*Making the Grade* column, East Side Monthly, August, 2006 © East Side Monthly, Sam Zurier

While school is on vacation, I would like to address a different issue, namely our City's obligations (pensions and medical benefits) to retired City workers. This may appear to be unrelated to our City's public schools, but there are important connections. Public education is our City's largest budget item, but the cost of our employee retirement program will grow significantly, beginning next year, and in the coming years may command a larger share of our City's tax revenues. (Public schools also receive support from the State and Federal governments.) From a broader viewpoint, Providence's public education system is the most important requirement for our City's future success and prosperity, but the pension issue probably represents the City's greatest risk for failure in the next six or seven years. The good news is that I believe that we can solve both of these issues, and that (as I hope to describe in a future column), the families on the East Side are the key to that success.

While many of us have a general awareness of the pension issue, a brief overview may be helpful. City employees are entitled to retirement pensions based on various formulas related to pay received and years of service, and many employees (especially members of the fire and police force) can qualify for disability pensions. These pensions are paid from the City's retirement fund, which is sustained by a combination of assessments against City employee salaries and an annual contribution from the City. (By state law, school teachers participate in a separate State retirement fund for school teachers.) If the retirement fund ran out of money, then the City would have to pay the balance from its current revenues.

The City hires experts (actuarial firms) to calculate the proper level of the retirement fund to meet its future obligations, and the proper amount of the City's annual contribution to the retirement fund to sustain its solvency. Until around 15 years ago, the retirement program was relatively under control. In 1992, for example, the Retirement Fund held $266 million, which was 66% of what it needed to pay out all expected obligations as of that date. The difference, which is known as the "unfunded pension obligation" was $167 million. The City's required contribution to advance the Fund towards complete balance was $15 million, and the City paid more than 100% of the required amount.

In the years that have followed, the City fell off the path of solvency. According to the June 30, 2004 City financial statements (the most recent ones that I have seen), the Retirement Fund held $372 million, but this was only 36% of what was needed. The unfunded pension obligation had grown to $653 million. The actuaries advised the City to contribute $55 million to the Retirement Fund that year to move it towards balance, but the City contributed only $46 million. As a result, the City is more than $110 million short of what it was supposed to contribute to the fund in recent years.

To understand the scope of this problem, I would like to explain how much it would cost taxpayers to solve it. The City currently collects approximately $270 million per year in property taxes, so the unfunded pension deficit represents around 2½ years of taxes. Each of us knows our own property tax bill. To solve this problem in ten years, for example, it would be necessary for the City to impose a 25% surcharge on our property taxes for each of those ten years. This would certainly be a difficult pill for the taxpayers to swallow, as the extra taxes would go entirely to address a previous obligation without providing any new services or other value to being a Providence resident.

This is more than an abstract accounting issue. In an April, 2003 press conference, the Mayor stated that the pension deficit (which at that time was "only" $526 million) "threatens to bankrupt the city within 10 years unless drastic steps are taken." Other cities (most notably San

Diego) have in fact faced insolvency due to unfunded pension obligations.

If Providence were 10 years away from bankruptcy in April, 2003, we are now less than seven years away. Indeed, we may have even less time than that, as the deficit has grown by more than $100 million since that time. Last year, the Mayor and City Council announced the formation of a committee to study the problem, and to prepare a report and recommendations.

While complex problems benefit from a thoughtful approach, I am worried about the slow pace of our City's response to this issue. More specifically, we are entering an election cycle, and we need to hear from our public officials concerning its resolution during the public dialogue in the coming months. With that in mind, I encourage you to ask our candidates for elected office in the City of Providence to describe specifically how to address this major issue, as we may have only six years left by the time that they begin their next term of office.