Michigan's Approach to Fiscal Crisis:

An Emergency for Democracy

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PREFACE: ***How a Crisis of Clean Water Revealed a Crisis of Democracy***

In September 2016, a community organizer named Claire McClinton visited the Cornell University campus to share her story about the Flint Water Crisis. She talked about how Flint, Michigan had once flourished as the home of General Motors. But as the world changed, the auto industry moved overseas, and the number of good jobs fell, people started to leave Flint behind. The state pulled back on revenue sharing (Revenue Sharing, 2014) and the city fell into a financial tailspin. In 2011 the state declared a financial emergency and sent in an emergency manager (Snyder, 2011).

These emergency managers were finance professionals appointed by the governor with a mandate to balance city budgets, but they also had sweeping authorities that outraged local residents. Emergency managers made fateful decisions in Flint to reduce city water costs. Their choice to switch water sources and cut treatment practices resulted in contamination of the entire city water system with lead, copper, and trihalomethanes (Task Force, 2016).

Claire McClinton argued that the problem in Flint was bigger than the lead in the pipes. The emergency managers were not accountable to the citizens of Flint—they were accountable to the governor. The Flint Water Crisis was actually a democratic crisis. McClinton claimed that the governor used emergency management to target majority-minority communities with high poverty rates and valuable public assets to sell off. Emergency management was instead a form of political control to produce revenue for the state and take advantage of poorly resourced towns.

McClinton's hypothesis was the seed of the research that follows. Her final warning was this: what happens in Michigan, won't stay in Michigan. In response, a team of Cornell researchers formed to ask two questions: What is the matter with Michigan? And what is the matter with emergency management?

INTRODUCTION: *Responsibilities for Urban Fiscal Failures*

Flint exposed a critical weakness in the 2012 Michigan state law that empowered emergency managers to set aside local decision-makers and take control of the city's budgets. These emergency managers were not trained to manage public water systems, nor were they trained to be public leaders. They were financial professionals, deployed to cut deficits and correct local mismanagement.

Michigan's current emergency manager law raises important questions about who should make local decisions. In what level or sector of government should they be positioned? In this paper, we ask three main questions: Why do cities and school districts in Michigan fall under emergency management? What decisions do emergency managers make? And what are the long-term implications for the communities they take over? We interviewed residents, academics, reporters, and public officials. We also analyzed public records in four Michigan jurisdictions placed under emergency management. We find that emergency management reflects a move toward post-democratic, professional, and corporate managerialism in the public sector. This move produces short-sighted management decisions and diverts attention away from comprehensive policy agendas that can address regional, economic, and demographic restructuring.

As state governments increasingly decentralize their political, fiscal, and policy authorities to local governments (Prud homme, 1995; Faguet, 2014), it is unclear where the responsibility for basic public management decisions should lie. Emergency management complicates the process of decentralization and also shifts our understanding of when states should intervene. Is the correct moment before a financial emergency occurs, or after? How much authority should the state retain and how should that authority be used? The history of the emergency management law illustrates how this balance shifts over time—four different iterations of the law have modified the criteria and responsibilities of state takeover over time to fit the political common sense of the day.

Some argue that the true motivation to place a city under emergency management is not fiscal insolvency but political control. The cities and school districts where emergency management has occurred are generally poor communities with large minority populations and valuable public assets. Critics of emergency management, such as community organizers in Flint or Detroit, or those who participated in the statewide referendum to overturn the law, claim that the state deliberately targets these places for dishonest ends. They argue that the majority-white and Republican-controlled state legislature and governor chose to prey on poor, black and brown cities, taking over their local governments and selling off assets to save the state's credit rating from a wave of municipal bankruptcies (Smith, 2012; Bosman & Davey, 2016; Gordan, 2017). The differential impact is hard to ignore because it is so clear—thirteen of the seventeen cities and school districts placed under emergency management are majority non-white. Communities suffering from historic discrimination and persistent poverty start out behind, so they are more likely to experience fiscal crisis. Many of these cities and towns have gone through state intervention multiple times.

What has happened to poor cities and struggling school districts in Michigan is important because it foreshadows what could happen in other states across the U.S. The impoverished post-industrial city with a shrinking population and aging public infrastructure is not unique to Michigan. Neither are the concerned citizens, disheartened by loss of control over their schools, public services, and environments. Understanding what makes emergency management ineffective or destructive in Michigan may have great impact outside the state.

EMERGENCY MANAGEMENT*: Fiscal Stress, Austerity, and the Emerging State Response*

In our analysis of emergency management's social and political ramifications, we aim to situate emergency management within a larger theoretical framework of austerity urbanism (Peck, 2012), fiscal federalism (Kasdan, 2016), and professional managerialism (Ehrenreich & Ehrenreich, 1977). Our work builds on a growing body of literature addressing Michigan's emergency management policy, fiscal distress in local governments, and preventive or remedial approaches to address it (Arsen & Mason, 2013; Kasdan, 2016, 2014; Loh, 2016).

Perhaps most salient in our analysis is the role of austerity in ushering in what Peck refers to as a "new operational matrix" for urban politics (Peck, 2012). Under this matrix, sub-national governments are forced to develop new responses to stringent neoliberal policies, which include "aggressive forms of state downsizing, austerity financing, and public-service 'reform'" (Peck & Tickell, 2002). The need for new responses has evolved in part from what Peck refers to as "scalar dumping." The brunt of austerity pressures falls on subnational governments—pushed from the federal level to the state level, and from the state level to the local level (Peck, 2012). A 2011 report by the credit rating agency Moody's bolsters this claim, noting that "many states are increasingly pushing down their problems to their local governments" (Cooper, 2011). Because local governments bear much of the responsibility for service delivery and implementation of federal and state mandates, they disproportionately feel the pressure of austerity.

While austerity is not new, it has received renewed attention since the 2008 financial crisis (Peck, 2012). Scholars have speculated about state and local governments operating in a "new normal" of austerity urbanism, wherein continuous fiscal austerity forces them into governance strategies of cutback management, reduced public service delivery, and disregard for social equity and citizen well-being (Kim & Warner, 2016; Martin, Levey, & Cawley, 2012; Peck, 2012; Donald, Glasmeier, Gray, & Lobao., 2014; Glasmeier & Lee-Chuvala, 2011; Richardson, 2011; Pandey, 2010; Scorsone & Plerhoples, 2010). Empirical study has found mixed results, including evidence of privatization, service cuts, user fees, market tools (Kohl, 2004; Girth, Hefetz, Johnston, & Warner, 2012; Warner & Clifton, 2014), as well as capacity-building and "pragmatic municipalism" (Kim & Warner, 2016). Additional study on local governments' responses to fiscal stress is needed--the current literature finds that responses vary, showing responses from a lack of significant public service or policy change (Ammons, Smith, & Stenberg, 2012) to erratic and unpredictable measures (Nelson, 2012).

Cities that go through full-blown financial emergencies, such as Detroit and many of Michigan's smaller cities, face a collision course of sources of fiscal stress, in addition to the fiscal weight of "scalar dumping." Kasdan categorizes eight sources of stress: internal and external economic, political, social, and environmental pressures (2016). These pressures grow slowly and aggravate each other until a true financial disaster happens, capitalizing on the tendency of politicians to act in the short-term. Kasdan (2014) pithily describes this shortsightedness: "More often we see governments trying to deal with yesterday's problems while keeping the lights on today."

The practical ramifications of fiscal distress and austerity are perhaps nowhere clearer than in Michigan. Nathan Bomey describes the tremendous drop in Michigan state aid in his exploration of the Detroit bankruptcy: "Money provided from Lansing [the state capital] to municipal governments fell 31% from 2000 to 2010, diverting about $4 billion away from cities and townships" (Bomey, 2016). Between 1998 and 2016, state aid to local governments fell by

$7.5 billion (Bach, 2016). Coupled with this loss of funding, the Great Recession, and crashing home values, was the significant deindustrialization and economic restructuring happening in Michigan. Aside from dealing a tough blow to morale, this economic hollowing-out also eliminated city tax bases, a critical source of revenue for municipal service delivery and the foundation for generous municipal pension payments. The range of fiscal pressures impacting local governments and schools in Michigan is shown in Figure 1.

