

# Michigan's Approach to Fiscal Crisis: An Emergency for Democracy



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This issue brief explores emergency management, a form of state takeover for fiscally stressed local governments and school districts in Michigan. The brief explains the evolution of emergency management, how the current law operates, and what has happened under emergency management in Michigan. Emergency management allows the governor to appoint a finance professional to replace all local officials. It raises important questions about who can and should make local decisions. These questions matter to cities and school districts across the US as they draw lessons from Michigan's example. A closer dive into three cities and one school district reveals a pattern of short-sightedness about the law's effects. **Emergency management's narrow financial focus diverts attention from cities and schools' broader needs for comprehensive tools to address economic, demographic, and community change.**

## TOUGH MEDICINE

"PA 4 [...] was updated to provide additional early warning indicators to help communities and schools avoid a financial emergency in the first place. And, if they are in an emergency, appoint an emergency manager with more tools and ability to get the job done faster, returning a stronger, fiscally sound community or school back to local officials."

-Governor Rick Snyder<sup>1</sup>

## MICHIGAN'S HISTORY OF INTERVENTION

Michigan first passed emergency management legislation in 1988 to intervene in cases of fiscal insolvency in cities, amending it to include school districts in 1990. Governor Rick Snyder and legislators significantly strengthened emergency managers' powers in 2011 through Public Act 4. The law authorized them to strip locally elected officials of their powers, sell public assets, void contracts, and hire and fire employees.<sup>3</sup> Michigan voters repealed the law through a referendum in November 2012.<sup>4</sup>

Less than a month later, the governor and legislators passed a law nearly identical to Public Act 4. The new Public Act 436 is referendum-proof and modifies the state's financial review process.<sup>5</sup> It gives local governments and school districts four choices in a financial emergency: consent agreement; bankruptcy; mediation; or emergency management.<sup>5</sup> Although they may remove an emergency manager by a two-thirds vote after 18 months,<sup>4</sup> the governor may reappoint one at his or her discretion.

## IMPLEMENTING EMERGENCY MANAGEMENT

**Fiscal Stress** - Municipality or school district struggles financially from reductions in state aid, mismanagement, job loss, population decline, and other factors.

**Governor Attention** - Municipalities and school districts request state assistance or the state calls for a review.

**Fiscal Review** - State review team assesses local finances and determines if (1) no financial problem exists; (2) a problem exists but a consent agreement is in place; or (3) a financial emergency exists.

**Emergency Manager Appointed** - Governor appoints an emergency manager.

**Stifling of Democratic Process** - Emergency managers nullify the authority of all locally elected officials. With expansive executive powers and little to no local oversight, they report directly to the Governor.

**Balanced Budget** - Emergency managers focus solely on fiscal solutions to fiscal problems.

**Receivership-Transition Advisory Board (RTAB) Appointed** - After the emergency manager determines the financial emergency has been resolved, the municipality or school district transitions to RTAB supervision.

