TOWARDS A NEW DETROIT

OVERVIEW

STEP 1: UNDERSTANDING THE PAST

“LET’S NOT REPEAT HISTORY”

STEP 2: THE TRANSITION WITH FISCAL OVERSIGHT

“GETTING THE INSTITUTIONS RIGHT”

STEP 3: FISCAL DECISION-MAKING IN A NEW DETROIT

“GETTING THE ‘FISCAL CULTURE’ RIGHT”
STEP 1: UNDERSTANDING THE PAST:

HOW TO HAVE A FISCAL CRISIS

WEAK DEMOGRAPHICS + WEAK ECONOMY + WEAK POLICIES

38% Poor
12% Elderly
25% Fall in Population 2000-10

30% Job Loss 2000-12
23 to 36% UE in 2010

Labor Policies
Unfunded Pension
Rolled-over Debt
Decaying Infrastructure

FISCAL CRISIS

16% Fall in Property Since 2010
STEP 2: GETTING THE INSTITUTIONS RIGHT: SHORT-RUN

FISCAL CONTROL BOARD

MANDATE: Oversee City Finances to Ensure Balanced Budget

METHODS: GAAP Accounting Rules; 5 Year Fiscal Plan

POWERS: Required Approval of Annual Budget and 5 Year Plan
(Including Labor Contracts; Competitive Contracting)
(Penalty: Withhold State Funding)

BOARD COMPOSITION: State, Regional, City Representatives
(Majority Composition will be State-Regional Representatives)

VOTING RULES: Super-Majority Approval Required
BENEFITS OF THE FCB

❖ Outside Discipline to Ensure Balanced Budgets

❖ Expertise for City’s Budget Process

❖ Credible Budgetary Information for the Private Markets
STEP 2: GETTING THE INSTITUTIONS RIGHT: LONG-RUN

OBJECTIVE OF GOOD PUBLIC FINANCE:

Marginal Benefits $\geq$ Marginal Costs

DECISION NO. 1: What Should Cities Do?

DECISION NO. 2: How Should Cities Pay for What They Do?

DECISION NO. 3: How to Decide What to Do?
DECISION NO. 1: *What Should City Governments Do?*

**RESIDENTIAL SERVICES**

Education: Pre-K; K-12; Community College  
Police and Fire Protection  
Sanitation Services  
Open Space, Parks and Recreation, Libraries  
Neighborhood Roads; Water and Sewer; Courts and Prisons  
*Services for Lower Income Households*

**BUSINESS SERVICES**

Police and Fire Protection  
Sanitation Services  
Commuter Roads; Water and Sewer; Courts and Prisons
DECISION NO. 2: How Should Cities Pay for What They Do?

“Excludable” Services:
Education, Sanitation, Water, Sewer, Libraries

Average Variable Costs = User Fees

Fixed Costs = Debt plus Taxation

“Non-Excludable” Services:
Protection, Roadways, Open Space, Courts/Prisons

Average Variable Costs = Taxation

Fixed Costs = Debt plus Taxation
Financing Services for Lower Income Households

Does City Financing for Poverty Hurt the City’s Economy?

A 3% Increase in Rate of Poverty = 25% Fall in Home Values

Does Regional Financing Help the City’s Economy?

County Sharing of Welfare Costs adds 13% to Home Values

(And Suburban Home Values May Rise Too!)

What Taxes?

Rule No. 1:
*Tax it Where it Lives, Not Where it Works!*

Residential Income Taxes
Land Value Taxation
“Neighborhood” Property Taxation

Rule No. 2:
*Resident Taxes for Resident Services, and,*
*Business Taxes for Business Services*

Land Value Taxation
“Business Zone” Property Taxation
DECISION NO. 3: How to Decide What to Do?

- **Strong Mayor Form of Governance**
  
  Agenda Powers; Veto With 2/3's to Override; City-Wide Elections

- **Contracting Out for Service Provision Allowed**

- **Neighborhood Governance using NID’s providing:**
  Education, Police, Sanitation, Libraries, Recreation, Open Space
  
  financed by: Neighborhood Property Taxation

- **Business Zone Governance Using BID’s providing:**
  Police, Sanitation, Open Space
  
  financed by: Business Zone Property Taxation
STEP 3: GETTING THE “FISCAL CULTURE” RIGHT

Right Fiscal Culture ↔ Forward Looking ↔ “Stake in the Future”

EMPOWER THOSE WITH A STAKE IN THE GAME

Short Term

❖ Fiscal Control Board

Long-Term

❖ Residential Homeowners: NID’s
❖ Business Property Owners: BID’s
ONE LAST QUESTION: WHAT ABOUT RENTERS?

• Renters Have No Long-Term “Stake in the Game”

• Renters Favor Debt Over Taxation

• Renters Constitute 48% of Detroit Residents

WHAT ABOUT SELLING SHARES IN THE NEW DETROIT?