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Muni Finances Are a Mess But a Once-Junk City Just Got Upgraded.

- **East Providence, R.I. built reserves and developed waterfront**
- **Rhode Island city has rebounded from state oversight**

States and municipalities are facing gloomy financial prospects, but at least one city has something to celebrate.

East Providence, Rhode Island, neighboring the state capital, had its credit rating raised last week by Moody's Investors Service to A1, its fifth-highest investment grade. The city of 47,500 has recorded almost a decade of budget surpluses and is benefiting from residential and commercial development along the Providence River. The former site of an oil tank farm is now home to apartments, condos and a \$15 million medical office building.

The upgrade marked the continuing recovery of a city that was put under financial supervision by the state in 2011 after years of budget deficits and underfunded pensions, providing a case study for how other still struggling Rhode Island cities could engineer a turnaround.

"They were kind of up against the wall," said Tom Jacobs, a Moody's analyst. "Since then they really have turned it around both in terms of growth in the tax base and just very disciplined fiscal management."

Moody's this week changed its outlook on U.S. local governments as it expects the length and intensity of the recession brought on by the coronavirus shutdown to be more severe. Cities like East Providence that rely more heavily on property taxes and have built up reserves are better prepared to withstand cuts in state aid.

With more than 33 million people thrown out of work in the last two months and stores shuttered, sales and income taxes are plummeting. But property taxes should be relatively insulated until 2021 because assessments are set before the collection year, Moody's said.

Still, cuts to local government services, layoffs and tax increases are coming. Dayton, Ohio has furloughed a quarter of the city's workforce and is warning that more cuts may follow. Philadelphia Mayor Jim Kenney proposed raising taxes on property, non-resident wages and parking to help bridge a \$700 million budget gap.

East Providence is relatively well positioned to weather the storm. About 70% of revenue for its \$164 million budget comes from property taxes, with state aid making up most of the balance. The city, which has more than \$14 million in reserve, has generated annual operating surpluses for nine years, according to Moody's.

"It tells you a little about the fiscal management and discipline they're bringing to the table," said Moody's analyst Blake Cullimore.

It took state oversight to impose that discipline. In 2011, then Rhode Island Governor Lincoln Chafee appointed a budget commission to stabilize the city after growing deficits in a school fund, heavy reliance on short-term borrowing and underfunding of its public safety pension. The city's bond rating was lowered to junk.

The commission cut deficits by consolidating school and city operations and imposed stronger financial management controls. East Providence's participation in a federal probe of Google over illegal advertising by Canadian online pharmacies yielded a \$60 million windfall with most of the money earmarked for the police pension. The state returned financial control to the city in 2013, when Moody's boosted it out of junk grade, but a financial adviser remained in place until 2018.

Funding for pensions and retiree healthcare remains a challenge. East Providence spends almost 14% of its budget on those fixed costs, with another 3% for debt. Pension costs are set to grow as the economic shutdown triggered by the coronavirus results pummels stocks, widening the city's \$210 million unfunded liability.

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