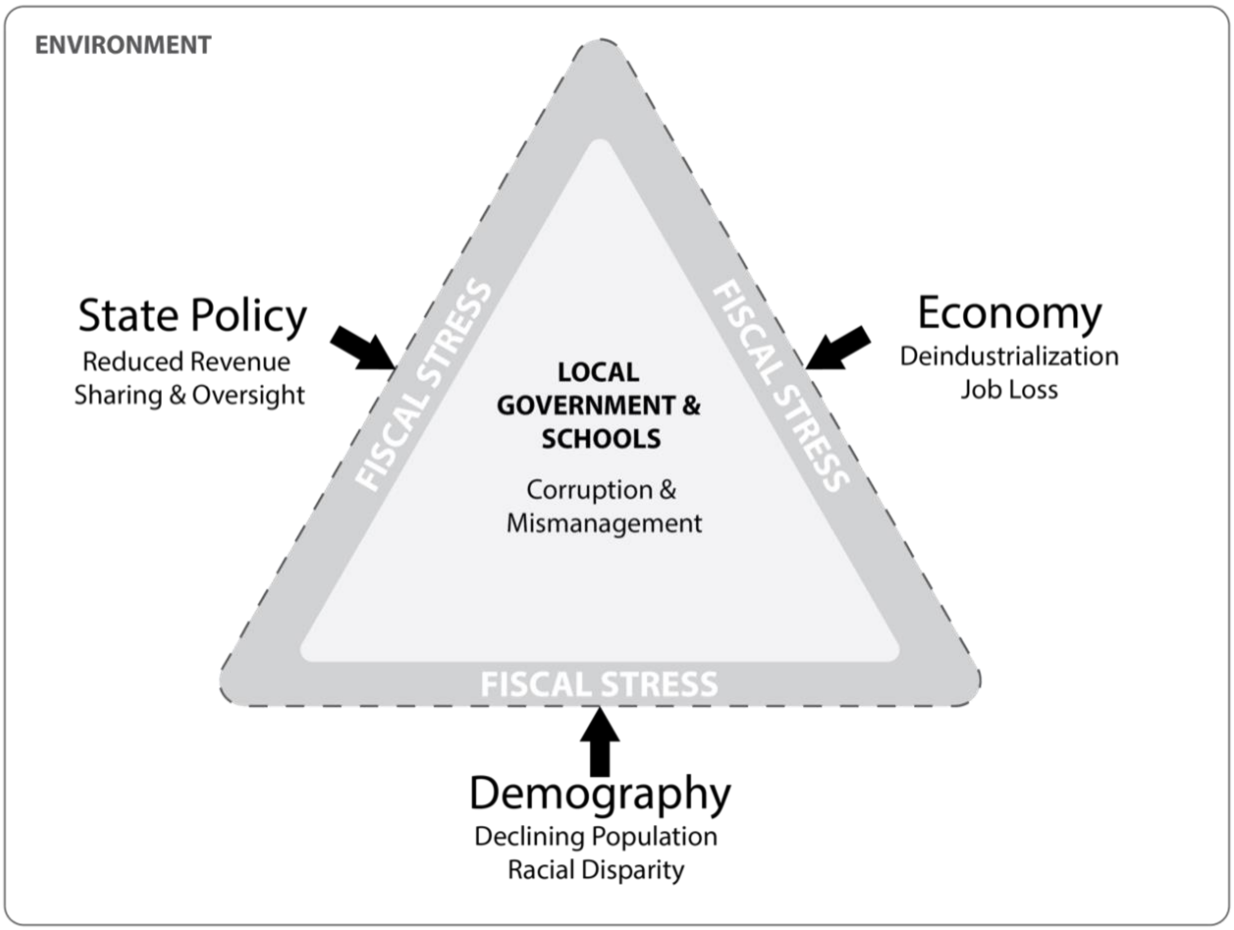

Figure 1. Sources of Fiscal Stress for Local Governments & School Districts in Michigan

Political and administrative mismanagement and fiscal irresponsibility is yet another pressure on Michigan cities and school (Bomey, 2016; Kasdan, 2016). There is no shortage of examples of short-term planning gone awry, further exacerbating conditions of fiscal stress--

from Detroit's pension obligation bonds (Bomey, 2016) to Allen Park's planned Hollywood movie studio (City official, Allen Park, phone interview, 2017). But the sources of fiscal stress are primarily structural—the measures taken to address them should require careful attention to policy, politics, and bureaucracy, not knee-jerk responses (Kasdan, 2016; Cahill et al., 1994).

Emergency management In Michigan in many cases became a reactionary, one-size-fits-all state measure to resolve fiscal crisis. Michigan's law and others like it target local political and administrative mismanagement as the source of local financial emergencies, instead of broader structural issues (Anderson, 2011). Relying on this technocratic and narrow definition of the problem, Michigan's law sacrifices local democracy and rights of local representation to state executive intervention. This law corresponds with Dillon's Rule interpretations of fiscal federalism, where local governments are allowed to manage themselves unless management runs out of their control, at which point the state steps in to enact its authority (Kasdan, 2014). Measures like emergency management and other forms of state takeover are purely reactionary because they are designed to allow the state to respond to local conditions of fiscal stress after crises occur and local governments have reached their capacity to respond (Kasdan, 2016). In the meantime, cities are forced to deal with the myriad sources of fiscal pressure without state support (financial, administrative, or otherwise). The strategies of "destructive innovation" that they implement, or the creative policy and administrative responses that they experiment with, are simply a survival tactic to deal with a vortex of internal and external threats to fiscal solvency.

The gaping hole in the argument for a technical, administrative response to financial emergencies is the complete disregard for local democratic representation. "Democratic dissolution" best describes the Michigan's method to replace all local officials for a solitary appointee of the governor:

> While the new laws are premised on a genuinely urgent and difficult public policy problem - local governments overwhelmed by debt they cannot service and bills they cannot pay- [...] the reforms do both too little and too much. To cure the underlying structural causes of fiscal crisis, the laws do next to nothing; to improve local management, the laws enact a punishing cancellation of local democracy. (Anderson, 2011, pg. 578)

Presuming that the "problem" of fiscal stress lies in the local democratic, administrative, political structure is not only short-sighted but disproportionately impacts the residents of the individual cities and school districts. Unfortunately, the brunt of austerity regimes enacted through emergency management falls on poor, minority, working class, and marginalized populations (Peck, 2012). The technical framework under which emergency management operates targets programs that are deemed "antithetical" to market conditions, such as welfare programs and public-sector unions (Peck, 2012). "Austerity urbanism" targets citizen well-being and social equity—it is no surprise that emergency management would therefore place racial equity, class equity, and democratic voice on the chopping block. Indeed, one of the express powers of emergency managers, and one of the reasons they appeal to policymakers, is the ability to dissolve union contracts.

The technical framework of emergency management upholds an ideal of the "Professional Managerial Class" (PMC) (Ehrenreich & Ehrenreich, 1977). The PMC describes an educated, middle class, "mental" worker which includes "middle-level administrators, engineers and other technical workers" (Ehrenreich & Ehrenreich, 1977). The growing "professionalization" of the workforce began in the 1970s and continues to increase today (Martin, 2015).

Emergency management draws from a team of business professionals—such as finance lawyers and corporate restructuring specialists—focusing on capacities such as business knowledge, financial and accounting skills, and administrative efficiencies. While the technical skills of these professionals may be sophisticated, their technical capacities are not their only responsibilities in a local, public executive position. Emergency managers replace locally elected officials, assume many of their powers in addition to the special powers of state intervention, and need not mind the approval, input, or notice of citizens. Therefore, they are not simply professional bureaucrats—they are public leaders. But they are not required to have any corresponding public leadership experience. Their technical and administrative capacities must certainly be part of the solution to local fiscal stress, but much broader instruments are needed because the broader sources of the problem are structural, not administrative (Kasdan, 2014).

The urgency of the threat of municipal bankruptcies all over Michigan has caused an overreaction in state intervention which severely curtails the local democratic process (Anderson, 2011). But the "agonism" of local democratic conflict and negotiation is critical to the "properly political urban landscape" (MacLeod, 2011). State governments like Michigan's have exhibited the same example of "bounded rationality" (Nelson, 2012) as local governments when faced with mounting, urgent fiscal stresses—unpredictable and even irrational policy in an attempt to react quickly. Their lack of foresight in designing policy responses to financial emergencies and lack of determination to pursue truly preventive measures has severely limited the effectiveness of state intervention. The narrow conception of emergency management, as an administrative, professionalized, and temporary quick-fix within a hierarchical austerity regime dominated by inattentive state authority, inhibits the ability of local communities to meaningfully address the causes of financial crisis.

Evolution of Emergency Management in Michigan

The price that deindustrialization exacted is especially high in Michigan. Every state except Michigan added jobs in the years leading up to the Great Recession (Gantert, 2014; Connaughton & Madsen, 2012). Between 2000 and 2010, Michigan lost one out of every six jobs—a 17.2 percent loss in overall employment (Gantert, 2014). The state reduced revenue sharing agreements with local governments by over $7.5 billion between 1998 and 2016 (Bach, 2016). Decades of white flight and manufacturing job loss left urban neighborhoods abandoned and buildings vacant (Friedhoff & Wial, 2006; Bluestone, 2013; MacLean, 2014).

Michigan's emergency manager law evolved in an era of economic decline. It began with Public Act 101, enacted in the city of Ecorse in 1988. This first instance of the law allowed the state to review a local government to identify fiscal stress, and in extreme cases, insert an emergency manager (Hohman, 2012). Legislators tucked the act away as part of a larger bill to aid a struggling Wayne County. A Lansing-based newsletter, the Gongwer News Service, noted the "controversial part of the package" was the state's proposed cigarette tax increase—not the displacement of locally elected officials (Hohman, 2012).

