

Financial Crisis Toolkit

For Municipalities: Distress Without Default

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DISTRESS DOES NOT HAVE TO MEAN DEFAULT & MUNICIPAL BANKRUPTCY

Economic conditions and budget shortfalls have forced many counties and cities across the country into fiscal crisis. Many are required to make urgent and painful policy decisions to address, avert, and react to deficits to ensure the continuity of government operations and to avoid default. The causes of default or fiscal distress may arise from economic conditions over time, mismanagement, possible fraud and corruption, an inability to address non-essential services, natural and man-made disasters, or even a political unwillingness to pay. Jurisdictions with low and moderate income populations were hit the hardest and, all too often, are the least equipped to respond. Moreover, unlike state and federal governments, local authorities do not have the flexibility to pass on their problems. Instead, they must make difficult choices to cut services, reduce salaries and benefits, raise taxes, or lay off employees. For smaller, less wealthy, and legally-constrained jurisdictions, we found the options were often far worse. Frequently, part-time officials are forced to deal with specific financial and technical information they are neither prepared for nor trained to handle.

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How To Use This Toolkit:

This toolkit is designed for any municipal jurisdiction. We recognize that many localities do not have the resources to prepare for financial crises, and the tendency is to avoid help until absolutely necessary (or forced). The information contained herein may be useful to managers, elected officials, and the public to assess their municipality's fiscal health, identify areas of need for improvement, and prepare for future years by establishing well-founded practices.

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DISTRESS DOES NOT HAVE TO MEAN DEFAULT & MUNICIPAL BANKRUPTCY *(continued from p. 1)*

Our experience is that for too many municipalities in distress, the communities must start afresh. That is, they do not benefit from lessons learned from other counties, cities, and towns. If one of those could do it all over again, what would they do differently? What worked best? What failed? If anything, this guide is an effort to provide some “lessons learned,” so that as new municipalities encounter fiscal circumstances beyond their control, there will be resources.

Currently, twenty-nine states have laws that allow for oversight and assistance to distressed governments. The level and types of support vary across jurisdictions and include advisory positions, conditional emergency assistance, distressed cities programs, forced restructuring, and municipal bankruptcy. Local governments facing fiscal crisis must evaluate the options available to them, to include state takeovers and Chapter 9, to prevent their government from failing. Although Chapter 9 can be a useful tool, officials must recognize it is a last resort. It can be expensive and should only be used in dire situations due to its potentially high costs and negative stigma.

PURPOSE OF THE TOOLKIT

This toolkit is designed to assist localities in distress by providing

information and experiences from other local governments facing similar situations. The information contained in this toolkit was gathered from research and interviews conducted with numerous elected and appointed government officials at the state and local level, municipal employees, labor representatives, and citizens from Alabama, California, Michigan, New York, and Rhode Island. The information gleaned is meant to provide direction and insight into the decision-making process required to correct budget problems and initiate a recovery process to ensure sustainability. The usefulness of this toolkit relies upon a jurisdiction’s ability to recognize the onset of a problem and a willingness to seek help. The largest impediment to its success is the inability or reluctance of officials to request assistance due to denial, mismanagement, and even possibly corruption.

Throughout the interviews, members from all levels of government agreed that regardless of their political opinions, salaries, or positions, the affected stakeholders must act. Success and fiscal stability will not be achieved without change. Although there were various opinions on the types of adjustments required, everyone recognized the need for change. During the consideration of options and potential courses of action, we learned that one of the



most important aspects is that there is no one solution to address fiscal distress. Each jurisdiction has its own unique set of cultures, history, and problems. These are cases of fiscal distress which demand individual solutions to reflect the specific community, its culture, and its history. Moreover, because cities and counties are not just neighbors, but integral parts of states, any process will demand open discussion and work with both the state and the surrounding jurisdictions.



What impressed us most was how many committed and dedicated local and state leaders seem prepared to dedicate ingenuity and unforgiving hours.

