

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

30% Job Loss 2000-12

Labor Policies

12% Elderly

23 to 36 % UE in 2010

Unfunded Pension

25 % Fall in Population 2000-10

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:

$$\text{Marginal Benefits} \geq \text{Marginal Costs}$$

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

CITY? REGION? STATE? NATIONAL?

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!)

SOURCE: Andrew Haughwout and Robert Inman, "Should Suburbs Help Their Central City?"
Brookings-Wharton Papers on Urban Affairs, 2002, Tables 5 and 6.

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 \Leftrightarrow Forward Looking \Leftrightarrow “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?