Legislators modified the law two years later with the passage of Public Act 72 (PA 72). The second iteration authorized the state to intervene in school districts as well as municipalities and counties experiencing fiscal stress. The bill passed with unanimous bipartisan support from legislators and even teacher groups and school administrations. Over the next twenty years, the state experienced further economic decline and job loss as companies like Whirlpool and GM moved work overseas and out of Michigan (Mahler, 2011; Bradsher, 1997).

Under these conditions of financial stress and economic decline, the state passed Public Act 4 (PA 4) in 2011. PA 4 granted powers to emergency managers "that are significantly greater than those that may be exercised by locally elected officials and the extension of those powers into every aspect of the local government" (Citizens Research Council, 2012). It strengthened the power of emergency financial managers—now known simply as emergency managers—authorizing them to strip locally elected officials of their power and renegotiate or void union contracts (Hohman, 2012). Governor Rick Snyder championed the bill as a quick and effective means of intervention in local fiscal crises (Snyder, 2012). Opponents contended the bill usurped local control. Grassroots organizers forced a voter referendum, which successfully repealed PA 4 in November 2012 (Colomer, 2016).

Less than a month later, however, the state passed Public Act 436 (PA 436). It was essentially the same bill as PA 4 but with a minor funding provision that had a major ramification--the new bill was referendum-proof and could not be overturned by a public vote (Colomer, 2016). As the final and current version of the emergency manager law, PA 436 changed the state's financial review process but retained many of the policies from PA 4. Local governments and schools now have four remedial measures to choose from if a state review finds that a financial emergency exists: consent agreement; bankruptcy; neutral evaluation, or mediation; or emergency management (Colomer, 2016).

A consent agreement is a legal contract between a local government, or school district, and state officials. It outlines actions that stressed government units must take to overcome a financial emergency. If an agreement cannot be formalized within 30 days, the local government or school district must address their fiscal stress under another remedial measure (Scorsone, 2016).

Bankruptcy is a tool that theoretically relieves a stressed government unit of particular financial obligations. In turn, this relief helps the municipality provide basic public services. Filing for bankruptcy may have consequences however, such as a “possible credit rating downgrade and limited access to borrowing for a period of time” (Scorsone, 2016).

“Neutral evaluation,” often referred to as mediation, brings in an independent third party to facilitate a settlement between a local government unit and its creditors. Local officials and other interested parties must agree upon a mediator together (Scorsone, 2016). However, the state treasurer has the authority to approve or appoint acceptable mediators, particularly when local officials and creditors disagree. Even if the mediation process reaches a settlement, the treasurer may reject the agreement and force the local government to choose another remedial measure (Scorsone, 2016).

Emergency management is used far more often than any of the other measures. In most cases emergency management was either requested by local governments or proposed by the state. The state retains the ability to override whichever option local governments choose. The law also requires the state to pay the salaries of emergency managers, instead of requiring local governments to pay, as was the case under PA 4. Municipalities and schools may remove an emergency manager by a two-thirds vote after 18 months, a decision that Detroit made when it unanimously voted out Emergency Manager Kevin Orr. However, the state has the power to appoint another emergency manager (Dolan, 2014; Hakala, 2016). Through the passage of PA 4 and PA 436, Michigan has placed twelve cities and four school districts in five counties under emergency management, mostly in the Greater Detroit region. Figure 2 shows a map of these sites. See Appendix 1 for full details about all 16 sites.

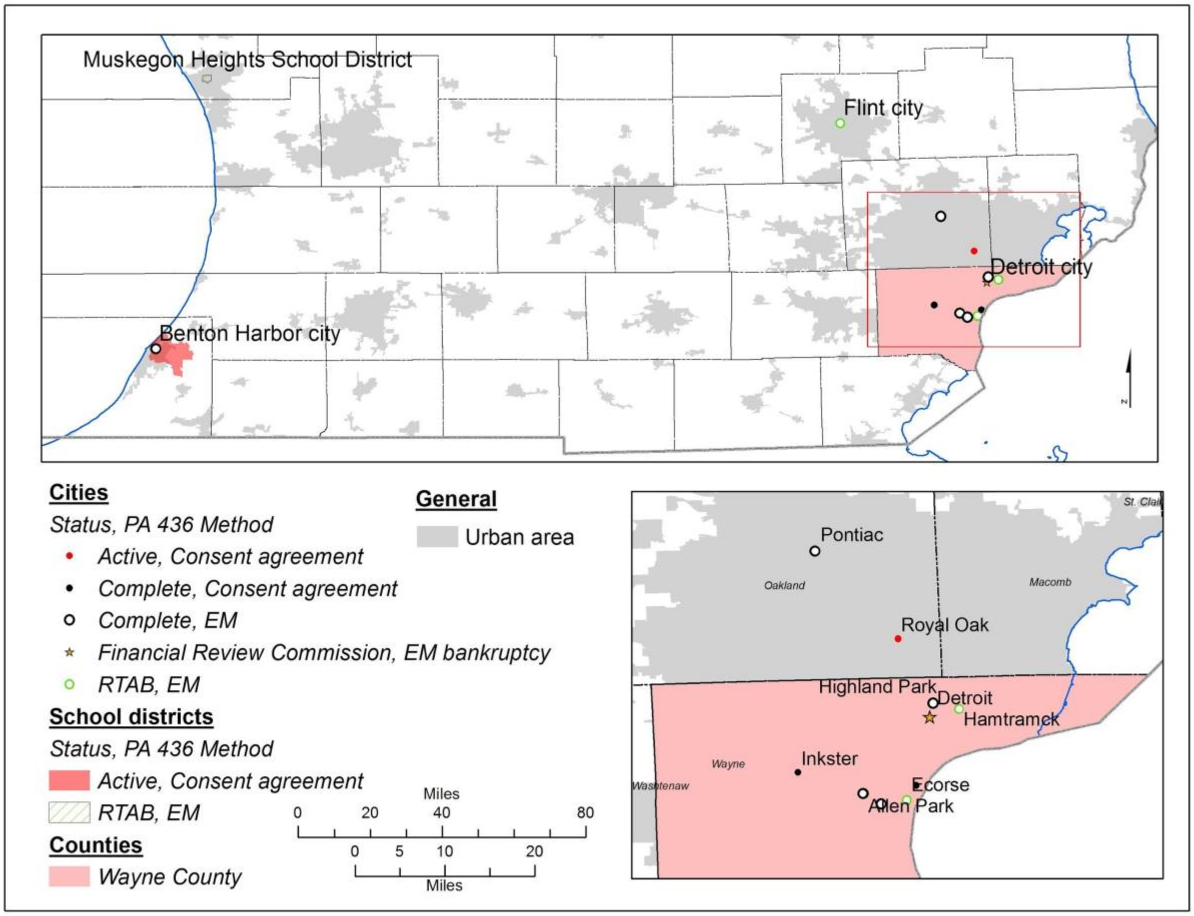

Figure 2. Map of Municipalities and School Districts Placed under State Control through Public Act 436

The Emergency Management Process

Figure 3 outlines the process by which the state may appoint an emergency manager to a local government or school district under PA 436. When a municipality or school district is fiscally insolvent or otherwise incapable of managing their financial affairs, they may ask the state for help, or the state may select them for review. The Michigan Department of Treasury sends out a financial review team to audit them and make a recommendation for further action. The governor then decides whether to pursue emergency management or another intervention. Once in power, emergency managers often nullify the authority of locally elected officials in that municipality or school district. They employ expansive executive powers with little to no local oversight—and they report directly to the Governor. In order to balance budgets quickly and effectively, managers draw upon professional financial expertise as budget directors and financial managers in other contexts. PA 436 gives emergency managers the following powers:

1. Reduce or privatize public services;
2. Void or renegotiate contracts;
3. Hire or fire public employees;
4. Sell off or lease public assets; and
5. Securing state loans.

Figure 3. Stages of Implementation of Emergency Management

After the emergency manager determines the financial emergency has been resolved, the municipality or school district transitions to the authority of a Receivership-Transition Advisory Board (RTAB). The board supervises the local government or school district's financial decisions for a period of time by approving financial decisions after the emergency manager's exit. This process continues until the RTAB recommends that the governor terminate state management. When the state withdraws, local governments may lose additional support as they continue to struggle with underlying issues of tax base shrinkage, job loss, and outmigration.