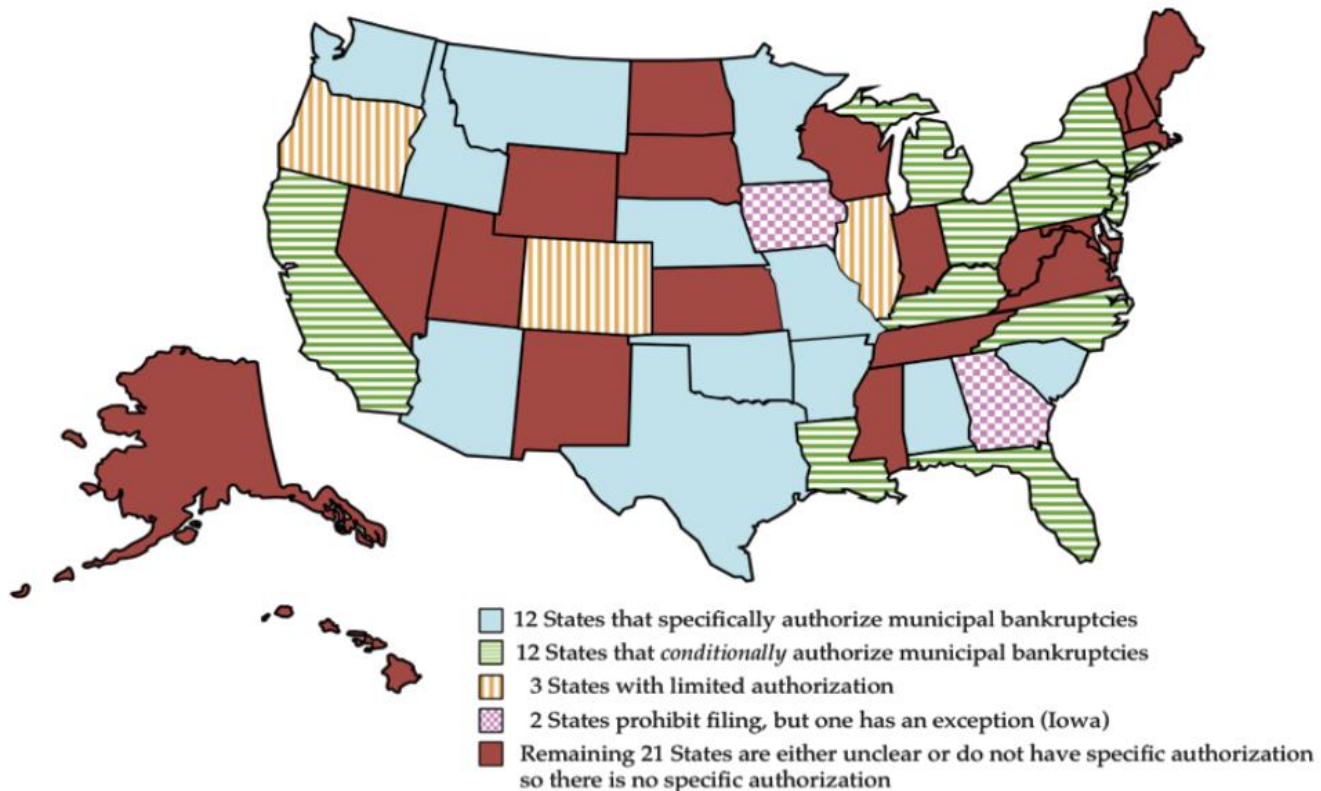
Consequently, it is our hope, that with a practical guideline, effective decisions can be made to identify the approaches best suited for any jurisdiction.

Administrators must engage in open and honest dialogue with stakeholders for success, recognizing the need to remain agreeable to ideas and focus on fixing the problems, not placing blame.



Municipal Bankruptcies Across the U.S.

State laws vary across the United States. Below is a graphic depicting how states permit municipal bankruptcies.



Municipalities in Distress, James Spiotto, Ann Acker, and Laura Appleby, 2012, p. 52.

About the Program and How This Toolkit was Developed

The Northern Virginia Fellows Program is a collaboration between George Mason University and local governments in Northern Virginia. Cohort 8 is comprised of Masters of Public Administration students who are **full-time government employees** for Arlington, Fairfax, Loudoun, and Prince William Counties. Students from the program traveled to Rhode Island to witness first-hand the activities surrounding various levels of fiscal distress. The class particularly thanks the State of Rhode Island and the Cities of Providence, East Providence, and Central Falls, RI, for graciously hosting the students during their trip. A full list of acknowledgements is found at the end of this toolkit.

Whereas states across the country have their own unique circumstances to dictate how and when a municipality may file for bankruptcy, the information gathered is universal. Students unable to attend the trip verified the tenets developed in Rhode Island by speaking to senior officials in jurisdictions in Alabama, California, Michigan, and New York.

THE BASICS:

Intrinsic to the successful operation of local governments is the adoption of a vision, mission, and code of ethics. These often overlooked aspects of public policy and leadership are fundamental in guiding an agency's activities, policies, behavior, and stewardship. Local governments often feel that their situation is entirely unique when, in fact, many other jurisdictions across the country have experienced a similar set of circumstances and, thus, may also offer excellent resources for assistance. There should be no reason to recreate the wheel. In addition to other local governments and their national organizations, organizations such as the International City/County Management Association (ICMA), the Government Finance Officers Association (GFOA), and the regional Council of Governments (COG) can prove helpful in navigating and resolving financial dire straits. Finally, in order for a vision, mission, and code of ethics to be effective, they must be taken into consideration during the decision-making process and not just occupy space on an office wall.

