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Rhode Island Politics: Continued Disarray

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Since the 2010 elections, the new normal in Rhode Island appears to be political and economic upheaval. In this traditionally heavily Democratic state, the party system remains in disarray. The economic picture is still dismal and the political scene has been unsettled by a pension crisis that has resulted in historic changes in the state pension system, municipal receiverships, bankruptcies and threats of bankruptcy and titanic struggles with the public service unions.

Gallup recently ranked Rhode Island - tied with Hawaii – as the most Democratic state in the Union. ⁱYet, in 2010 Lincoln Chafee, a former Republican US Senator, was elected governor as an Independent, with the backing of the unions. The new Moderate party gained ballot access and ran a candidate for governor and the Democratic candidate for governor received only 23 percent of the vote.

The great recession has not abated in the Ocean state. Throughout the national economic downturn New England as a region remained in better economic shape than national averages on a range of economic indicators including per capita income, unemployment rates and indices of general economic activity. ⁱⁱ Rhode Island however was the outlier. Throughout the recession the state experienced some of the highest unemployment rates in the country, placed at the bottom of state rankings for business friendly conditions, and as of the second quarter of 2012, still has the third highest rate of unemployment in the country. ⁱⁱⁱ

This grim economic picture provided the backdrop for a new administration of Governor Lincoln Chafee who faced daunting projections of massive budget shortfalls at the state and municipal levels for the next budget cycle. The largest drivers behind these projections were escalating obligations to public employee workers and retirees. As in other states, declining returns on investments, improved mortality rates, and generous benefit provisions for public workers and retirees have created unsustainable fiscal commitments. The crisis had been brewing for some time. During the administration of the former Republican governor, Don Carcieri, (2002-2010) the legislature passed some reforms that restructured the retirement age and compensation packages for some state workers in the system.^{iv} This change, which afforded some relief, was challenged by the unions and is still under review by the courts. As to the larger issues surrounding pension obligations, especially for retirees, Governor Chafee, who was backed by the unions, campaigned on a platform that supported amortizing the state debt as a way of handling the structural shortfall as a result of these obligations.

After the election dust settled, however, it became clear that restructuring the debt would only prolong an inevitable crisis. A newly elected General Treasurer, Democrat Gina Raimondo, who had strong venture capital experience, sounded the alarm and indicated amortization of the debt was not an option, that the system was critically underfunded and unsustainable and, in some cases, at the municipal level, if something was not done soon that within months “some retiree is not going to get a check.” She announced that she would conduct an extensive review of the pension system and propose an alternative plan.

Her focus was the state retirement system that included pension fund programs for state employees, teachers, participating municipal retirement systems, the state police and judges. In June of 2011 she issued a report that laid out the key drivers of the structural pension deficit and

outlined projections that indicated the state's unfunded liability was in the range of 9 billion dollars. (The entire annual state budget in 2012 was around 7.5 billion dollars.) She proposed a sweeping set of solutions that included changing the retirement age, adjusting the accrual rate, suspending COLAs until the plan was 80 percent funded, and transforming the defined benefit retirement plan to a hybrid system. ^v

This reform proposal applied to the programs that were part of the Employees' Retirement System of Rhode Island (ERSRI), systems that are mandated by state statute. It did not include 36 independent municipal plans which included several municipalities that were in dire financial straits. One of these was the capitol city of Providence. These municipal systems, including Providence, were negotiated through collective bargaining, creating a different set of complicated standards that the courts would ultimately have to rule on. All of these changes and proposals are expected to be litigated, and the question of the ability of the state to rescind these various agreements is considered 'unsettled law.' The State Supreme Court will have to decide if these changes meet the constitutional standard of a "compelling public interest" to order to amend them.

The report, issued in June of 2011, caused a great deal of consternation and speculation and, in an unprecedented move, the legislative leaders and the governor supported a proposal to call for a special session of the legislature, after the usual session and a final budget was passed in June. As the details of the existing system became public, voters learned about some pretty cushy benefits that many public employees enjoyed. In a time of severe economic strain and high unemployment, this caused considerable public outrage. The legislature reconvened in October, 2011 to consider the Treasurer's proposals. Governor Chafee had changed his position and was backing Treasurer Raimondo's plan as was the Democrat leadership in the House and Senate.

Members of the General Assembly, facing reelection in 2012 and mounting voter anger were inclined to be supportive. The legislature, with very little pushback passed, intact, the Treasurer's plan.