METHODOLOGY

Four main research questions guide our case study analysis. They include:

1. ***Why emergency management?*** Most cities that the state declared to be in a financial emergency under PA 436 were placed under emergency management. We sought to understand the rationale behind utilizing an emergency manager instead of other alternatives—mediation, bankruptcy, or consent agreements. See Appendix 1 for a profile of Cities and School Districts under Emergency Management.
2. ***What do emergency managers do? What strategies have they adopted and to whom they are accountable?*** This question considers the specific actions that emergency managers take to resolve budget crises and investigates who or what entity might oversee these actions, if any.
3. ***Are school districts and cities managed differently?*** PA 436 gives emergency managers the same powers and responsibilities for cities as for school district. We

seek to understand if the policy gives any consideration to the different needs and management concerns of a school district compared to a local government.

4. ***What are the long-term implications of emergency managers' actions for the communities they take over?*** If the purpose of emergency management is to resolve financial crises, do these communities actually emerge with more stable budgets? We consider the possible future effects of the emergency management for communities that may continue to struggle with ongoing fiscal stress even after state intervention ends.

In order to address these research questions, we conducted sixteen semi-structured telephone interviews with local elected officials, officials appointed by emergency managers, community members, members of the media, and academics in 2017. We also reviewed public records such as quarterly reports, emergency manager communications with the governor, financial review team reports, compliance monitoring reports, deficit elimination plan progress reports, general fund revenue and expenditure reports, and general cash flow reports for four case studies.

We selected the four case studies—three cities and one school district—to illustrate how emergency management affects places less well-known in the national media than Flint and Detroit. These include the cities of Hamtramck, Allen Park, and Benton Harbor, as well as the Muskegon Heights School District. These smaller communities illustrate the impacts of emergency management outside of the more well-known examples of Detroit and Flint. Figure 4 shows the timeline of when emergency management happened in each of these places, under what enabling legislation, and the name of the emergency managers appointed to intervene. We selected one school district to illustrate how emergency management affects school districts differently from cities. These sites are geographically distributed throughout the state, such that two sites are located within the Detroit region and two in the western side of the state.

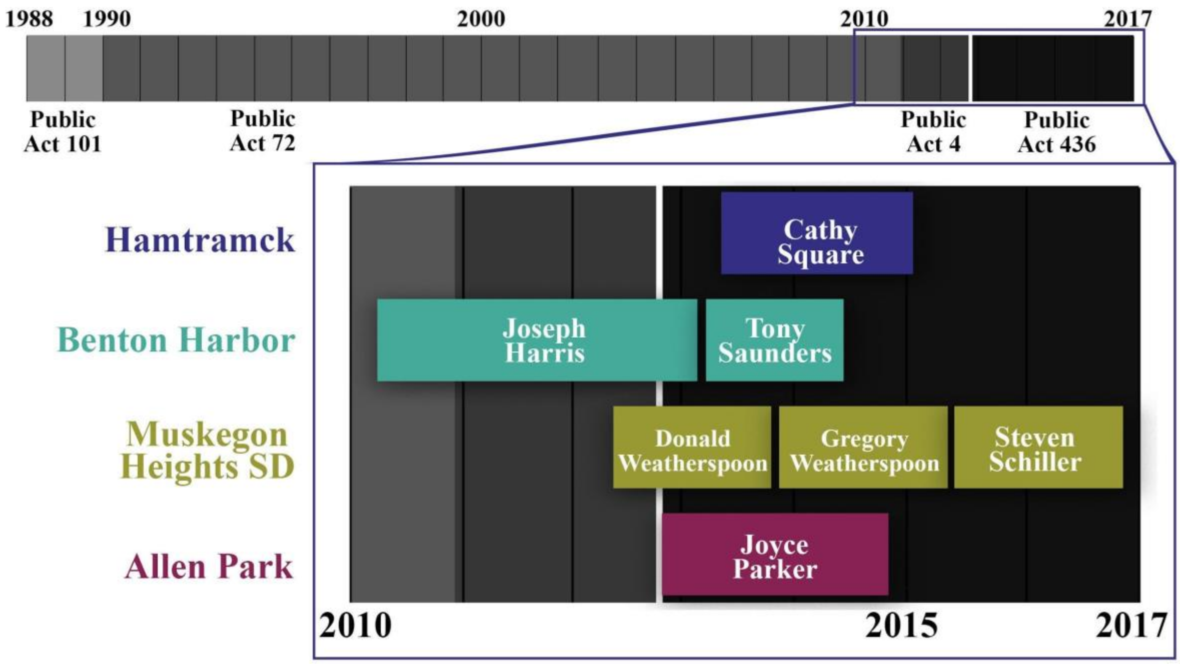

Figure 4. Timeline and Enabling Legislation of Emergency Managers in Selected Case Studies

Of our cases, both Hamtramck and Allen Park fall within the Detroit region. The City of Benton Harbor and the Muskegon Heights School District both sit on the western side of Michigan. While Benton Harbor and Muskegon Heights are predominantly African American, Allen Park is predominantly white, and Hamtramck is ethnically diverse.

City of Hamtramck

Hamtramck was chosen because it was one of the first cities to have an emergency financial officer. It has experienced emergency management twice since the first state intervention legislation was passed (Michigan State University Extension [MSU Extension], 2017). The city is most known for its dense, diverse population. About 22,000 people live in the 2-square-mile city, surrounded almost entirely by Detroit (Aghajanian, 2017). Historically Hamtramck has mostly been Polish, but today 44% of the city's population is comprised of Yemeni and Bengali immigrants (Block and Nadworny, 2017).

The city was placed under emergency management through PA 436 in 2013. The emergency manager at that time was Cathy Square (Michigan Radio Newsroom, 2013). Emergency management ended in 2014 (Abdel-Razzaq, 2014). An RTAB supervised the city from 2014 until 2018, and the city is now back under full local control (Gittus, 2018).

City of Allen Park

Allen Park is a working-class Detroit suburb with a population of approximately 28,000. It is home to several offices and facilities for the Ford Motor Company. The city is one of the only three predominantly white communities to have undergone emergency management. All the other sites have much larger minority populations.

The city went under emergency management in 2012 under PA 436. The emergency manager was Joyce Parker (Williams, 2012). Intervention ended in 2014 (Baird, 2015). RTAB supervision lasted from 2014 until 2017 (Khouri, 2017). The city is now back under full local control.

City of Benton Harbor

Benton Harbor is a city in Berrien County with a population of approximately 10,000, located on the western side of the state on the Lake Michigan coast. Manufacturing, healthcare and social assistance, and retail trade are the primary employment sectors (Data USA, n.d). Benton Harbor is also the location of the Whirlpool corporation headquarters. About half of the population in this city is currently under the poverty line and the majority of residents are

African American (US Census Bureau, 2015). The state representative of Benton Harbor's district was the original author and sponsor of Michigan's Public Act 4 emergency management legislation (State of Michigan, 2011).

Benton Harbor was placed under emergency management under PA 4 in 2010, which continued under PA 436 in 2012. Joseph Harris was the emergency manager from 2010 until 2013, after which Tony Saunders took over the role. Emergency management ended in 2014 (Bureau of Local Government & School Services [BLGSS], 2017). The state has returned city management to full local control at this time--the city's RTAB supervised the city from 2014 until 2016 (Khouri, 2016).

Muskegon Heights School District

Muskegon Heights is a small city on the shores of Lake Michigan. This predominantly African American community has a population of 10,856 people. The city has a poverty rate of 49% and the median income is less than half of the state average (US Census Bureau, 2015). In 2012, the Muskegon Heights School District became the third public school district to be placed under emergency management.

The school district went under emergency management in 2012 under PA 4 and continued under PA 436, until intervention ended in 2016. The first emergency manager was Donald Weatherspoon, from 2012 to 2014 (Moore, 2013); followed by Gregory Weatherspoon, from 2014 to 2015 (Stanton, 2013b); and finally, Steven Schiller, from 2015 to 2016. The district is currently under RTAB management (Smith, 2016; McGuire, 2016).

CASE STUDIES: *The Story of What Happened in Michigan*

A summary of socioeconomic and demographic information, the causes of emergency management, and actions taken by emergency managers in each case, is available in Appendix 2. The following maps demonstrate the differential between the amount of state aid given in each of the four case study locations compared to the relative tax effort and the black population. These maps appear to support the theory that emergency management has been used more often in poor, black communities that have been relatively ignored by the state government, as opposed to wealthier, white communities that have received greater state support.