VISION

The importance of a vision statement is often underestimated. The absence of a vision statement is analogous to setting sail without a life vest. A locality's vision statement should succinctly explain its purpose and reason for being – it also serves as the agency's framework for strategic and comprehensive planning. The vision statement should influence the decision-making and resource allocation processes. A well-crafted vision statement will facilitate buy-in from agency staff as well as citizens and community groups interested in local government operations.



MISSION

A mission statement explains how a government entity will achieve its vision. Mission statements serve as the lighthouse to keep government agencies on course. When crafting a mission statement, three core questions should be asked:

- ♦ Why do we exist?
- ♦ What do we care most about?
- ♦ How do we envision—and how will we measure—success in five or ten years?

These questions are integral parts of the essential services identification process. Financially distressed agencies should ensure the lines of business receiving scarce resources are in compliance with the mission statement. Municipalities should revisit their mission statement periodically to ensure it accurately reflects the answers to the three core questions.

CODE OF ETHICS

All too often, the root cause of a locality which finds itself mired in a financial quagmire is the mismanagement of its resources. Decision-makers, riding the political currents of their jurisdiction, often take action based on political expediency rather than what is in the best interest of their community. In extreme cases, outright corruption may be to blame for a locality's budgetary woes.

By adopting and adhering to a professional code of ethics, elected officials and public administrators will hold themselves and each other accountable for their behavior while occupying positions in the public trust.





KEY WARNING SIGNS THAT YOUR JURISDICTION IS IN FINANCIAL TROUBLE

- ⇒ Does your jurisdiction have a five-year plan?
- ⇒ Do you have repeated or growing budget deficits?
- ⇒ Are you selling bonds to cover operating expenses?
- ⇒ Is your bond rating below Single A?
- ⇒ Do you adequately fund your capital needs, including critical maintenance?
- ⇒ Is your revenue dependent on volatile sources (sales tax, criminal fines, state or federal aid)?
- ⇒ Can you make the Annual Required Contribution (ARC) to your pension fund?
- ⇒ Does your budget accurately reflect available fund balances?
- ⇒ Do you have an independent committee to review your budget?
- ⇒ Are you recognized for your financial reporting practices?



***Don't be
caught
off-
guard;
ask
yourself
these
questions
before
you find
yourself
in
trouble.***

CASE STUDY: NASSAU COUNTY, NY

One of the wealthiest jurisdictions in the country, Nassau County, NY, is a suburb of New York City on Long Island. Despite the stable population and inherent wealth, Nassau County was plagued with budget problems for at least a decade. Some of these issues are systemic and the result of state laws that restrict the implementation and use of certain taxes. Other factors include, skyrocketing pension obligations, an unwillingness to raise taxes, and dependence on the sales tax for over a billion dollars in annual revenue.

Nassau found itself in financial turmoil after years of ignoring the funding facts: revenue was in decline, proper monthly and yearly forecasting did not exist, unfunded assessment refunds were mandatory, and employee pensions and other negotiated employee contract requirements led to exorbitant costs. Further, the County tended to overstate revenues and understate expenses.

In 2010, Nassau saw its finances assumed by the State-run Nassau County Interim Finance Authority (NIFA). NIFA immediately ordered a suspension of all county employee salary and wage increases effective March 2011.

In addition to direct oversight and control by NIFA, the County is in the process of attempting to recover from this crisis. Nassau now conducts out-year forecasting to better plan for the upcoming two to three years. The County reduced much of its overhead when it reverted back to essential services and downsized the work force. A plan to sell off the costly sewer services to a privately run program is underway. The County will stop the payment of all assessment refunds effective this year. Staff also continue to look for ways to increase revenue through realistic and tolerable taxes and fees that will be accepted by the community.



**BAD POLICY
+
BAD BUDGETING
DECISIONS**

=



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Steps to Avoid Further Decline by Identifying and Correcting Deficiencies

1. Identify essential services based on community needs and priorities.
2. Utilize Audits:
 - A. Internal Audits of funds to identify revenues, expenditures, and funding levels. Use this information to gain a clear picture of the jurisdiction's financial situation to understand where you are and how bad the situation is.
 - B. External Audits eliminate the potential for mismanagement of funds.
 - C. Budget Review Committees to increase accountability and transparency. Ensure that the committee is representative of the population served.
3. Identify services and programs to be consolidated, outsourced, or shared.
4. Analyze key expenditures in order to identify opportunities to reduce, modify, and/or reorganize to realize savings. Common expenditures include pensions, employee benefits, other post-employment benefits, outdated programs, and overtime.
5. Engage stakeholders in meaningful interaction and transparency to obtain assistance and buy-in for changes.

