

THE PUBLIC FINANCES OF A WELL RUN CITY

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LEARNING FROM DETROIT

STEP 1: LET'S NOT REPEAT (DETROIT'S) HISTORY

HOW TO HAVE A FISCAL CRISIS

STEP 2: THE RULES FOR SOUND CITY FISCAL POLICIES

WHAT TO DO, AND HOW TO DO IT

STEP 3: GETTING THE INCENTIVES RIGHT

EMPOWER THOSE WITH A STAKE IN THE GAME

STEP 1: LET'S NOT REPEAT (DETROIT'S) HISTORY

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: THE RULES FOR SOUND CITY FISCAL POLICIES

DECISION NO. 1: What Should City Governments Do?

RESIDENTIAL SERVICES

Education: Pre-K; K-12; Community College

Police and Fire Protection; Courts and Prisons

Sanitation Services; Water and Sewer;

Open Space, Parks and Recreation, Libraries

Neighborhood Roads

BUSINESS SERVICES

Police and Fire Protection; Courts and Prisons

Sanitation Services; Water and Sewer

Commuter Roads; Public Transit; Parking Garages

BUT WHAT ABOUT INCOME REDISTRIBUTION?

Services for Lower Income Households

(Providers, but not, Financiers)

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

How Should Cities Pay for What They Do?

*Residential and Business “Excludable” Services:
Education, Sanitation, Water, Sewer, Libraries*

Average Variable Costs = User Fees

Fixed Costs = Debt plus Taxation

*Residential and Business “Non-Excludable” Services:
Protection, Roadways, Open Space, Courts/Prisons*

Average Variable Costs = Taxation

Fixed Costs = Debt plus Taxation

BUT 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

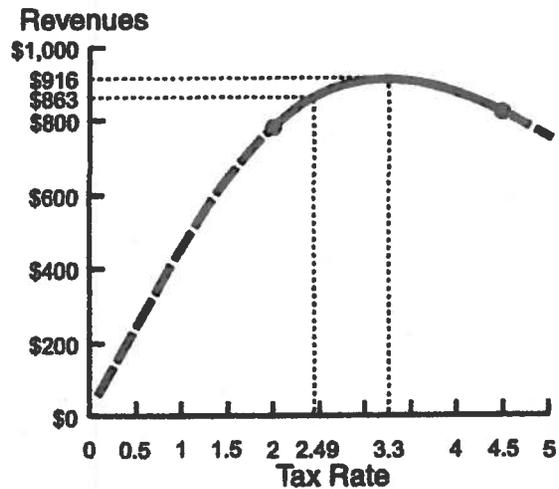
“Business Zone” Property Taxation

Rule No. 3:

PLEASE, Don't Go to the Top of the Revenue ("Laffer") Curve

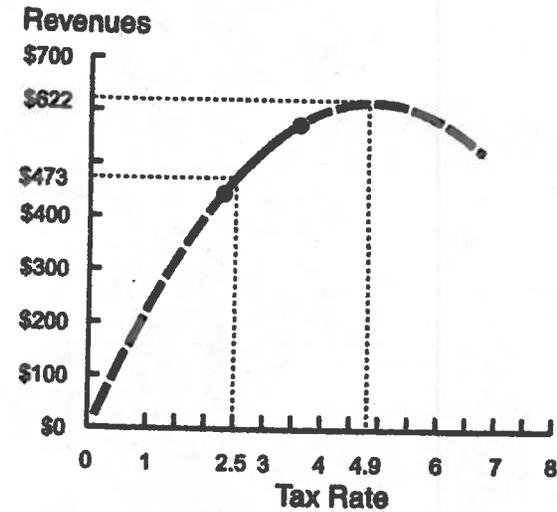
New York

Property Tax



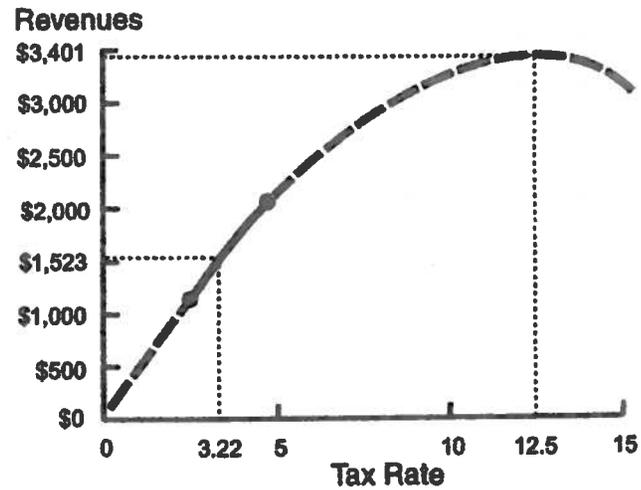
Philadelphia

Property Tax



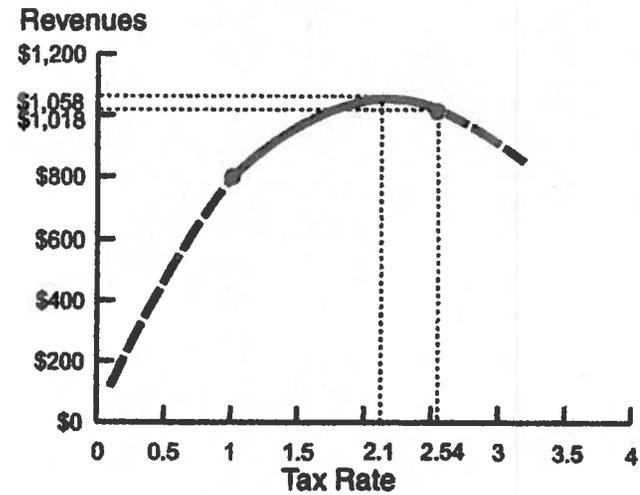
THE "GOOD"

Minneapolis Property Tax



THE "UGLY"

Houston Property Tax



SOURCE: Andrew Haughwout, Robert Inman, Steven Craig, Thomas Luce, "Local Revenue Hills: Evidence From Four US Cities," *Review of Economics and Statistics*, May, 2004.

Rule No. 4:

Financing Services for Lower Income Households

REGION? STATE? NATIONAL?

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.

STEP 3: GETTING THE INCENTIVES RIGHT

☞ *Strong Mayor Form of Governance, **Not** a District Council*

Agenda Powers; Veto With 2/3's to Override; City-Wide Elections

☞ *Contracting Out for Service Provision Allowed*

Competitive Alternatives; Contract on Price; Monitor Quality

☞ *“Power to the People”*

Neighborhood Governance using NID's:

Providing:

Education, Police, Sanitation, Libraries, Recreation, Open Space

Financed by:

User Fees & Neighborhood Property Taxation for *Efficiency*

Across Neighborhood Equalization Grants for *Fairness*

*Business Zone Governance Using **BID**'s:*

Providing:

Police, Sanitation, Open Space

Financed by:

User Fees & Business Zone Land Taxation

AND LAST BUT NOT LEAST:

☞ *It's Always Nice to Have a "Gorilla in the Closet"*

Gorilla No. 1: State Balanced Budget Requirements

- *Ex Post* Balance, not *Ex Ante*
- *No Overrides*
- *Independent Enforcer with Significant Penalties*

Gorilla No. 2: Fiscal Control Board

- Politically Independent
- Credible Evaluation by Competent and Independent Staff
- Credible Enforcement for Violations of Budget Balance
Deny State Aid (PICA); Deny Bond Guarantees (MAC)

CONCLUSIONS

WELL DESIGNED FISCAL INSTITUTIONS



WELL CHOSEN FISCAL POLICIES



STRONG LOCAL ECONOMY



HIGHER INCOMES & HOME VALUES, ECONOMIC OPPORTUNITY