During this time, another event sharpened the focus on the urgency of these pension crises. Central Falls, a small municipality whose pension program was not under the preview of the state system, had slipped from a receivership into full bankruptcy. This gave the gubernatorial appointed receiver, Robert Flanders, unfettered authority to restructure city government, revise all taxing and spending commitments and reallocate municipal salaries and retirees' pensions. Elected officials had no authority and were given only advisory status. Flanders put in place a long term plan that restructured some public services, raised taxes, adjusted city salaries, cut retirees existing benefits – some by up to 50 percent, and temporarily eliminated cost of living adjustments (COLA's.) These changes not only focused the attention of the legislative leaders on the depth of these problems but also had a clear effect on the posture of the unions. What the case of Central Falls underscored was that while the unions could challenge the changes in court, at some level, winning a court challenge might open the path to bankruptcy in other cities and then the unions would then have no recourse. This changed the dynamics of the debate vis a vis the unions in that, as the receiver Flanders graphically noted, "Taking a haircut is better than a beheading."

The Central Falls bankruptcy restructuring ended in a year's time and the city, while still under the scrutiny of the court, appears to be back on track.^{vi} There is an emerging consensus that the process was a manageable one and provides an example for other municipalities that are still in tenuous straits suggesting one feasible way out of an unsustainable fiscal bind. While

bankruptcy may prove to be a viable option for some of these smaller municipalities, it was never considered an acceptable option for the capitol city, Providence.

Crisis in Providence

Rhode Island is akin to a city state with Providence at its center. After a period of renewal, the city has evolved into a charming urban center with a stunning array of architecture in a beautiful waterfront setting. Several institutions of higher learning that include Brown University, the Rhode Island School of Design and Johnson and Wales encourage a thriving and hip artistic and culinary culture and support emerging tech and health care industries. The endeavors sustain a vibrant mix of residents that includes a large immigrant population which adds diversity and energy to the community but requires considerable social spending for a cadre of newer and poorer residents. In addition, the city has a tradition of strong public unions with considerable political clout, especially among fire and police unions. Over the past few decades, previous administrations approved pay and retirement packages that can, in some cases, only be described as fantastic. During the administration of David Cicilline, (2000-2008) the mayor tried to come to terms with mounting long term deficits and high taxes and reign in some of the more excessive public employee benefit provisions. He was not successful. Cicilline then decided to run for Congress in 2008 and with some artful maneuvers managed, in the short term, to balance a budget that masked some deep structural deficiencies.

The new mayor, Angel Taveras, the first Latino elected to the post, took office in 2010 and was left to pick up the pieces. It soon became evident that the city was facing bankruptcy. Taveras initiated a series of dramatic moves that included temporality firing all the public school teachers in the city system, suspending all COLAs for city retirees and coaching a collection of

non-profit colleges and hospitals in the city to voluntarily pay millions in payments in lieu of taxes to the city. Given the threat of bankruptcy, he was also able to secure concessions from the unions as well as retirees in terms of pay and health care contributions. Many of these arrangements are yet to be litigated but in the short term the city is afloat.

The political fallout for the former mayor, Democrat David Cicilline, who is running for reelection to Congress, is considerable. The pension developments and negotiations were public and at times acrimonious and Cicilline, who initially argued that he had left the city in sound financial shape, saw his popularity decline precipitously. This created a competitive situation in his congressional reelection race with the national GOP, sensing an opportunity, supporting his Republican opponent, Brendan Dougherty, a popular and capable candidate. It also got the attention of the national Democratic Party, who did not want to lose Cicilline's seat and came into play in the redistricting process, which is controlled by the Democrats.

Redistricting in 2012

Since the state has only two congressional seats, most of the politics around redistricting usually occurs at the legislative level. This cycle, the legislative leadership created a redistricting commission which included a broad array of representatives from various constituencies and charged them to hold a series of open hearings, around the state, suggesting an inclusive and participatory process. The rub was that the ultimate plans are tightly controlled by the leadership. In the recent past, aside from some minor instances of political retribution, most of the machinations were attempts to balance the representation between the black and Latino community. Indeed, in the last round of redistricting in 2002, the most contorted gerrymandered district was implemented to preserve a black Senate seat in an area where Latinos are gaining

ground. In the 2012 cycle, the major debate centered on redrawing the two congressional districts. Under the guise of adjusting for population shifts and enhancing minority voting strength, the Democrats were able to move some portions of the First District, that tend to vote Republican, into the Second District and consolidate a significant portion of Latino voters into the First District where the incumbent Cicilline can use all the help he can get.

