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
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: 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?


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
THE "GOOD"

**Minneapolis**

*Property Tax*

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THE "UGLY"

**Houston**

*Property Tax*

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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!)

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