10 Steps to Avoid Further Decline by Identifying and Correcting Deficiencies

(continued)

6. Complete a five-year forecast and produce quarterly reports to monitor progress. Consider incorporating cash flow analysis and monthly budgeting reports for spending comparisons. Use available budget software programs to track, analyze, and report production.
7. If permitted by law, ensure or increase oversight of the school budget. Collaborate with school officials to guarantee adherence to the fiscal plan.
8. Evaluate personnel performance in key positions for effectiveness. Focus on positions such as Human Resources, Tax Assessor, and Finance Director. If deficiencies are noted, address them by providing additional training, development, or replacement.
9. Work toward recovery and sustainability by utilizing economic development strategies and incentives to create additional jobs and revenue.
10. Research state aid and understand options available, to include: financial advisors, budget commissions, receivership, and Chapter 9 Bankruptcy.

CASE STUDY: Jefferson County, AL

In 1996, Jefferson County borrowed \$3 billion to finance its public sewer system improvements. Only \$2 billion of those funds made it into the ground, and the rest disappeared. The sewer project failed and amassed additional debt. Since the sewage system was an entity of the government, and not a separate authority, the County would be held responsible for all of the debt. In 2002, the County refinanced the \$3 billion in debt through risky derivative trading opportunities, which ended in disaster in September 2008 when the stock market crashed. In the aftermath, a federal grand jury indicted several people involved in those risky transactions, which included millions of dollars in kickbacks. Eventually, twenty-three people were jailed.

In November 2010, Jefferson County suffered a fatal blow in its effort to rebuild. The County's occupational tax, which represented approximately 33% of its total revenue, was ruled unconstitutional. Further, the County was ordered to pay refunds to those from whom they had previously collected this tax.

Jefferson County represents a model of the "perfect storm" in regards to financial hardship that can bankrupt a municipality. In this case, poorly managed utility projects, inadequate debt management, the inability to raise revenue, and old-fashioned corruption resulted in the largest municipal bankruptcy in United States history.

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ESSENTIAL SERVICES: IDENTIFY YOUR JURISDICTION'S KEY SERVICES

What is *essential*?

- ◇ Consider federal, state, local law, or charter mandates
- ◇ Prioritize remaining services based on need
 - ◇ Absolute – those services needed to ensure safety
 - ◇ Preferred – services deemed as community priorities
 - ◇ Non-Essential – services not necessary for continued government operation

Decision-Making

- ◇ Identify which programs to cut or eliminate.
 - ◇ Engage stakeholders to solicit input and gain support for necessary cuts within allowable time constraints
 - ◇ Work with executive leadership and program directors to identify essential programs and level of funding necessary to sustain operations; make reductions where possible
 - ◇ Utilize existing program evaluations, feedback and data to assist in determining actions
 - ◇ If reliable data or evaluations do not exist, make the development of meaningful performance measures and mechanisms for collecting data paramount
 - ◇ Incorporate consequences, likely and unintended, in the decision-making process
 - ◇ Recognize that with every service reduction, some constituents will be unhappy

- ◇ Identify services that could realize expenditure reductions through outsourcing or consolidation
- ◇ Public Private Partnerships –
 - ◇ Evaluate costs and benefits of privatization
 - ◇ Potential reduction in costs associated with overhead
 - ◇ Ability to leverage expertise from the private sector
- ◇ Recognize the need for sufficient resources and staff to coordinate and monitor contracts for successful implementation
- ◇ Conduct analysis to determine practicality of long-term privatization
- ◇ Identify potential pitfalls
 - ◇ Procurement process could be cumbersome
 - ◇ No control over market costs to perform services
- ◇ Consolidation –
 - ◇ Jurisdictional consolidation – opportunities for combining government operations
 - ◇ Service coordination – share services among jurisdictions to enhance service provision at reduced costs
 - ◇ Internal consolidation – evaluate program efficiency to eliminate duplication and excess



Case Study

RHODE ISLAND LEAGUE OF CITIES and TOWNS

WHAT

The Rhode Island League of Cities and Towns (“League”) successfully lobbied to purchase commodities at a reduced rate for municipalities in RI. The League used the consolidation of purchasing power and resources to achieve a statewide savings of over **\$38 million**. The League provided legal representation and allowed jurisdictions to decide between the League’s option or the state’s “standard offer.”

HOW

Achieving this goal required the League to lobby for changes in state law to allow for a non-competitive bid process. The League conducted energy audits to determine the usage and cost to various jurisdictions. By utilizing off-peak hours, conducting an RFP process, and negotiating terms of the contracts, the League provided a benefit municipalities could not accomplish on their own.

OBSTACLES

Change is never easy. The League faced many hurdles, to include:

- ♦ Large up-front costs associated with the negotiation of contracts
- ♦ Labor laws impeding the outsourcing of services
- ♦ Risk of fluctuation in market prices versus a set rate via the “standard offer”

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PREVENTION: WAYS TO PREVENT RECURRENCE AND FUTURE FINANCIAL DISTRESS

- ∞ Develop officials and managers with appropriate leadership skills and training.
- ∞ Fund pension plans to meet mandated requirements. There is a disconnect between pension costs and benefits that should not be ignored.
- ∞ Produce a balanced budget each fiscal year.
- ∞ Produce externally audited financial reports each year.
- ∞ Produce a financial forecast for at least five years.
- ∞ Set up a commission or oversight group comprised of community representatives to hold the city or town administrators accountable.
- ∞ Focus on re-invention methods.
- ∞ Win the battle vs. lose the war. Plan for long-term problems with sustained changes to fix both the immediate problem and future issues. It is imperative that you do not abandon implemented changes for a return to business as usual. Be prepared for many years of fiscal problems.



