[Bond Case Briefs]

Municipal Finance Law Since 1971

[Lessons from Kokomo on How to Spend Responsibly.]

How the Indiana city that was the center of the auto industry collapse became an unlikely poster child for long-term fiscal sustainability.

There's a debate raging about whether governments should spend more money on economic development and infrastructure, or whether they should cut spending to bring finances under control, a strategy often dubbed "austerity" by critics.

In reality, the two are inseparable. Until you have a firm handle on your finances, you can't afford to invest on any sort of sustainable basis. This is the logic underpinning what Bruce Katz at the Brookings Institution calls "cut to invest." That is, there's no new magic pot of money arriving, so everyone from the federal government to cities needs to make some cuts in order to free up cash to spend on higher-priority items. An unlikely poster child for this philosophy is the small industrial city of Kokomo, Ind. With a population of 57,000 about 45 miles north of Indianapolis, Kokomo made national news as the center of the auto industry collapse, even prompting a visit from President Obama. At its bleakest moment, Kokomo's unemployment rate hit 20 percent and it faced a near-cataclysmic fiscal crisis when bankrupt Chrysler, the city's largest employer, didn't pay its property tax bill.

Fortunately for Kokomo, its plants survived the auto bankruptcies and it weathered the crisis. But the city determined never to return to business as usual; rather, Mayor Greg Goodnight and other leaders embarked on a program of change involving both fiscal restructuring and major investment.

A history of fiscal prudence on the part of past city leadership helped. Foremost, the city had no non-utility debt. It was able to further bolster its tax base by annexing seven square miles — including new freeway interchanges — and 11,000 people from Howard County. But while expanding physically and in population, the city shrank its government payrolls by 20 percent, going from 521 employees to 417. This was done in a variety of ways, including adopting something as simple as single-side-of-the-street garbage collection, which won a Bright Ideas award from Harvard's Ash Center, to more controversial fire department layoffs.

The focus on efficiency has continued as tax revenues recovered, freeing up cash for investment. New spending included reengineering every downtown street from one-way back to two-way, removing all stoplights from the core of downtown, building a high-quality trail system, investing in a $1 million renovation of city hall, creating a new fareless bus system, and erecting a new mixed-use downtown parking garage that includes apartments, a YMCA and two new fire stations — all funded with cash and no debt. Its only borrowing was for a new municipal baseball stadium.

Kokomo can spend money on these items because it took care of fiscal business. Not all debt is bad, but in this case, by mostly resisting the urge to borrow, Kokomo will retain the ability to invest well into the future by not encumbering future cash flow. As a small industrial city, Kokomo still has challenges to be sure, but it appears to be on the right track.

Other cities are in different stages of this process. Consider Los Angeles, which is also making national news, this time for its crumbling infrastructure. The New York Times reported that it faces more than $8 billion in needed repairs just to bring its worst roads, sidewalks and water lines up to par.

Why can't Los Angeles afford to invest in infrastructure? Because it allowed its budget to get out of control. Some blame this on the city's fear of raising taxes, but L.A. is hardly a low-tax haven. Instead, as a report issued earlier by City Administrative Officer Miguel Santana notes, while revenues are anticipated to grow 4.4 percent — faster than national GDP — expenditures have been growing at an even faster rate.

Nevertheless, some progress has been made in Los Angeles. The city's workforce is down 14 percent from peak levels. New pension tiers have been introduced for newly hired workers, and labor negotiators agreed to new employee contributions to pensions and health care. The city has also started rebuilding its reserves.

Los Angeles is certainly far from having solved its fiscal problems, though. Most of these changes were done with the city's back to the wall. It needs to find a way to continue down the path of fiscal responsibility, which means establishing and maintaining control of the budget over the long term, most critically when the immediate crisis passes and there's a cyclical upswing. That's when cities, and states for that matter, often reverse course on fiscal discipline and take out the shovel, digging even deeper holes by granting things such as politically popular but fiscally unsustainable pension promises. Instead, any fiscal improvement either should be banked or devoted to the most important of civic needs, like basic infrastructure fixes and improvements. This won't be easy in a city with such powerful unions. But fixing the budget to enable the investments and maintenance needed to keep L.A. competitive is critical.

So as unlikely a poster child for long-term fiscal sustainability as it may be, Kokomo stands as an example of what long-range and responsible political leadership can mean for the future vibrancy of a city. The city of Los Angeles — and a host of others — could learn a lot from it.

GOVERNING.COM

BY AARON M. RENN | NOVEMBER 2014

arenn@urbanophile.com | https://twitter.com/urbanophile