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Michigan's Way of Funding Cities Set Stage for Flint Water Crisis.

The human side of the Flint water crisis is appropriately receiving major attention from the media and policymakers alike. But the piece that's been largely ignored is the state's failed policies toward municipalities that have brought us to this place. For years we have attempted to draw attention to the failings of our municipal finance system, and by extension the use and powers of emergency managers. According to the U.S. Census Bureau, Michigan is the only state in the country providing fewer economic resources to its cities in 2012 than it did in 2002.

This tragic outcome in Flint is in many ways what we should have expected because Michigan has built a system that incentivizes new building at the expense of what currently exists. Our system attempts to balance budgets by only addressing the cost side of the equation. We have no mechanism to invest in our cities as a way of improving the financial well-being of a community.

Emergency managers have been given extraordinary powers to balance the budgets of fiscally distressed communities, but virtually all of these powers relate in one way or another to cutting costs. What is forgotten with this approach is that costs equal services. Cost-cutting measures, with few very exceptions, result in a reduction in the services that the community will receive. Usually those reductions do not have tragic consequences, but make no mistake: the decision to switch from the Detroit Water and Sewer Department to the Flint River was an economic one driven by state laws and policies that significantly impact and restrain local government.

This decision was not about improved service, water quality, infrastructure investment, or any other altruistic goal. This was an opportunity to save money and nothing more.

Emergency managers do not have a long-term vested interest in a community. In fact, they have the exact opposite point of view. By design, emergency managers are outsiders with a single mission to reduce costs. I am in no way suggesting that this decision was made with malice or without forethought, but the emergency manager and, by extension, the state has only one objective during a financial emergency. That goal is to reduce costs until the budget is balanced. It is this approach that has brought us to where we are today. Emergency managers do not have to live, long-term, with service reductions and the diminishment to the community that they bring. When they have completed the mission, they move on. They have one focus: to balance the budget by cutting expenses until they equal revenues. But this approach fails to recognize, and in fact is in direct conflict with one of the fundamental tenants of Michigan's municipal finance model, which is that the value of a community directly impacts the revenue that a community can generate to sustain services. It's a system designed for failure.

Think for a moment about how cities generate revenue. Property taxes are a function of two things: millage rate and taxable value. What makes taxable value higher in one community versus another, is in essence, what makes one city or village more desirable than another. Great places command higher prices, which translates into greater taxable value. This in turn generates more revenue. It is simple math. When an emergency manager balances the books by closing parks, eliminating programs and services and forgoing investments in infrastructure, he makes it a less desirable place. This of course, diminishes the value of the city and its revenue generating power. Consequently, the city offers even fewer services, which further diminishes it as a place where people want to live, which diminishes value, and so on. It’s a death spiral — a fundamentally flawed process that will never work given Michigan’s current municipal finance model. The system is broken.

Now think of that approach in the context of Flint. What have we bought with our cost-reduction approach to balancing budgets? A significantly damaged community in both a social and economic sense. If taxes are a function of value and millage, how have property values been impacted in Flint as a result of this cost-cutting decision? I think it is fair to suggest that the property values in Flint have been severely impacted as a result of the current crisis. Which will mean deep reductions in local tax revenue, which of course will mean reductions in service, which means a diminishment of value. The death spiral continues. Sadly, our only existing mechanism to address this will be through more cuts. We need a new way forward.

Our first priority must be to address the social and health impacts Flint is experiencing. Beyond that, we must address the policy that brought us here. We must invest in our local communities. Cuts beget more cuts. It is a race to the bottom, and in this case a tragic illustration of flawed public policy. Creating vibrant, desirable communities is proven to have positive economic impact as well as social value that we have lost sight of with our current approach. We must recognize that by investing to create great places we can improve both the quality of life and the economy of a city at the same time. A cut-only approach can only diminish the strength of a community and in extreme instances like this have a devastating human impact. We must learn from this disaster and redefine how we invest in Michigan cities.

The Detroit Free Press

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11:20 p.m. EDT March 19, 2016

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