Voter ID

Another expression of the outlier status of Rhode Island was the passage of a Voter ID requirement during the 2011 legislative session. Since the state is one of the most Democratic in the country, with a strong tradition of liberal welfare policies – especially in relation to immigrants and minorities – the passage of this program was unexpected and unlikely. While Voter ID had long been supported by the GOP and reform groups in the state and nationally, it would not have passed except for the support of the Democratic legislative leadership, the Democratic Secretary of State and the Independent Governor, Lincoln Chafee.

Momentum in support for the program came from, on the one hand, some anecdotal evidence of heavy handed tactics on the part of the minority community – particularly Latinos - who have been remarkably successful in accessing the political system, in some cases at the expense of the black community. Voters also supported the change; a Brown University poll found that 84.9 percent of respondents approved of Voter ID as implemented.^{vii} Another key factor was the lack of opposition from the unions, who were on the defensive about the pension crisis and not in a position to mount a campaign against a change that most voters supported.

Moreover, the law is not as restrictive as are most other systems in other states. The system will be phased in over two election cycles, and there are numerous forms of identification that are accepted until 2014 when photo IDs will be required. The state is now actively promoting and distributing throughout the state free ID's for those that may need them and provisional ballots are readily and easily accepted at the polls. As a result, the Brennan Center, a liberal study organization, acknowledged that this system differs greatly from other states with restrictive policies.^{viii}

Post reform politics

As the 2012 legislative session came to a close, the projected savings from the state's changes to the pension system made the budget process less dire. Independent Lincoln Chafee had proposed an increase in the sales tax, which was highly unpopular, but revised and improved revenue estimates gave the legislative leadership some leeway. In the end the legislature tweaked a few taxes, made some cutbacks to services and was able to close out the session without significantly raising taxes. This fiscal reprieve awaits rulings from the courts. Ultimately, the Supreme Court will have to decide if the compensation and retirement pension changes adhere to the constitutional standard of a sufficient public purpose which would then allow for negating union contracts and state statutes regarding public employee compensation and retirement packages. This is a big unknown.

As for the 2012 elections, there is little doubt that Obama will carry Rhode Island. Given that statewide elections are off year, and there are only two House seats, attention is focused on the contest in congressional District 1, and the Cicilline/Dougherty race which is considered a

tossup. The US Senate race is likely to be a cakewalk for the incumbent Democrat Senator Sheldon Whitehouse.

Perhaps the most interesting elections will be the September primaries, especially for the state legislature. As a strategy to exert influence at the statehouse, labor and other interest groups like Marriage Equity have been supporting or targeting candidates in these primaries. These races are low visibility and low turnout affairs that allow for a relatively small and focused effort that can successfully take out an incumbent who may have voted against the unions or other group interests. Just one or two successful efforts tend to create a vivid impression among the membership in the legislature who would prefer not to have lightning strike in their district race. The 2010 elections highlighted some fairly hardball tactics in these primaries. As a result, candidates are opting out of primary system and an unprecedented number are running as Independents.

How these legislative races shake out will set the stage for the next legislative session where the legislative leaders and the governor will continue to grapple with some daunting challenges revolving around economic revival, the crisis in the municipalities, and the position of the court on the constitutionality of the pension changes.

ⁱ "Gallup report list Rhode Island as the most Democratic state," *The Providence Journal*, August 3, 2012.

ⁱⁱ "An Overview of New England's Economic Performance in 2010," Federal Reserve Bank of Boston, Second Quarter, 2011.

ⁱⁱⁱ "New England Economic Indicators," Federal Reserve Bank of Boston, Fourth Quarter, 2011.

^{iv} These earlier changes have been challenged in the courts and await resolution.

^v Gina Raimondo, "Truth in Numbers: The Security and Sustainability of Rhode Island's Retirement System." June, 2011.

^{vi} "Central Falls bankruptcy could end by fall; city officials must stick to receiver's 5-year plan," *The Providence Journal*, July 12, 2012.

^{vii} Brown University Poll, Taubman Center, December, 2011.

^{viii} Maureen Moakley, "Voter ID in Rhode Island," paper delivered at the New England Political Science Association, April, 2012.