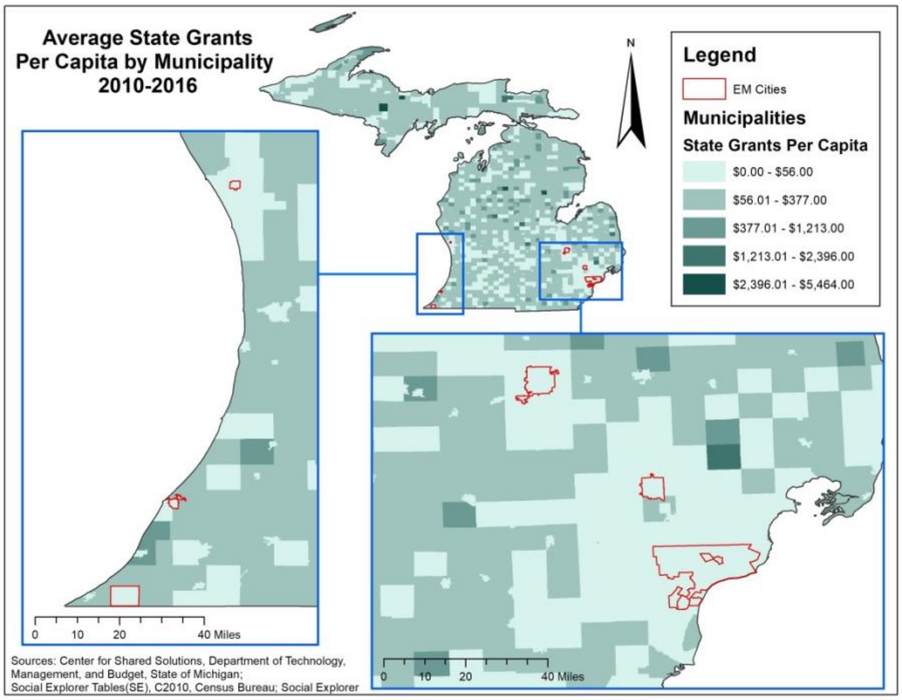

Figure 5. Average State Grants Per Capita by Municipality, 2010-2016

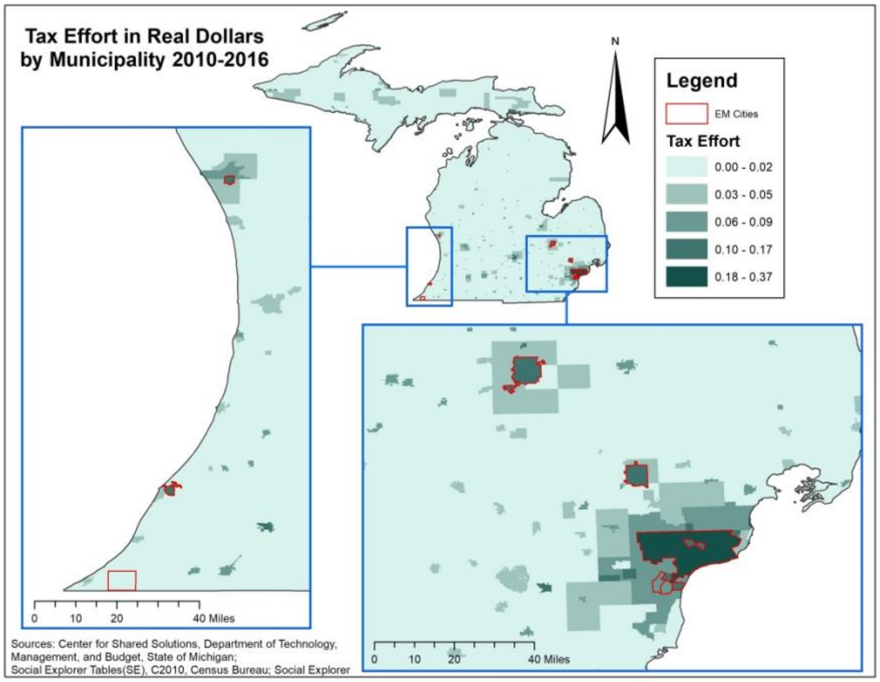

Figure 6. Tax Effort in Real Dollars by Municipality, 2010-2016

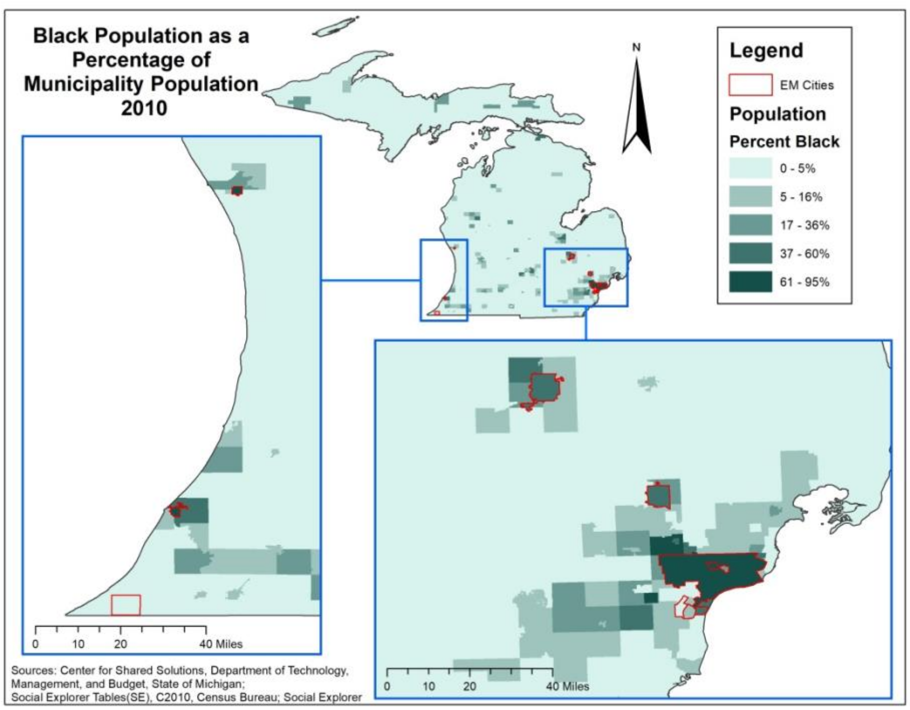

Figure 7. Black Population as a Percentage of Municipality Population, 2010

City of Allen Park

The causes of fiscal stress in Allen Park mirror those found in other Michigan communities. Deindustrialization, a shrinking population, falling property values, and limited ability for the city to raise tax revenue sent Allen Park into a downward spiral. According to its Finance Director, the city was showing significant signs of fiscal stress as early as 2003.
In 2009, a Hollywood producer named Jimmy Lifton arrived in Allen Park with a business idea to make the city into a movie-making hub. Hoping to bring new jobs into town, the city council unanimously voted to buy and improve a 104-acre site by selling $31 million in bonds as part of a deal with Lifton, who would then build a $146 million studio. The agreement fell through, leaving Allen Park with a bill for $3 million per year in bond payments (Christoff, 2012). Combined with the Great Recession, the city began to experience severe cash flow shortages.

By 2011, Allen Park went from cutting services at the margins to slashing them altogether. A public official described the city's financial desperation:

> We were hemorrhaging, and we were cutting services [...] by getting rid of people, to the point where we were not removing snow in the streets. We're not sweeping the streets. We're not replacing street lights. We're not cutting the grass in the parks [...] You name a service that a city does and we were either not performing it, or performing it less frequently, or performing it improperly. (Allen Park city official, phone interview, 2017)

In November 2011 the mayor and entire city council of Allen Park were voted out of office. A new mayor, William Matakas, was elected on a platform of raising the millage rate, which is the amount per $1,000 used to calculate taxes on property ("Election Results," 2011). Despite this political platform, citizens later voted down millage proposals twice.

The city council, in a divided vote and against Mayor Matakas' wishes, asked the state to assess Allen Park's finances in early 2012. The state review team determined that a financial emergency existed in Allen Park, that no satisfactory plan existed to resolve the emergency, and that an emergency manager should be appointed. The city council, beginning to doubt the advantages of emergency management, appealed the decision. The appeal was rejected and an emergency financial manager, Joyce Parker, was appointed under PA 4 in 2012 (Fraser et al., 2012). Parker had previously worked as an emergency financial manager in the city of Ecorse. Her role was strengthened shortly afterward when PA 436 became effective in March 2013.

After arriving in Allen Park, Parker quickly consolidated all decision-making powers under her control. In most instances of emergency management under PA 436, similar orders were made to consolidate power and nullify previous decisions made by public officials. Interviewees in all four case studies described contentious relationships between the emergency manager and locally elected officials. In Allen Park, elected officials were told not to disagree with the emergency manager in public settings, and they were not permitted to address citizens on the status of council proceedings.

The strategies Parker employed to rebalance Allen Park's budget included reducing staff, rewriting labor contracts—particularly retiree and health benefits—and selling assets. More uniquely, she facilitated a visioning process and championed the passage of a millage raise.

Allen Park's police and fire departments, which represent a significant portion of most municipal budgets, were the targets of significant cuts to funding and personnel. Parker ordered layoffs and hiring freezes, in addition to breaking and rewriting union contracts with both departments. New contracts included reduced pay and benefits, mostly by lowering pension multipliers. This helped to balance Allen Park's budget, but it had two other significant impacts.

First, on June 30, 2013, nine police officers retired simultaneously to protect their pensions and healthcare costs before a new contract would come into effect on July 1. The department shrunk from 41 to 32 overnight, leaving junior officers with less senior oversight.