Prevention is critical for a municipality to successfully navigate economic downturns.

CASE STUDY:

DIVERSIFY REVENUE STREAMS AND CUT COSTS

The reliance upon one revenue source for a majority of your income is far too common among jurisdictions. Whether this is due to state legislative restrictions, community preferences, or lack of appropriate financial planning, a municipality can easily find itself in a struggle to pay bills when the primary revenue stream dries up.

In California, for example, cities relied upon redevelopment districts—more commonly referred to as tax increment financing districts—to raise revenues. Due to Proposition 13, cities and counties could not rely upon property tax revenue to adequately fund expenditures. As a result of its own financial troubles, the State of California began siphoning the redevelopment district's

revenues, again forcing jurisdictions to diversify their revenue sources.

East Providence, RI, plugged its budget gap through the implementation of common cost-saving measures. It consolidated functions with the local school system, reduced certain tax exemptions and incentives, and met with departments to formulate 20% reductions. The city established a rainy day fund and made a concerted effort to develop a five-year forecast to understand its long-term deficit and what savings would result from these changes. In doing so, the city went from a projected \$110 million projected deficit over five years to a \$10 million deficit over the same period.



Recent Cost-Cutting Initiatives

∞ St. John's River - Water Management District

The St. Johns River Water Management District works with state, federal, and local elected or appointed officials and their staff to address and manage water resource issues on a local basis. When funds are available, the District enters into a variety of cost-share partnerships to expand the reach of water resource protection and restoration. More information can be found at:

<http://www.sjrwmd.com/localgovernments/>

∞ New York State Health Care Cost Sharing

The goal of this effort is to resolve an inequity between the state and its local governments in the system of paying for health insurance for public employees. The recommendations in this paper would save New York State and/or its local governments more than \$1 billion annually. More information can be found at: http://www.rpea.org/news/documents/Rock.Inst.Health_Insurance_Cost.pdf

ENGAGEMENT:

OBTAIN BUY-IN THROUGH CONSULTATION AND COLLABORATION WITH KEY STAKEHOLDERS

Successful Engagement:

- ⇒ Identify stakeholders from the community, management, and employees.
- ⇒ Engage all stakeholders in the decision-making process.
- ⇒ Build trust through engagement - remain honest and transparent. Show constituents where you are and exactly how bad the situation is.
- ⇒ All stakeholders must be made aware of the implications of fiscal distress and Chapter 9 bankruptcy.
 - ◇ State intervention may disenfranchise elected officials
 - ◇ State appointed receivers are mainly focused on balancing the budget
 - ◇ State appointed receivers' decisions will override those of local officials
 - ◇ Receivership may provide only short-term solutions
 - ◇ Receivership has a stigma
 - ◇ There's no cookie cutter solution; each community has a different history, population, and requirement

CASE STUDY: Stockton, CA

Protracted Budget Shortfalls & the Confidential Mediation Process

*Unsustainable Retiree Health Insurance...Large Debt Issuances...Unsustainable Labor Contracts...
State "Raids" on City Resources...Protracted Regional Recession...Decades of Poor Fiscal Practices*

Facing its *fourth* year of multi-million dollar budget deficits, the City is also one of the first municipalities required by a new California law, AB506, to hold mediations in an attempt to renegotiate financial commitments prior to filing for Chapter 9 protection. The law mandates the neutral mediation process be confidential, which disallows all participants from public discussion of the ongoing negotiations. Limited to 90 days, the mediation process may or may not prevent Stockton from becoming the largest city in the nation to declare a Chapter 9 bankruptcy. Either way, to rebound from this dire situation, Stockton must rely on timely and transparent transmittal of its financial situation once the constraints of confidentiality are lifted.

**“A haircut is better
than a *beheading*.”**

— The Hon. Robert G. Flanders
State-Appointed Receiver,
Central Falls, Rhode Island

“I cannot describe how critical *trust* is.”

— Ted Orson
Department of Revenue, Rhode Island

Methods of Engagement

- ⇒ Develop a community development group
- ⇒ Schedule regular community meetings with religious organizations, non-profits, homeowners associations, citizens, youth representatives, employee groups, and other stakeholders as needed
- ⇒ Establish a “Walk and Talk” campaign
- ⇒ Encourage referral sources
- ⇒ Utilize people who represent the community to create a comfortable environment for interaction
- ⇒ Determine innovative ways to inform retired and current employees of the difficulties in reconciling the long-term cost of pension benefits and available funding sources
- ⇒ Incorporate diagrams and visual aids to assist in educating affected parties

Case Study: Vallejo, CA

The City of Vallejo found itself operating at a deficit since 2005. Rapidly rising health care and pension costs, along with other labor related costs, had the city struggling to meet its obligations. Given that personnel was its largest expense, when the city failed to win union concessions and pay cuts, Vallejo had to file for bankruptcy in May 2008.

