Rome's Woes Hand Renzi First Setback

Snag to Central Government Transfer Leaves Eternal City Teetering on Bankruptcy; Cuts to Jobs, Services Loom

By Christopher Emsden

ROME—The Eternal City, now teetering on the brink of a Detroit-style bankruptcy, has served Italy's new prime minister his first major political headache.

On the first day of his premiership, Matteo Renzi had to withdraw a decree, promulgated by his predecessor, that would have helped the city of Rome fill an €816 million ($1.17 billion) budget gap, after filibustering by opposition lawmakers in the Parliament on Wednesday signaled the bill had little likelihood of passing.

As a result, Rome's city fathers must now face unpalatable choices—such as cutting public services, raising taxes or delaying payments to suppliers—to gain time as they search for ways to close a yawning budget gap. If it fails, the city could be placed under an administrator tasked with selling off city assets, such as its utilities.

"It's time to stop the accounting tricks and declare Rome's default," said Guido Guidesi, a parliamentarian from the Northern League, which opposed the measure.

Rome's mayor, Ignazio Marino, a U.S.-trained transplant surgeon, rode to electoral victory last year on promises to vanquish nepotism, improve basic services and bolster tourism in the city center with initiatives such as keeping the Imperial Forum illuminated and open all night. Instead, he has been battling to hold together the budget. On Wednesday, he signaled he had no intention of presiding over deep cuts, while the head of the city council warned of the broader impact of Rome's financial troubles.

"A default of Italy's capital city would trigger a chain reaction that could sweep across the national economy," said Mirko Coratti, head of Rome's city council said on Wednesday.

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Rome Mayor Ignazio Marino, who rides his bike to work, faces tough choices in trying to close the city's budget gap.

The heart of the mayor's plan has been an appeal for a €485 million transfer from the central government to compensate Rome for the extra costs it incurs in its role as a major tourist destination, the nation's capital and the seat of the Vatican.

"Rome is unique compared with other cities" and deserves state support because of huge numbers of visitors who use services but don't contribute much to the economy, Mr. Marino said in a recent interview.

But even before the government of Enrico Letta fell this month, the proposed transfer had prompted complaints that the aid was unfair, given the dire straits of other cities.

Rome has long struggled to balance its books. Because of its dearth of industry, the city depends heavily on trash-collection levies and the sale of bus and subway tickets. It struggles much more than other European cities to collect either one. About one in four passengers on Rome's public transit system doesn't buy tickets, costing around €100 million in lost revenue annually, compared with just 2% of passengers on London's public transit network.

Meanwhile, employee absenteeism at Rome's public-transit and trash-collection agencies runs as high as 19%, far above the national average.

Just six years ago, some €12 billion in city debts was transferred to a special fund subsidized and guaranteed by the national government in a move aimed at giving Rome a fresh start. But Italy's economy has shrunk by almost 10% since then, eroding the tax base just as national austerity programs pushed extra costs onto local governments.

Even before the withdrawal of the "Save Rome" decree, Mr. Marino was facing unpalatable choices. He has already raised cremation and cemetery fees and plans to centralize city procurement, which he says will save €300 million a year.

Now, without the transfer from the central government, he may be forced to impose income and property tax surcharge—already among the highest in the country—and to cut salaries to the city's 20,000 employees or trim city services such as child-care centers or job-training programs.

The political fallout could be severe. The mayor of Taranto, a southeast city that defaulted on millions in debt in 2006, has suffered some of the lowest poll ratings in the country after cutting back services.

Mr. Renzi, who was the mayor of Florence until becoming prime minister, is expected to promulgate a new decree for Rome soon, but the terms are unclear. The new prime minister has said he intends to give local administrations more budget leeway.

Draconian measures could also exacerbate Rome's historic struggles to cope with its growth and to balance the needs of its historic city center—which hosts around 10 million tourists a year—with a poorly served periphery. Rome's population has grown tenfold since the mid-19th century. Few tourists see the city's sprawling outskirts, but they are home to more than 80% of Rome's 2.6 million residents.

Nearly 400,000 people live beyond the capital's busy ring road, most of them unserved by public transit and forced to drive to work. Rome has 978 cars per every 1,000 city residents, more than twice the rate of Paris and almost three times that of London. Recent heavy rains caused large-scale damage, exposing the need for major maintenance of the city's road network.

If basic services aren't improved, "people will just leave...and Rome ends up like Venice," which today has a small and aging city population, says Francesco Rosso, a geologist who for 20 years has suffered a three-hour commute into the center.

Tourism is an important source of revenue but no panacea. Rome's share of tourism is only half the level of Florence's per capita, according to Pierluigi Testa, head of a civic advocacy group. And conference tourism—a lucrative niche—has grown only 12% in Rome since 2000, compared with 52% globally, Mr. Marino says.