Interviewees also indicated that low salaries in Allen Park made recruiting new officers difficult (Allen Park city official, phone interview, 2017).

Second, rewriting union contracts spurred a significant amount of litigation against Allen Park, Joyce Parker, and the Michigan Department of Treasury. The city is still paying to resolve lawsuits brought by retiree groups (Herndon, 2013). The threat of lawsuits is one reason interviewees indicated the state may choose not to send emergency managers to other communities in the future.

In the end, the most critical step toward improving Allen Park's finances was a police and fire millage, initiated by the city's mayor but then championed by Joyce Parker during her time as emergency manager. Citizens had previously voted down a general millage, but they supported it when it was presented as increased funding for police and fire (Allen Park city official, phone interview, 2017). Whether an emergency manager was needed to facilitate that reframing is unclear.

Bob Cady, Finance Director for Allen Park, suggested that rather than appointing an emergency manager, the state could give tools and resources to local officials that understand the nuances of their communities. For example, Cady estimated that Parker could have saved $600,000 to $800,000 by switching healthcare program options to better reflect the age of public employees, but she instead used the same strategies she employed in Ecorse (Allen Park city official, phone interview, 2017). This, as well as other instances that will be explored later, raises questions about the efficiency of bringing in emergency managers who have little or no knowledge about the local communities.

City of Benton Harbor

Benton Harbor first underwent emergency management in 2010. State reports cited numerous fiscal deficiencies that included city expenses exceeding available income, a failure to meet minimum required contributions to the city's General Employees Retirement System, and a slow general fund growth rate. The state also noted administrative deficiencies, such as the failure to submit timely financial reports to the Department of Treasury for eight consecutive years (Kleine et al., 2010).

Benton Harbor is home to the Whirlpool Corporation, the main employer in the city and also the primary source of its economic development (Zaretsky, 2017). However, the city has still experienced significant fiscal stress due to deindustrialization. Dustin Walsh (2016) describes how global economic trends gutted manufacturing employment in the city:

> After globalization claimed much of the manufacturing might in the region — Whirlpool closed nearly all of its manufacturing plants in the Benton Harbor area in the 1980s — the economic vibrancy of the region plummeted. Whirlpool's white-collar workers stayed in St. Joseph and its former manufacturing workers stayed in Benton Harbor. It closed its last Benton Harbor plant in 2011, eliminating 216 jobs. (Walsh, 2016)

As a result, the citizens of Benton Harbor are still hosts to the Whirlpool Corporation headquarters, but they do not receive the same financial benefits as their neighbors in St. Joseph, a primarily white and much more affluent community. Notably, Whirlpool Corporation will not pay any property taxes in Benton Harbor until 2024 as part of a deal struck by the emergency manager, Joseph Harris. As Whirlpool planned to renovate two facilities in the city, they made a corporate donation of $3.8 million to support city services. In return, they were given a 12-year, $3.8 million property tax abatement. However, Harris then rerouted those funds toward the Benton Harbor Police Department's pension fund. This helped to balance the budget but left Benton Harbor without that essential source of income until 2024 (Walsh, 2016).

Bosch was another big employer in Benton Harbor. According to one of the city's commissioners, Mary Alice Adams, closure of the company's foundry resulted in a big layoff in 2005. The closing down of Whirlpool and Bosch caused a lot of residents to leave the area. Businesses were negatively impacted and there were "no types of economic development" left in the city (Benton Harbor city official, phone interview, 2017).

The combination of a diminishing tax base and legacy pension costs left the city budget significantly underfunded. As a result, in 2009, the Benton Harbor City Manager requested a preliminary review of their finances from the Department of Treasury to determine if a serious financial problem existed (Kleine et al., 2009).

An evaluation conducted by the preliminary financial review team found that the city had "significant general fund operating deficits," and for some services the variance between budget and expenditures surpassed $100,000. To compensate, the city borrowed funds from other departments. This led to a debt network that concluded in "the cemetery fund owing the general fund over $300,000, the general fund owing the debt service fund over $800,000, and the utility service fund owing the general fund over $1.4 million" (Kleine et al., 2010).

The preliminary review team recommended the appointment of a financial review team. From the interviews conducted for this research, it remains unclear if the review team recommended the appointment of an emergency financial manager or if the city requested one. Joseph Harris, the city's first financial emergency manager, was appointed in 2010. In 2013, the city was still facing fiscal stress (Stanton, 2013a). Tony Saunders was appointed by the Local Emergency Financial Assistance Loan Board as the city's second emergency manager, under PA 4 and through PA 436. Benton Harbor was under emergency management until April 2014.

Once the emergency managers were brought in, they restructured the chain of command. For instance, commissioners were not to take official action with respect to fiscal matters (Directive No.2). All city employees also had to report directly to the emergency manager (Order No. 11). Finally, the emergency manager prohibited “all action of city boards, commissions, and authorities except [actions] specifically authorized by the emergency manager, and [actions] to call meetings to order, approve minutes, and to adjourn meetings” (Order No. 11-05). In other words, elected officials could start and end meetings, but they could not make any substantial decisions. This restructuring stifled the community’s democratic voice by disabling their local representatives from having any meaningful participation in the process of resolving the budget crisis: “With Joe Harris, he didn't think that he had to even communicate with us. He thought he was the sheriff, the judge, the jury, the elected officials, and pretty much stated that publicly” (Benton Harbor city official, phone interview, 2017).

While under emergency management in 2011, the city also encountered another financial hardship. Benton Harbor Township, frustrated by years of mismanagement by the city, finished constructing its own water utility and split off from the City of Benton Harbor (Smith, 2011a). The township’s water service agreement had brought income to the city--in fact, the township accounted for 40 percent of the City of Benton Harbor’s water customers (Smith, 2011a). This action led to an increase in water rates for the city’s residents.

Emergency managers also dissolved and renegotiated labor contracts with public safety and city employees. The fire and police departments were merged under a “Department of Public Safety” with the intention of reducing costs (Smith, K., 2011). Public employee benefits packages were renegotiated. Overall staff was cut to 22 public safety officers. They also cut city employment by half, from 120 to 60; slashed health benefits for city employees, including a 10 percent wage reduction and elimination of paid holidays; and renegotiated pension plans, which had only been 40 percent funded, by reducing the multipliers for years of service and base wages (Jonathan, 2014; Oosting; 2014; Gryczan, 2017).

Emergency manager actions did not always successfully get off the ground. Benton Harbor's emergency manager tried to privatize the park system by establishing a park conservancy to pump private dollars into parks maintenance, but the conservancy has struggled to secure adequate funding and fulfill its maintenance and upkeep responsibilities (Wrege, 2018). In 2013, the emergency manager also suggested an income tax proposal that would charge people who live or work in the city (Smith, 2013a) but it was rejected by the community (Wrege, 2017a; Zaretsky, 2017).

Emergency management also generated many lawsuits related to employment contracts. The current city council is faced with the aftermath. For example, courts ordered the city to pay $400,000 to the city's former public safety director, Roger Lange, after Tony Saunders placed him on paid administrative leave and then failed to pay his salary. In a separate case, courts have ordered the city to pay two former white police officers $167,000 and $42,000 respectively in mental anguish claims after Saunders, who is black, made allegedly racially discriminatory comments about them, including over $152,000 in legal fees (Wrege, 2017b). Benton Harbor asked the state for help in sharing the costs, but this request "fell on deaf ears" (Benton Harbor city official, phone interview, 2017).

Notably, the citizens of Benton Harbor pushed back against some of the emergency manager's decisions. The emergency manager tried to consolidate the number of wards in the city, which would reduce the number of seats on the city council, but this particular action still required a public vote because it involved changing the city charter. City residents voted down this decision (Smith, 2011b). Although emergency management reduces channels for local input, “emergency managers still don't have authority to just outright change charters without voters voting on it” (Michigan reporter, phone interview, 2017).

The most significant action the emergency managers took was acquiring a long-term $2.3 million state loan. This, which enabled the city to pay off vendors and longstanding debt (Smith, 2014). Receiving the state loan was contingent on the city being placed under emergency management (Benton Harbor city official, phone interview, 2017). Both the acquisition of a state loan and the condition of being placed under emergency management to receive it were common tools used in the cities and schools in which the state intervened through PA 436.

In 2014, under the recommendation of Tony Saunders, Benton Harbor was put under an RTAB. Full local control was transferred back to the City in 2016 after the RTAB deemed it sufficiently fiscally stable. Since then, the city has passed an income tax that the city council hopes will strengthen the city budget (Wrege, 2017a).

City of Hamtramck

The city of Hamtramck first went through emergency management with Louis Schimmel in 2000 under PA 72. The city’s second emergency manager, Cathy Square, was installed in 2013 under PA 436, after the city council requested intervention from the state. The state financial review cited deficits due to aging infrastructure, a declining population, and the effects of recession (Chiddister, Headen, Koryzno, Lupher, & Ringler, 2013).