**State Withdrawal** - RTAB recommends that Governor terminate state management.

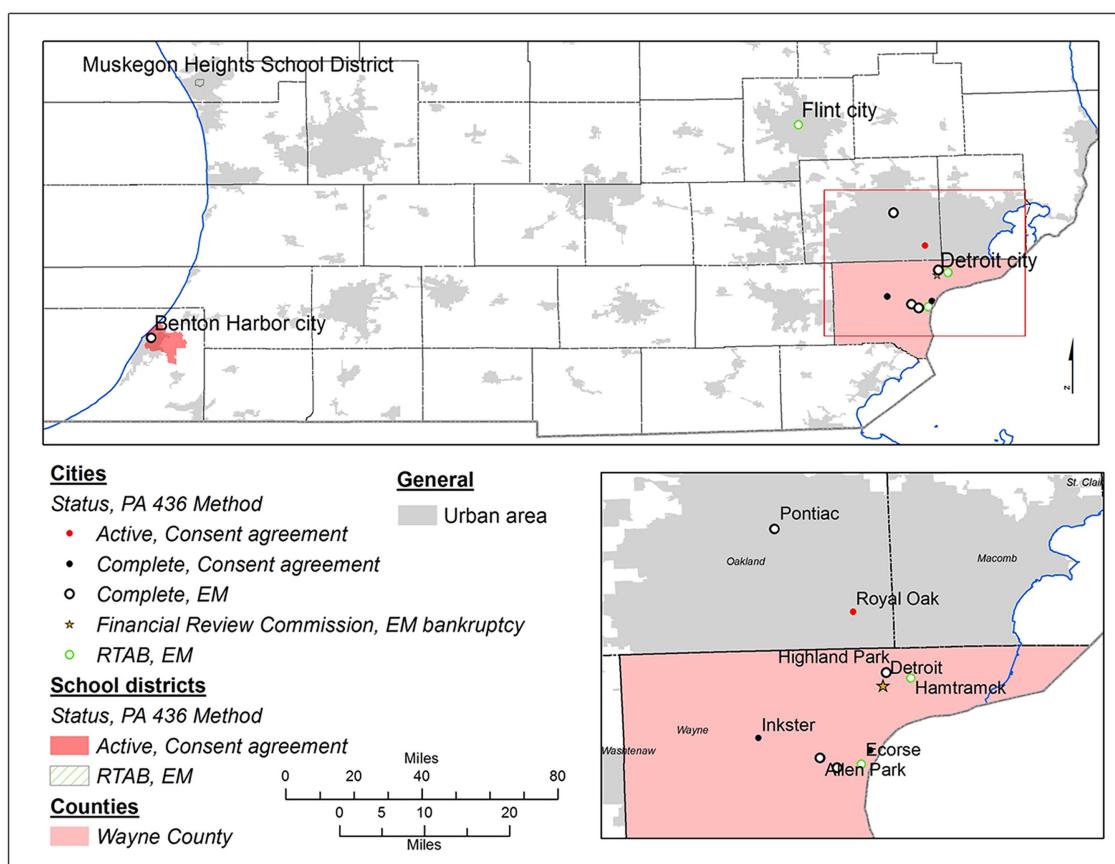


Research on emergency management in Michigan is directed by Mildred Warner and John Forester of Cornell University's Department of City and Regional Planning with funding from Engaged Cornell. A full copy of the report on which this issue brief is based on can be found at <http://www.mildredwarner.org/restructuring/fiscal-stress>.

## HOW DO WE MAKE SENSE OF MICHIGAN?

A changing economy, corresponding population decline and job loss, coupled with reductions in public revenues have tightened belts in cities and school districts in Michigan. The state has placed twelve cities and four school districts under emergency management, as shown in the map. Eleven of them are majority African American. Poverty rates for all are between 20 and 50 percent.<sup>6</sup> Only one, Highland Park School District, remains under emergency management. Eight have transitioned back to full local control. RTABs and a Financial Review Commission oversee the rest.<sup>7</sup>

This issue brief relies on three cities and one school district to illustrate how emergency management affects places outside of the bigger cities of Flint and Detroit. A group of Cornell graduate students collaborated to conduct interviews and review public records and documents regarding emergency management in these four cases. The cases include the cities of Hamtramck, Allen Park, Benton Harbor, and the Muskegon Heights School District. Two of these sites are located within the Detroit region and two are outside. Two are predominantly African American, the third is mostly Caucasian, and the fourth is mixed. Hamtramck and Muskegon Heights currently operate under RTABs, while Benton Harbor and Allen Park have been returned to full local control.<sup>7</sup>



## EMERGENCY MANAGEMENT THEMES

### Bad Implementation or Bad policy?

Emergency managers cannot tackle the major causes of economic and demographic decline facing cities and schools. They may have ample experience in finance but not much in managing cities or schools. Short-term fiscal decisions undermine attention for a broader urban agenda that tackles long-term issues.

### Shrinking State:

Michigan does not provide adequate financial support or management oversight. This strains local budgets, staff, and operations. State austerity measures, such as emergency management, disproportionately impact poor and marginalized communities.<sup>8</sup>

### Erosion of Democracy:

Consolidating state control over local governments and school districts has weakened the voices and choices of Michigan citizens. The appointment of emergency managers subverts the powers of democratically elected officials and neutralizes dissenting voices both in government and among citizens—leaving little or no choice on how to alleviate fiscal stress.

## Emergency Management in Cities:

### Bad Implementation or Bad Policy?

Emergency managers set aside local decision-makers to take control of city budgets. They ignore local knowledge and insights in favor of strategies implemented elsewhere. In Allen Park, the city could have saved up to \$800,000 by tailoring its health care coverage to better reflect the ages of public employees instead of using the same policies employed in a different city.

*"You give them the power to come in and basically write orders and all this. You give it to people who don't know anything about the community. If you had a manager in place, or a city administrator that knew everything, that knew where everything was hidden, and you gave him that power, I think you could be much more effective."*

-Bob Cady, Finance Director, Allen Park<sup>2</sup>

Solutions to municipal fiscal stress tend to focus on short-term budget fixes, from selling valuable public assets to laying off employees, from renegotiating contracts to freezing public hiring. Benton Harbor's emergency manager sold part of the town's waterfront park for a luxury golf resort and condominium development. Cutting unions' pay and benefits reduced debt but led to costly lawsuits—Allen Park is still litigating a suit from its Firefighters Association. In Hamtramck, privatization and outsourcing did not save money and the city brought some services back in-house after emergency management ended.