The deep recession, occurring at the same time as the bankruptcy, forced the city to undergo a severe reduction in personnel, including a 40% reduction in its police force.

At that point, the community of 120,000 pulled together to fill personnel gaps with resident volunteers. Voters approved an additional one percent sales tax, and council members studied best practices from around the world. Among the various ideas implemented, public safety invested in high-tech cameras to save on personnel costs. Vallejo exited bankruptcy in November 2011, but the city continued to search for innovation.

The city embarked on a “participatory budget” process whereby citizens voted on how a portion of the sales tax proceeds would be used. The City also invested in economic development, empowered community volunteers, and secured long-term financial stability through a strategic capital improvement plan.

[Portions of this write-up came from

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Economic

Development and Recovery Strategies

Establish Fiscal Stability

- Engage relevant stakeholders to identify essential services and key areas where significant savings can be realized responsibly
- Ensure that all segments of the local economy are informed and have the opportunity to participate in sustaining the economic base
- Reduce, monitor, and manage spending
- Convene all appropriate parties to consider potential impacts as well as unintended consequences of the proposed plan
- Minimize past due liabilities
- Present a balanced budget

Workforce Development

- Improve quality and access to educational opportunities including public schools, post-secondary (trade schools), and on-the-job training/certification programs
- Capitalize on knowledge economy
- Develop entrepreneurs
- Evaluate unemployment data, job availability by sectors of the economy, planned capital investment, and the revenue of governmental agencies and companies that have a positive economic impact

Increase Revenue Tax Base

- Maximize taxable land use
- Create avenues for tax-exempt land owners to contribute to property taxes
- Establish attractive property tax rates for commercial businesses
- Grow local businesses

Improve/Establish Locality's Brand

- Improve and highlight quality of life features
- Cultivate a walkable city; bicycle routes/lanes; park/recreation areas
- Develop high-impact marketing campaigns to attract new and innovative businesses
- Work with international, state, and local businesses, and market to emerging fields

Seek Federal and State Aid to Support Economic Recovery Efforts

- Ensure the locality's plans are in line with federal legislative direction, in particular economic stimulus initiatives
- Share data and resources with federal, state, and local agencies working on related projects, such as environmental pollution and energy conservation

Fiscal Stability

Balance Budget

Leverage Resources

Workforce Development

Improve Education

Capitalize on Knowledge Economy

Increase Tax Base

Maximize Taxable Commercial Properties

Grow Local Businesses

Case Study:

Michigan Municipal League

The challenges facing cities in the state of Michigan are well publicized. Michigan's cities endured the downsizing of auto plants, the exodus of key employers, and the loss of wealth within their borders. Even more challenging, these municipalities encountered a loss of their identities.

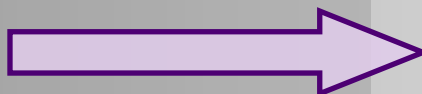
In response, the Michigan Municipal League ("MML") recognized that to establish a "sense of place" is as important to economic recovery as the attraction of new jobs or more money.

It is critical to invest in cities to make residents feel safe, give them the amenities they want, and establish good schools. Quality of life attracts talented workers, and where the workers are, businesses follow.

With this in mind, the MML focused on the idea of place and place-making. Further, it changed its internal philosophy to make Michigan and its localities great places to live. This attitude materialized throughout the state and allowed Michigan to once again compete in the global marketplace.

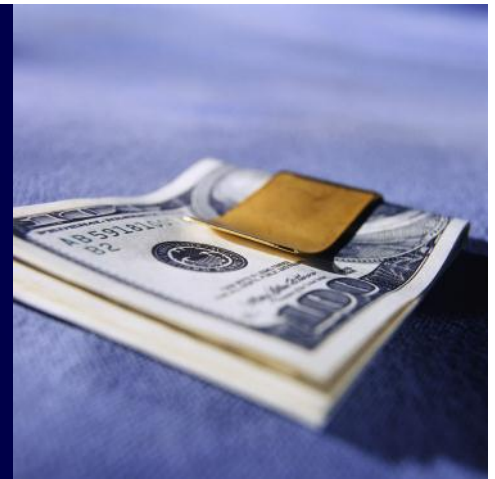
Where the workers are, businesses follow.

When Volkswagen left Michigan for Northern Virginia, perhaps the most important factor was the availability of talented people in the Metro DC region. Money and incentives did not matter as much as the ability to hire and retain good workers.