Cathy Square’s approach to managing the city’s roughly $2 million debt mostly involved rearranging personnel and renegotiating the city’s private contracts. The strategy, with regards to personnel, consisted mainly of terminating and replacing existing city employees, often replacing full-time positions with part-time ones. The departments most affected by this rearranging were Dispatch, Police, and Fire.

The current mayor, Karen Majewski, was present for Louis Schimmel's term—she remembered his service to be ineffectual. When the city council met and discussed requesting state intervention in 2012, Majewski argued against it. No one else on the council had been around for Schimmel's term or had experienced working under an emergency manager. A resident of Hamtramck and founder of a nonprofit called Hamtown Farms, Michael Davis, emphasized the sudden centralization of power under emergency management:

> When an emergency manager is appointed, they are put in charge of all money. So city council can vote until they're blue in the face, but if they don't have funds available to put keys to whatever they vote on, it doesn't matter. So money talks, basically. So when the emergency manager is in control of all the money, the state is in control of your city. (Davis, personal communication, 2017)

The council voted for intervention, despite Majewski's pleas, in the hopes that an emergency manager with expanded negotiating powers "would come in and dissolve the fire department" (Hamtramck city official, phone interview, 2017). The fire department had a particularly strong union, over which the city council had little sway. Ultimately, in 2013, Cathy Square renegotiated details of the city's contracts with the Firefighters Union to reduce salaries and subcontract some services. Square never dissolved or considerably weakened the union.

Hamtramck's then $2 million debt, out of a total budget of about $17 million, was not an unmanageable sum for the city to handle on its own, but in 2013 the city requested state intervention in the hope that the increased power given to emergency managers would enable them to rebalance their obligations and work around a city council constricted by infighting (Hamtramck city official, phone interview, 2017). The council's expectation was for the emergency manager to use his or her expanded power to deal with a cause of stress rather than the financial results of stress, but the emergency manager did not act in accordance with this expectation. For the most part, the emergency manager made changes that were not outside the existing powers of the city government. The expanded power of emergency managers therefore may be misappropriated--the scope of their legal powers to make changes in the city, and the actual target of their powers, or the actions that they take, may be too broad and often miss the mark. The lack of local knowledge and context for the fiscal stresses and potential efficiencies in a city may handicap the possible positive outcomes that emergency management seeks to produce. The emergency managers' outsider status, intended to give them a neutral and independent stance, may not even provide the supposed benefit of unbiased management:

> I've served under both Michigan laws [...]. I've seen them play the same kinds of politics and support different candidates and play elected officials against each other. It's a fallacy that they're neutral players. [...] It's also a fallacy that they make their decisions solely based on finances [...]. They brought in contractors who overcharged the city. We could have done the same work much cheaper in house [...]. Now that the emergency manager is gone we've got city employees doing the same work. (Hamtramck city official, phone interview, May 2017)

The majority of actions taken by emergency managers in Hamtramck have been reversed by the city after the emergency manager was removed. Services that were privatized, such as snow removal and maintenance jobs, were later re-municipalized. Many staff changes did not remain after emergency management ended. Although the deficit may have been resolved in the short term, the emergency manager's decisions may actually cost the city more in the long run.

Muskegon Heights

In addition to the three city case studies, a school district case study was included to examine how emergency management differs in intent and impact. Do emergency managers use similar tools in school districts as they do in cities? Is the impact similar, or do school districts differ in nature from cities, requiring different kinds of interventions?

Muskegon Heights schools struggled for years before emergency management. State funding reductions, mismanagement, and a shrinking enrollment crippled the city's school system. One official described the pressure on the Muskegon Heights school district:

> In Michigan, there were a number of communities that were devastated by the loss of manufacturing jobs over, I'll say, a 30-year period. The tax base in Muskegon Heights […] was simply not there […]. There are arguments that the district itself was mismanaged, and I think there's some truth to that, but primarily, there was just a vacating of the city by businesses that just didn't need to exist [...]. So, in my mind, that's really what the issue was, not so much that there was a horrible amount of mismanagement. It's simply that our economy changed from being a sort of World-War-II or post-World-War-II industrial economy to a tourism economy. (Muskegon Heights RTAB member, phone interview, 2017)

Under this financial stress, the district asked for a state financial review near the end of 2011. The review found the district ran a deficit for three consecutive years and accumulated a debt of over $1 million on a budget of over $21 million. Following the state review and the resignation of the district's superintendent, the Muskegon Heights Board of Education requested an emergency manager in 2011 (Muskegon Heights school district official, phone interview, 2017).

The emergency manager, Don Weatherspoon, began his intervention by dissolving the public school district and laying off every school employee. He brought in a New York-based charter school organization, Mosaica Education. The for-profit charter school network hired inexperienced, non-unionized, and predominantly white staff members, some without valid teaching certificates (Gottesdeiner, 2015). While some experienced district teachers were rehired by Mosaica, their new contracts paid less than $30,000 a year (Gottensdeiner, 2015). The emergency manager had the power to make decisions for the entire school district, financial and academic:

> They had close to carte blanche authority to change curriculums … or to modify the funding model to the extent that the law provided. So, they had very much complete control over the district, and then the district board had almost no control over any of the management of the district. That was done by intent, because the thinking was that the district was not fiscally managed well, or for educational outcomes. [The idea was,] "Let's move this authority to the emergency managers," so that they may be able to infuse what they need to infuse or change what they need to change to modify the outcomes of the district, both educationally and financially. (Muskegon Heights RTAB member, phone interview, 2017)

At the beginning of the 2011-2012 school year, teachers found schedules in disarray and a severe lack of supplies. Everything from school computers to toilet paper was in short supply (Gottesdeiner, 2015). Meanwhile, the emergency manager authorized the sale of "Surplus School District Equipment & Supplies" and other assets, including items like chalk boards and cleaning supplies, as well as at least one school's playground. One interviewee stated that although these students grew up only a few miles from the lake, some of them have never even seen it before. As one of the poorest cities in Michigan, with a poverty rate of 42.5%, children in Muskegon Heights do not have access to many safe public spaces to play. Selling off the school playground gave them one fewer still.

In Mosaica's first two months in charge, one fourth of the teachers in the district quit (Michigan reporter, phone interview, 2017). This instability led Muskegon Heights parents to seek other educational options, and school enrollment further declined. In turn, this decline exacerbated district financial issues, because Michigan's state funding for education is calculated on a per-pupil basis. Fewer students meant less money for the struggling district (see Appendix 3).

By the end of 2014, less than two years after their contract began, the charter network pulled out of Muskegon Heights entirely—because they could not turn a profit (Gottesdeiner, 2015). The school district lost more than half of its student population under Mosaica's term. The state's Department of Education found more than a dozen violations of state and federal rules during Mosaica's tenure, which was in part due to Mosaica underestimating the cost of special education (Smith, 2013c).

Following Mosaica's exit in 2014, Weatherspoon attempted to attract a second charter school network to the district but no group met the needs of the community. The Michigan Department of Education instead allowed the school district to become a "self-managed charter." They created a new network, known as the Muskegon Heights Public School Academy System, that is a locally run and operated charter school system. The academy system employs teachers, works out of the existing school buildings, and operates the school on a day-to-day basis (Muskegon Heights school district official, phone interview, 2017). The new system holds a contract with the original Muskegon Heights School District. Functioning only as a fiscal agent, the original school district collects dollars from the state and then sends the money to the Muskegon Heights Public Academy system. The original school district exists only to shuttle state funding to the Academy system, employ the superintendent, and pay the legacy debt of built-up pension funds and retirement costs (Muskegon Heights school district official, phone interview, 2017).

To help pay off the legacy debt the emergency manager secured a state loan. As a result, the Department of Treasury transitioned the school district to the authority of an RTAB in 2016 (Michigan reporter, phone interview, 2017). The state cited improved district finances and the completion of a strategic plan in authorizing the transition.

Changes within the state Department of Education spurred a “partnership agreement” between local school districts and the state (personal communication, 2017). As part of the agreement, the state helps Muskegon Heights Public Academy system build partnerships with organizations, such as the local community college and local TV station. These organizations provide support to the school district in order to address all aspects of education, including the effects of neighborhood violence, poverty, and public health concerns. The partnership also established academic benchmarks for the district, which are examined every 18 months in check-in meetings between the state and the school district. One interviewee believes this partnership system and support of local school districts is a step in the right direction. It is an agreement that stresses local control, community partnerships, and indirect state support over direct intervention. It may also reflect the state’s move away from emergency management in school districts.

RESULTS

Why Emergency Management?

PA 436 revised previous permutations of the emergency manager law to offer three remedial options in addition to emergency management. Under the new law, a municipality or school district where a financial emergency exists will be given one of four courses of action: (1) consent agreement; (2) emergency management; (3) neutral evaluation, or mediation; or (4) bankruptcy. When there are four remedies on the table, why is it that the governor and the State of Michigan repeatedly chose emergency management over these alternatives? Only one instance of bankruptcy has taken place in Michigan: the $18.5 billion case of Detroit in 2013, the largest city bankruptcy in U.S. history (Bomey, 2016). Consent agreements and mediation are far less frequently administered to Michigan cities and school districts than emergency management.

