power should the receiver have over non financial issues?

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