BENEFITS: NEED FOR COMPREHENSIVE PENSION REFORM

- ⇒ Are your assumptions correct?
 - ⇒ Consider expected rates of return
 - ⇒ Update average life expectancy
- ⇒ Can you implement structural changes?
 - ⇒ Develop a hybrid defined benefit / defined contribution plan
 - ⇒ Match retirement age with Social Security normal retirement age
 - ⇒ Formulate cost-of-living adjustments to track with investment returns
- ⇒ Are you maintaining your Annual Required Contributions (ARC)?
 - ⇒ Set reasonable goals to reach your ARC
 - ⇒ Create a long-term plan for reducing the ARC through benefit modifications
- ⇒ What other benefits need to be revisited that place a major burden on your budget?



*Localities
must be
forced to make
Annual
Required
Contributions.*



*Focus on
the math,
not the
politics.*



CASE STUDY:

A TALE OF TWO CITIES IN RHODE ISLAND

PROVIDENCE

Shortly after his election, Mayor Taveras appointed a Municipal Finance Review Board in March 2011 which reported a \$70 million fiscal deficit in FY2011 and projected a \$110 million gap for FY2012. At the same time, the city also faced an unfunded pension liability of almost \$900 million.

To address these issues, the City Council established a Subcommittee on Pension Sustainability, whose goal was to address the dire situation while protecting retirement benefits as best as possible.

In April 2012, Mayor Taveras signed an ordinance that put Providence on the road to recovery. The city's actuaries expect the reforms to reduce the unfunded pension liability by more than \$236 million.

Key to the successful enactment of these changes was the Mayor and Council working closely with the unions to cut more than \$100 million from workers' wages and benefits. This partnership - rather than a hostile approach - put the city on track to create a balanced budget.

CENTRAL FALLS

Central Falls was plagued with problems contributing to its insolvency: low civic engagement, a small tax base, and the departure of business. Its old industrial base is gone; it is unclear whether a community of one square mile can have a sufficient economic base. The key to the Central Falls story is signs of financial distress were apparent in 1991 and, absent political will, no changes were made. Some see Central Falls as emblematic of the crisis facing municipalities across America.

The inability of Central Falls' leaders, employees, citizens and taxpayers to reach an agreement to avert insolvency and default triggered a filing for federal Chapter 9 municipal bankruptcy protection—a critical tool to avoid default and loss of access to credit markets so that the city could continue to provide essential services—and so that the city's budget could be restored to balance. Central Falls expects to emerge from municipal bankruptcy soon due to the restructure of the city's budget to eliminate its deficit and adoption of a five year plan. The State of Rhode Island's current budget includes \$2.6 million for the Central Falls retirees; whose benefits were slashed 55% as part of the budget balancing plan. Many feel the actions related to the pensions were too drastic. These opposing views represent the contentious debate concerning the use of Chapter 9 for municipalities.

FISCAL CRISIS INTERVENTION

*Reach out to
professionals,
peers, and
associations.
Every
jurisdiction
has faced
financial
stress.*

Who can you contact to get advice, seek solutions, and share your experiences?

- › Financial Advisors
- › Management Consultants
- › State and Local Peers and Resources
- › Advisory Groups / Municipal Leagues
 - › National Association of Counties (NACo)
www.naco.org
 - › National League of Cities (NLC)
www.nlc.org
 - › International City/County Management Association (ICMA) www.icma.org
 - › Government Finance Officers Association (GFOA)
www.gfoa.org
 - › GOVERNING: The States and Localities
www.governing.com



Would you be receptive to assistance if you are in distress?
Would you be willing to share your expertise or offer your services
to help neighboring jurisdictions?

ACKNOWLEDGEMENTS

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- Michael Ritz, Executive Director, Leadership Rhode Island
- Susanne Greshner, Director of Municipal Finance, Rhode Island
- Ted Orson, Legal Counsel on Bankruptcy to the Department of Revenue, Rhode Island

City of Providence, RI

- The Honorable Angel Taveras, Mayor, City of Providence, Rhode Island
- The Honorable John Iglizzi, Councilman, City of Providence, Rhode Island
- Bob Azar, Acting Director, Department of Planning and Development, City of Providence, Rhode Island
- Sybil Bailey, Human Resources Director, City of Providence, Rhode Island
- Major Francisco Colon, City of Providence Police Department, Rhode Island
- Jennifer Conrad, Confidential Assistant to the Director of Human Resources, City of Providence, Rhode Island
- Larry Mancini, Deputy Finance Director, City of Providence, Rhode Island
- Margaret Wingate, Deputy Director of Human Resources, City of Providence, Rhode Island

City of East Providence, RI

- Michael O'Keefe, Chair, East Providence Budget Commission, East Providence, Rhode Island

City of Central Falls, RI

- The Honorable Judge Robert G. Flanders, Receiver, Central Falls, Rhode Island
- Gayle Corrigan, Chief of Staff, Central Falls, Rhode Island

