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Reckoning Time for a City's Bad Fiscal Decisions.

Providence has dug itself into a deep hole. Can it find the resolve to dig itself out?

The longer a government's finances are allowed to deteriorate, the fewer options there are when corrective action is finally taken. Anyone who doubts that ought to look at a [proposed 10-year plan](#) commissioned by the city of Providence, R.I., and produced by the federal National Resource Network (NRN). It makes a number of important recommendations, almost all of which would require very unpleasant decisions – the kind that all too many local governments are facing after years and decades of imprudent fiscal decisions.

Providence is confronted with tremendous fiscal challenges, ones severe enough that they could lead to municipal bankruptcy. The city faces an ongoing structural budget gap, one of the drivers of which is payments needed to rescue a public employees' pension that is officially just 27.4 percent funded.

The real pension picture is even worse, because that official funding ratio is based on the wildly unrealistic assumption that fund assets will earn an annual return of 8.25 percent. And there is more than \$1 billion in unfunded liability for retiree health care.

The city also has a comparatively low credit rating, which boosts the cost of borrowing. The degree to which new taxes can be relied upon to raise more revenue is limited: Providence's property taxes and its overall household tax burden are already among the highest in New England. Business taxes also are well above average.

The recommendations by NRN, a public-private consortium that is a component of the Obama administration's Strong Cities, Strong Communities initiative, could serve as a template for action for just about any fiscally struggling local government. To begin with, NRN suggests monetizing city assets and using the receipts to pay down pension and retiree health-care liabilities. A city-owned golf course could be sold, and the Providence Water Supply Board, which operates the state's primary system of reservoirs, water treatment and water distribution, could be leased with a large up-front payment to the city.

NRN also calls for suspending city retirees' cost-of-living adjustments. But a more radical recommendation is to freeze the existing defined-benefit pension fund and convert to a defined-contribution plan under which the city would be responsible only for contributing a set amount, not making specific periodic payments to retirees.

Other recommendations would also affect city workers. One calls for a dramatic reduction in raises based solely on longevity; another recommends reducing the number of paid holidays that employees receive. The fire department is a particular area of concern, one that provides yet another reminder of the perils of making topics beyond pay and benefits subjects for collective bargaining. The department has overtime costs and minimum staffing levels that are the highest among eight comparable New England cities. NRN suggests suspending existing minimum staffing levels once overtime spending reaches a set threshold. A more dramatic recommendation is that the

city look at reducing the size of its fire department.

The story of how Providence dug itself into such a deep fiscal hole is a familiar one. During the 1990s, the city spent countless millions, most of it financed with debt, developing its downtown area. Unlike so many other cities that invested heavily in their downtowns, Providence did get something for its money: It soon gained a reputation as one of the nation's hippest medium-sized cities. But amid all of the attention city leaders seemed to forget that those creditors would eventually expect to be paid back.

Downtown Providence is indeed vibrant, but now the bills are coming due and the path to solvency has become extremely narrow. Whether Providence and its residents will find the will to take that difficult path remains to be seen. If the city does rise to the challenge, it might even end up providing a map for other cities facing similar self-inflicted fiscal crises.

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