

## PROVIDENCE TAKES DRASTIC UNPOPULAR STEPS TO AVOID BANKRUPTCY



Rhode Island's biggest city, Providence has taken drastic steps, amongst them, suspension of cost-of-living increases for retirees, to revamp a \$422.8 million pension system, to avoid following Central Falls, as the state's second municipal bankruptcy. Barely three months ago, Mayor Angel Taveras had forewarned that Providence stood on the "brink of bankruptcy." Spurred by the warning, the City Council voted collectively, to pass a law that will save the Council nearly \$19 million each year by capping benefits. Naturally the Mayor is supportive of the plan, whilst, Paul Doughty, who heads the local fire-fighters union, has said that it is "a huge mistake," that merits being taken to court. Taveras said, "These reforms have overwhelming support from the community, business leaders and the Local 1033 Labourers union." Whilst signing the bill, the Mayor called it "a big step toward the necessary structural changes we must make." Unemployment rates in the state are amongst the highest in the US, with the Labor Department ranking it the ninth-highest in their February report. Moreover, the debacle and the subsequent filing for bankruptcy by Central Falls, the state's smallest city, must have served as an eye-opener and a catalyst to take dire actions or follow a similar course. Central Falls, unable to fulfil its pension promises had to face the humiliation of going bankrupt. The city is hoping that the cuts will help balance its fiscal 2013 budget. A council report says that ending cost-of-living increases of up to 6 percent a year will save \$ 15.6 million. To emphasize the lopsided nature of benefits, the Mayor cited the examples of a former fire-chief who in his last year of employment earned \$63,510, but now collects \$196,813 annually. The city had more than 25 pensioners who collected six figure pension benefits. The overhaul caps pensions at 1.5 times the average household income of the state. David Ortiz, a spokesman for the Mayor said that currently the city gives pension to 3,000 retirees and another 2000 current workers. The overhaul is expected to substantially reduce the unfunded liability of the state. Amy Monahan, a professor at the University of Minnesota Law School, said that it was courageous of Providence to roll back benefits and that it was one of the few municipal governments that did so. "Most people would be very hesitant to take action that would interfere with a collectively bargained agreement," she said. "You typically preserve what has been earned." Labor groups are gearing up to take the plans to court. Doughty alleging that what the Council was doing was illegal and would be hard for them to defend it in the court. "If they lose this in court, almost certainly they will end up in bankruptcy. They're playing a huge game of chicken." Fiscal fears confronting cities have municipal governments mulling severe measures how to escape the clutches of the worst financial crunch the cities have ever faced. The outlook is grim, rising pension costs, unrelenting worker unions and other increasing costs have left them with no other option but to legislate measures that are unpopular and unwelcome but desperately needed.

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