VIEWPOINT
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Agenda for Detroit: What Role Should State Play Post-Bankruptcy?

Summary

Detroit's bankruptcy will eventually be solved, and when it is the state must dutifully monitor the city's finances to make sure the same problems that lead to bankruptcy do not continue to plague taxpayers and other residents.

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Detroit's bankruptcy case continues to move through the courts and could include a partial state bailout. But Detroit's recent history is littered with many false claims of an impending turnaround — it's been nearly 40 years since Detroit's Renaissance Center opened — and successful emergence from bankruptcy is no guarantee of revitalization. To ensure an authentic recovery, state government must remain actively involved for the foreseeable future.

By reducing its debt in bankruptcy, Detroit will free up funds to reinvest in current operations. Without bankruptcy, legacy costs threaten to take up two-thirds of the city's revenue in coming years.

This extra money will help Detroit improve management. According to the state's report certifying a financial emergency, the city's managers were overspending budgets for years, without the authority to do so, and internal reporting was in shambles. Auditors found "deficiencies in the areas of transaction processing, account analysis, data integrity, reconciliation performance and document retention."

The state, as it is currently doing in Pontiac, has a clear role to play in a post-bankrupt Detroit to ensure the city does not return to insolvency.

Fixing city mismanagement is all the more important in the face of continuing decline. Orr's debt readjustment plan assumes that the population will drop to 625,000 by 2020, a loss of another 60,000 people. This will weaken an already dangerously soft tax base. And there will be constant pressure from state legislators who question the state's sky high local aid payments, given that fewer and fewer residents live in Detroit.

Population loss can set a city on a death spiral. Mismanagement increases as budgets get strained. Service quality suffers, such as through emergency furloughs, thus causing more residents to leave, placing further strain on budgets. On the revenue side, Detroit has tried to develop solutions to strengthen the tax base — casino taxes, for instance — but continuing decay has been the rule. But if the city can improve management, it might be able to lower costs.

Much more needs to be done, especially in competitive contracting and asset sales. And as the city starts to better administer its policies, it also needs to be careful about being high-handed in enforcing burdensome rules.

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It is not the state's job to manage contracts or administer IT for Detroit. The state needs to monitor the city. Are the books balanced and are city officials sticking to approved budgets? Are all contracts going through a fair bidding process? Are the deals worked out in bankruptcy court being honored? In other words, the state should make sure that Detroit abides by the state's rules for local governments.

At present, state government is implementing this approach in Pontiac, where an emergency manager is transitioning the city back to the control of elected officials. A state-appointed four-member board is monitoring the city and has provided effective supervision over city finances.

The board takes an active role in oversight. It meets monthly to approve or reject new resolutions and ordinances and approve litigation settlements. The board also reviews city financial information. This prevents local profligacy. For example, the Pontiac transition advisory board rejected a change in retirement system rules to extend more benefits to some laid-off employees.

It is to be expected that local elected officials will fight against the board. Pontiac's did. The city council proffered a resolution denying the transition board's authority. This was subsequently rejected by the board. As long as the transition board keeps the city abiding by state balanced budget and accounting rules, its relationship with elected officials is beside the point.

With less debt and better management, Detroit should be able to handle a decrease in its size. Comparing it to other cities in Michigan shows that there is more room to cut costs while preserving quality. When control returns to the city's elected officials, it will be up to the new mayor and city council to lead these reforms.

But no one should underestimate the threat of a return to bad habits, such as putting off cost cutting and borrowing for operational needs. State monitoring can prevent backsliding by city officials and ensure that residents receive quality services even if Detroit continues to lose population.

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