*"At the time [there] was an emergency financial manager whose modus operandi was privatization and brought in a bunch of companies who ripped the city off and cost us a lot of money, and in fact ended up costing us a lot of money and lawsuits when we tried to go back to providing those services in house. It's the usual, you know, plan of attack. Privatize, sell off property, and cut services, and cut personnel in city hall. And frankly that did not work for us ... it was a plan that hurt the city, that cost us actually more money, much more money, and it was done by an emergency financial manager who did not value the uniqueness and the assets of a city like ours."*

-Mayor Karen Majewski, City of Hamtramck<sup>2</sup>

### Shrinking State

One of the primary reasons for local fiscal stress is lost revenue from state revenue sharing with local governments which plummeted by over \$6 billion between 2001 and 2014.<sup>9</sup> Knowing that fiscal issues were developing, the state could have stepped in earlier in struggling cities. For example, Benton Harbor failed to submit timely financial reports to the Department of Treasury for eight consecutive years before the state intervened.<sup>7</sup> Fixes such as state loans may help with revenue shortages temporarily, but they fail to address longstanding economic and political problems associated with a shrinking state.

*"We have always had financial problems, and we've been through emergency management under different forms of Michigan law before this last round. [...] Infrastructure, we're an old city, and our infrastructure needs a lot of work. It's been neglected over the decades. [...] At one time, we were 60,000 people. Well now we're 25,000, and those folks who work for the city when [...] the population was higher, are now retired. They're living up in a cottage north somewhere sitting pretty, but we're paying their bills, and none of that money comes back to Hamtramck. [...] That's an issue for cities all across the country, those post employment benefits, [...] especially as people move away, but it's especially compounded when the city once was much bigger. [...] Now we're supporting [...] more retirees than we have employees."*

-Mayor Karen Majewski, City of Hamtramck<sup>2</sup>

### Erosion of Democracy

Emergency management undermines democratic accountability by consolidating authority. Benton Harbor's emergency manager weakened the influence of the city council and mayor by making all city employees report to the city manager.<sup>2</sup> Decisions like these strip local governments of power and fail to consider the local interests of citizens. Our case studies indicate that local governments—and their citizens—have had little or no choice in determining how to alleviate fiscal stress:

*"When a city has a whole lot of appointees making decisions to the local body, and the local electorate [is] saying, 'No, no, no, no,' and you have the state or local manager saying, 'I don't have to listen to you and I'm not planning to.'*

-Researcher from Michigan<sup>2</sup>

## Emergency Management in School Districts:

### Bad Implementation or Bad Policy?

Emergency management in school districts comes with many of the same ramifications seen in cities. Muskegon Heights' emergency manager laid off every school employee, following failed negotiations with the teachers' union. He brought in a private charter school to replace the public school district. The charter hired inexperienced, non-unionized and predominantly white staff members, some without valid teaching certificates.<sup>10</sup> These decisions wrecked parents' confidence in the district. Student enrollment numbers, which are the basis of state funding for public schools in Michigan, plunged. Emergency managers' lack of education experience means their financial decisions can hurt school outcomes:

*"[Emergency Managers are] tasked in the law to address the academics. [...] They gotta come up with an academic plan and work that academic plan. But they have no training either as a teacher, a school administrator, or even a school business official necessarily. They're just broad general financial management folks that haven't worked in schools. [...] The academic problem really remains and in some cases gets worse."*

-Craig Thiel, Research Director, Citizens Research Council of Michigan<sup>2</sup>

### Shrinking State

Muskegon Heights' emergency manager divided the school district into two entities. The original public school district was consigned only to collect state loan payments to pay off its debts. A new district was created so that a private charter school could run the day-to-day academic operations of the school.<sup>10</sup> When the charter school failed because the company could not turn a profit, the district had to turn to a network of fragmented support instead of additional help from the state.<sup>11</sup>

### Erosion of Democracy

While Michigan school board members are typically elected, under emergency management their roles are advisory at best. The emergency manager becomes the school board. No power is shared with the local community. School districts can quickly lose valuable community assets, such as playgrounds, or important school services without regard to their educational value.

## Lessons for Michigan and Other Cities:

*"I love my country. I wouldn't want to be anywhere else. But the way we were stripped of our rights, of our voice, it was like we saw America in a different light, like, 'What is going on?' If we don't stand up and fight, and turn this thing around—emergency manager—what next?"*

-Mary Alice Adams, City Council Member, City of Benton Harbor<sup>2</sup>

The goal of emergency managers is to quickly bring cities or school districts out of debt. But their short-sightedness can mean deep-rooted issues may resurface. Local governments and school districts need financial support and management reform that prioritizes social equity, democratic accountability, and the long-term fiscal health of communities. States considering local fiscal interventions must assist cities earlier, before they face financial emergencies. They must face broader issues of economic and demographic change head on. They must trust local officials who know their communities best and possess a vision for the future. Local officials outside of Michigan should take heed of the dangers of emergency management and advocate clearly for the state support they need most.

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