

Central Falls, Rhode Island files for bankruptcy

Kate Randall
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The state-appointed receiver for Central Falls, Rhode Island filed for Chapter 9 bankruptcy protection in federal court on Monday. The city is thought to be the sixth US municipality to enter bankruptcy this year. The move opens the way for the imposition of drastic cuts in current workers' and retirees' benefits and pensions, as well as attacks on city services already severely curtailed.

Central Falls, a city of about 18,000 people just north of the state capital Providence, is Rhode Island's poorest city, devastated by the decline in manufacturing in recent decades, particularly in the textile industry. The community was placed in the national spotlight in February 2010 when teachers and staff at Central Falls High School were fired en masse under a "turnaround plan" modeled on the education policies of the Obama administration.

The municipality's financial woes have multiplied in the ensuing period. Central Fall's current fiscal year, which began July 1, calls for revenues of \$16.4 million, with projected expenditures of \$22 million, meaning that the city forecasts a deficit of \$5.6 million by June 30, 2012. Central Falls also has \$80 million in unfunded pension obligations to 141 retired firefighters, police officers and their survivors.

In May 2010, Central Falls City Council sought a state-appointed receiver to oversee the city's dire economic situation. Robert G. Flanders Jr. was named to the post this year, taking over from predecessor Mark A. Pfeiffer. Under state law, the receiver assumes the powers of the mayor and City Council and has wide latitude to manage city operations.

In the 14 months since entering receivership, draconian cuts have been imposed on city services, and the local tax burden has been raised by about 20 percent. Some \$800,000 in concessions have already

been negotiated with the city's union and non-union workers. Cuts imposed by the receiver have included closing the library and community center, and not replacing vacant positions, including the job of the fire chief who died last December.

Through the Chapter 9 filing, Flanders has now taken direct aim at the pensions of city workers, which requires the approval of a bankruptcy judge. In a hearing before bankruptcy judge Frank J. Bailey on Wednesday, Flanders asked for voiding of the police, firefighter and municipal employee contracts, and the imposition of \$2.5 million in cuts to retired police and firefighter pensions he proposed on July 19.

Judge Bailey set a deadline of Monday, August 8, for Flanders' attorney to file briefs supporting the receiver's claim that he has the authority to unilaterally change city contracts and lay off workers. Unions representing workers have been given until August 11 to respond. But Flanders has indicated that he will proceed to implement cutbacks in advance of approval by the judge.

At the July 19 meeting, Flanders presented a proposal to fire and police retirees that they accept 50 percent cuts in their pensions and pay 20 percent of the health costs. With the average pension currently at about \$32,000, retirees were being asked to slash their pensions to far below poverty levels. Flanders asked for a response in just 10 days, and the majority of retirees sought additional time to consider the proposal.

The wages of current city workers are also being targeted. Marc B. Gursky, the lawyer representing active firefighters, told Judge Bailey at Wednesday's hearing that Central Falls firefighters "are the lowest paid firefighters in the state," but they work under some of the worst conditions, battling fires in crowded neighborhoods of wooden triple-decker apartments

with large numbers of abandoned properties.

Flanders also claims to have the power to void the teachers' contract, and he must approve any school expenditure over \$25,000. The Central Falls School Department was taken over by the state in 1992, and the state currently funds most of its operations. Following the mass firing of the high school teachers, a settlement was ratified mid-May 2010 that imposed much of the concessions and attacks on working conditions that had originally been rejected by the teachers.

The contract for all the city's teachers expires at the end of August, and the receiver will be seeking further concessions. School Superintendent Frances Gallo had indicated that she trusts Flanders "implicitly" and will work to impose whatever sacrifices are demanded of teachers. She told the *Providence Journal*, "He knows everything we've been trying to do" and "he intends to see these reforms through."

In his bankruptcy petition, Flanders stated, "Labor costs are indisputably the largest single expenditure in the city budget and the source of the overwhelming unfunded pension debt the city faces." Reducing these costs, he wrote, is the "centerpiece of any viable recovery plan."

The unions representing city employees, including the firefighter and police unions, and the American Federation of State, County and Municipal Employees (AFSCME), have indicated their willingness to cooperate in the imposing of drastic cuts on their memberships. AFSCME Council 94, which represents the 35 city hall workers, already agreed to \$169,000 in wage and benefit concessions last year.

Flanders' bankruptcy filing also noted that Central Falls had sought a "bailout from the state," but it had been rejected on the basis that it would set an unaffordable precedent. A report last year from the state's auditor general said that 24 municipal pension plans in the state have less than 45 percent of the assets needed to meet their obligations to retirees.

In cities and towns across Rhode Island—and mirrored throughout the US—workers have been making regular payments to their pension funds while municipal governments have not. Now local and state authorities propose to rob workers of the pensions they have been contributing to for their entire working lives.

Rhode Island State Treasurer Gina Raimondo, a

venture capitalist, and Governor Lincoln Chafee, an independent, are drafting a proposal to be submitted to the Democratic-controlled state legislature to allow state and local governments to rip up municipal workers' contracts and raid public pension funds.

In the bankruptcy proceedings in Central Falls, authorities are also taking advantage of a Rhode Island law passed in July that determines which creditor gets paid first if a city or county becomes insolvent. That law places bondholders ahead of other creditors, which includes city workers' pensions.

This means that the entire \$635,000 Central Falls owes to bondholders in October will be paid in full, while retirees may see cuts of 34 percent and upwards in their pension checks as soon as the end of this month. In fact, while cities like Central Falls are plunged into destitution, they are increasingly eyed as an investment opportunity.

John Miller is co-head of global fixed income at Nuveen Asset Management, a Chicago money-management firm that owns about \$2 million of Central Falls bonds and about \$78 million in other Rhode Island bonds. He told the *Wall Street Journal* that the new law "definitely improves bondholders' standing."

Matt Dalton, CEO at White Plains, New York-based Belle Haven Investments, with \$800 million in municipal bond holdings nationwide, commented, "If we can find someone selling, we will be a buyer" of Central Falls bonds.



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