Rhode Island Local Employee Unions

- Paul Doughty, President, IAFF Local 799 Fire Fighters Union
- Derek Silva, Secretary, IAFF Local 799 Fire Fighters Union
- Michael Downey, President, Rhode Island Council 94, AFSCME, AFL-CIO
- James Cenerini, Rhode Island Council 94, AFSCME, AFL-CIO

State of Alabama

- The Honorable David Hooks, Councilman, City of Homewood, Alabama and Director, Capital Structures and Investments, Jefferson County, Alabama

State of California

- The Honorable Katherine M. Miller, Vice-Mayor, City of Stockton, California
- Deborah Lauchner, Finance Director, City of Vallejo, California
- Chris McKenzie, Executive Director, League of California Cities
- Craig Whittom, Assistant City Manager, City of Vallejo, California

State of Illinois

- James Spiotto, Partner, Chapman and Cutler LLP (author of *Municipalities in Distress? How States and Investors Deal with Local Government Financial Emergencies*)

State of Michigan

- Anthony Minghine, Associate Executive Director & COO, Michigan Municipal League

State of New York

- The Honorable Robert W. Lazaro, Mayor, Town of Purcellville, VA (former Nassau County Legislature Republican Spokesman)
- Eric Naughton, Budget Director, Nassau County, NY

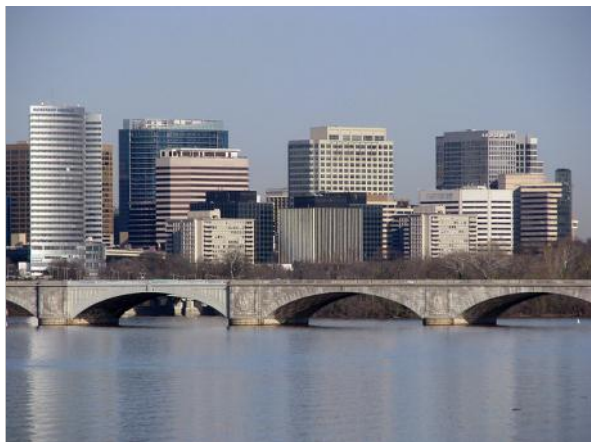
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- Anna Stetson, City Clerk, City of Providence, Rhode Island
- Abby Swinton, Policy and Legislative Analyst, Office of the Governor, State of Rhode Island

And most importantly, the inspiration behind this toolkit and leader of the team:

Frank H. Shafroth

Director, Center for State and Local Government Leadership, George Mason University



Jurisdictions Represented in this Program

Arlington County, VA

Arlington is an urban county of about 26 square miles located directly across the Potomac River from Washington DC. Arlington's central location in the Washington DC metropolitan area, its ease of access by car and public transportation, and its highly skilled labor force have attracted an increasingly varied residential and commercial mix. Arlington has a population of approximately 211,000.

Lt. Adrienne Quigley, Internal Affairs
Arlington County Police Department
Corey Travis, Finance & Admin. Services
Unit Chief, Dept. of Human Services

Fairfax County, VA

Fairfax County is a diverse and thriving urban county. As the most populous jurisdiction in both Virginia and the Washington DC metropolitan area, the county's population of over 1 million residents exceeds that of seven states. The median household income of Fairfax County is one of the highest in the nation and over half of its adult residents have four-year college degrees or more educational attainment.

Lt. Bob Blakley, Mt. Vernon District
Fairfax County Police Department
Michelle Breckenridge, Fund Manager
Dept. of Information Technology
Edwin de Castro, Auditor
Department of Tax Administration
Sanchez Glover, Social Worker
Dept. of Family Services
Sandy Harrington, Management Analyst
Fire and Rescue Department
Anne Rush, Director of Administration
Fairfax ASAP

Loudoun County, VA

Loudoun County is a growing, dynamic county of nearly 330,000 people. Loudoun is known for its beautiful scenery, rich history, healthy diversity of expanding business opportunities, comfortable neighborhoods, and high quality public services. Loudoun County has the country's highest household median income and is home to over 50% of the world's internet traffic, Dulles International Airport, and 33 wineries.

Danny Davis, Chief of Staff
Office of the County Administrator

Prince William County, VA

Prince William County is located just 30 miles from Washington, DC, and has a population of approximately 412,000 residents. Prince William is home to the first major battle of the Civil War, and today visitors can journey through hallowed ground at Manassas National Battlefield Park. Situated at the center of Northern Virginia's workforce, Prince William County is a mere 30 minute commute for 75% of Northern Virginia's 1.2 million workers.

1SGT Shana Hrubes, Office of the Chief
Prince William County Police Dept.
Capt. Kevin Hughart, Office of the Chief
Prince William County Police Dept.
Albert Ndlovu, Chief Housing Inspector
Dept. of Housing & Community Dev.



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