

1 Problem

Step 1. Define the Problem		
What	Problem(s)	Potential bankruptcy in RI town
When	Date	Summer 2011
Where	Different, unusual, unique	High unemployment?
	State, city	Central Falls, RI
Impact to the Goals	Task being performed	Managing city budget
	Cust. Service	Town services shut down
	Labor	City workers may not be paid pension
	Labor	City jobs lost

2 Analysis

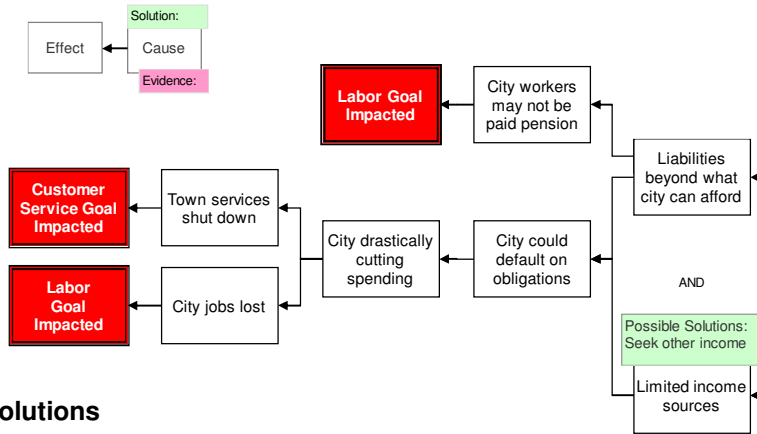
Basic Level Cause Map - Start with simple Why questions.



Basic Cause-and-Effect

Like other towns facing financial difficulty, Central Falls accepted more debt than they are now able to pay. This two-fold reason is at the center of the Cause Map. All of the effects Central Falls now faces – such as closed town services and the loss of local jobs – stem from the fact that the city had to cut spending. The city had to cut spending because it is facing bankruptcy. The Cause Map method allows us to trace the reasons back even further and build a complete picture.

More Detailed Cause Map - Add detail as information becomes available.



3 Solutions

No.	Action Item	Cause
1	Negotiate pension changes to avoid default	\$80M liability in pensions for 214 workers
2	Seek other income sources	Limited income sources
3	Change state law	State laws allow unlimited collective bargaining
4	Change basis of arbitration	State laws allow binding arbitration
5	Change basis of arbitration	Arbitrators based benefits decisions on state average

CITY FACING DEFAULT

Cause Map

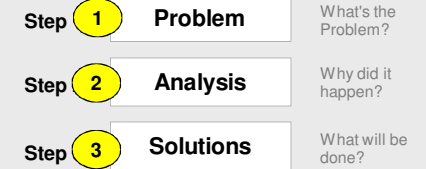
Central Falls, RI

A small Rhode Island town is on the brink of financial disaster. A low tax basis and mounting liabilities are leaving Central Falls with few options short of filing for bankruptcy protection. The town has requested financial assistance from state and federal governments and is begging pensioners to accept lower benefits. But how did they get to this point, and what can be done to keep neighboring towns – and the state itself – from bankruptcy?

Cause Mapping is a Root Cause Analysis method that captures basic cause-and-effect relationships supported with evidence.

CAUSE MAPPING

Problem Solving • Incident Investigation • Root Cause Analysis

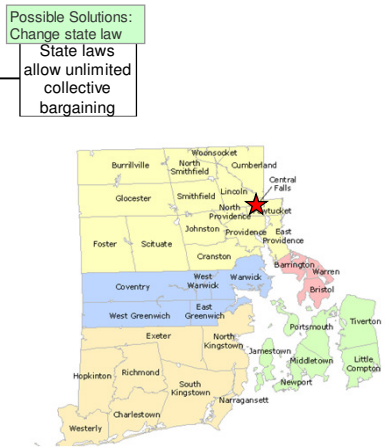


More Detailed Cause-and-Effect

The first piece is that the town has a large debt - \$80M to be exact – in pension liabilities for its 214 city police officers and fire fighters; this is in addition to \$25M in budget deficits over the next five years. The generous pensions can be traced back to two state laws regarding public worker negotiations. Rhode Island is one of the few states that allows workers unlimited collective bargaining, meaning that workers can negotiate for a higher salary for any reason. Without any limits, talks often broke down. When talks broke down arbitrators stepped in, and their decisions were binding. In past years, arbitrators often settled on benefits that were comparable to surrounding towns instead of what the city could actually afford. Unlimited collective bargaining and binding arbitration together contributed to the poor negotiations and overly-generous benefits.

The second piece is that the town doesn't have a large income. It has a small tax basis since the median family income is only around \$33,000. Other sources of income have been pulled back as well – like state and federal funding. The state is facing similar issues, and is in no place to bail out the multiple municipalities at risk. The federal government had extended aid, but rescinding it when Central Falls' credit rating was downgraded by Moody's.

Municipal bankruptcy is a rare occurrence, with fewer than 50 occurring in the last 3 decades nationwide. State bankruptcy is practically unheard of. Arkansas was the last to default on its bonds, following the Great Depression. This is in part to bankruptcy laws put in place after to avoid such an occurrence. When one town goes bankrupt, neighboring communities are often negatively affected. The resulting domino effect could be disastrous. Rhode Island is a small state with little room to maneuver if local towns – like Central Falls – start going bankrupt.



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