Even with these new options under the law, why is emergency management still the most predominant prescription after fiscal review?

Each of the four cases presented in this paper requested state intervention—sometimes explicitly requesting an emergency manager. Local governments sought help from the state in any form, which led them to emergency management. Bob Cady recounts how many cities thought that emergency management meant letting the state pick up the tab:

> In Allen Park, what happened [...] is the city decided, "Hey, we'll let the state do it and then they'll have to pay for it." [...] In the city of Lincoln Park next door to us [...], I advised them the same thing: "You do not want an emergency manager." And Lincoln Park did the same thing: "Well, we'll let the state pay for it." (Phone interview, 2017)

Based on our case studies, most cities asked for emergency management because it e seemed like the most viable option to avoid bankruptcy. To them, something like bankruptcy, with all its court battles and protracted negotiations, seemed extreme in comparison. The visibility of Detroit's bankruptcy may have impacted their decision. Regardless of local opinion, after help is requested, all decisions about what type of help is provided are made by the governor. The governor usually chooses emergency management. When presented with the choice of letting the governor choose how to help or receiving no help at all, distressed municipalities let the governor choose. PA 436 created a false choice for struggling cities, because it seems that, in practice, cities did not have a choice at all.

What Do Emergency Managers Actually Do?

Our second research question focuses on the decisions, practices, and strategies employed by emergency managers. The goal was to identify which actions were taken, how decisions were made, and what the effects were on cities and school districts.

Throughout our case studies we have found that emergency managers use a common set of strategies. These are the following: rewriting union and labor contracts, laying off public employees and freezing hiring, acquiring long-term state loans, selling public assets, privatizing services, and outsourcing professional expertise.

The rewriting of contracts is used to reduce pay and benefits. This strategy has helped reduce debt in multiple instances but has also resulted in ongoing lawsuits across the state, as the cases of Allen Park and Benton Harbor demonstrate. We argue that these lawsuits might have been avoided if a different bargaining process was used.

Laying off of public employees and implementing staff hiring freezes has impacted the ability of some cities to recruit or retain talented public employees. In cases like Benton Harbor, where the city was already suffering from poor managerial capacity, these actions further limit the city's opportunities.

In many cases emergency managers have been able to acquire long-term state loans that otherwise may not have been available to the cities or school districts. It is unclear why emergency state loans should only be provided to cities with emergency managers. Further, while these loans help cities fix their deficits, they are not used to address the underlying structural issues that generated these deficits.

Granting these loans also comes with the assumption the cities will be able to pay them off. This is a problem, as there are no guarantees that cities or school districts will suddenly be able to perform better--precisely because emergency management does not and perhaps cannot address the structural vulnerabilities and threats to communities' fiscal solvency (Kasdan, 2016). An argument can be made that bankruptcy could be a better option in some cases, as it allows cities to have a fresh start: "I get the sentiment that you're trying to prevent [the cities] going into bankruptcy, but at what cost and why? [How is] the approach different in a court versus what you're able to do with a manager?" (Michigan reporter, phone interview, 2017)

A common strategy employed by emergency managers is the sale of public assets. The case studies have several examples of the types of assets that emergency managers sell. These include buildings, vacant lots, and vital community facilities such as the playground sold in Muskegon Heights. It is difficult to imagine that selling public assets will improve the future economic potential of cities and school districts—or the livelihoods of residents.

The final strategy we discuss is the privatization of services and outsourcing of professional expertise. This has the potential to be helpful in some circumstances. For instance, in school districts, constant staff cuts make managing the school district increasingly difficult and outside expertise could be beneficial. But this strategy does not always lead to efficiency or cost savings. Several cities, such as Hamtramck, are in process of bringing services back in-house. In the case of school districts, the Muskegon Heights experience shows that outsourcing academic services did not work at all and educators and students alike suffered.

Emergency managers use similar tools and strategies in the multiple communities they manage (see Appendix 2). Is this "cookie cutter" approach the most appropriate way to deal with the problems cities and school districts face? Based on this research, emergency managers appear not to adapt their strategies to the context of the communities in which they are working:

> It's the usual plan of attack. Privatize, sell off property, cut services, and cut personnel in city hall. Frankly that did not work for us. [...] It was a plan that hurt the city, that cost us [...] 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. (Hamtramck city official, phone interview, 2017)

To Whom Are Emergency Managers Accountable?

Emergency managers report directly to the governor. Because they are appointed and not elected, they are not accountable to the communities in which they work. They are not required to ask for or rely on the input of the local officials they replace or the public they manage. This is a problem because the emergency managers know little about the communities they are responsible for, so they may miss opportunities to make helpful changes or in fact make costly oversights—as in Flint, where water management errors contributed to the corrosion of the entire city's water system. Without local accountability, emergency managers may continue using the same tools and tricks without regard for local circumstances. There are no mechanisms within the law that require emergency managers to listen to or even interact with local residents. That means the community's local representative is not a representative at all:

> If you have someone who comes in and nullifies and neuters and takes over your government, and now those who you elected have no authority to make decisions on your behalf—then now we're talking about taxation without representation. Well, the representation is from the emergency manager. The emergency manager was not elected. He was appointed. So, now the vote of the residents—the citizens—it means nothing. (Benton Harbor city official, phone interview, 2017)

There is evidence that emergency managers may operate with a relative lack of higher-level state supervision or authority. One interviewee reported that "the state does not care what those emergency managers are doing" (Hamtramck city official, interview, 2017), suggesting that the state had not been following through on any formal accountability processes over emergency managers. Other interviewees reported that emergency managers' decisions were subject to a constellation of state agencies and state departments' oversight, which actually made the decision-making less accountable (phone interview, 2017). For example, one change to a school district policy would fall under the discretion of the state department of education and the state department of treasury, neither of which would coordinate on the best measures to enact or what was being approved by the other department. Despite the characterization of emergency managers as “support” from the state government, in reality they may have functioned as financial, administrative bandages, so that the state could stick them onto struggling communities and then walk away.

Are School Districts Managed Differently from Cities?

Emergency management is a financial tool designed to solve fiscal problems in cities. Any tool used to address fiscal stress in school districts should consider academic performance and the other aspects that make schools different from cities, but emergency management does not:

> From an educational outcomes perspective, I can't say that it's been very successful, in that because emergency managers aren't necessarily educators, they don't necessarily understand what a community may need. They can balance books, but they can't necessarily improve educational outcomes. (Muskegon Heights RTAB member, phone interview, 2017)

The tools emergency managers utilize may exacerbate the academic issues that struggling school districts face. Emergency managers arrive equipped with financial expertise but not education management skills, yet, they have the power to change curricula and affect academic outcomes. Typical budget-balancing tools may interact negatively with Michigan’s per-pupil funding scheme:

> They have no ability to change the revenue streams available to school districts. They cannot borrow. They cannot issue debt. They cannot raise taxes. They cannot raise revenue. They have to work within the confines. And so, left with the other side of the budget, I can point directly to how cutting, eliminating programs, eliminating staff, increasing classroom sizes in Michigan, has a direct, not the sole, but a direct connection to students' parents fleeing a school district. […] When they leave, [this] drives the revenue down further, because we fund schools based on the number of students who show up at the door in the fall. (Michigan policy researcher, phone interview, 2017)

The financial decisions made by the emergency manager in Muskegon Heights came at a cost to students and community life. Student academic achievement declined in a school district that already had some of the lowest scores on state testing (Smith, 2013b). In Michigan, students are free to cross school district lines and attend different schools (Michigan reporter, phone interview, 2017). Constant changes in curriculum and school leadership caused a drop in enrollment of nearly 300 students (Muskegon Heights school district official, phone interview, 2017). Financial crisis and the emergency management response to it destabilizes school districts and can aggravate their financial and academic problems:

> [In Muskegon Heights] the emergency manager laid everybody off that one summer and decided that he was going to create this new charter school district and hire a company [...]. There was a lot of people in the community there who were really attached to those teachers and they saw a huge drop in the number of students who showed up in the fall—just the uncertainty of everything made it so that kids kind of fled. I think those hardships are harder to pin down. I mean, people who had resources to drive their kids to a different district nearby and were worried about continued uncertainty...they left. (Smith, personal communication, 2017)

One difference between the methods used for other emergency management sites and the methods used in the Muskegon Heights School District was the eventual creation of a partnership agreement. This partnership agreement is the basis of a network of support for the school district, spanning from other state and local agencies to local nonprofits and community organizations. Where emergency management is a fiscal tool intended to solve fiscal problems, the new partnership agreement model in Muskegon Heights provides academic support for school districts on a realistic timeline. It also allows local school districts to retain control and work with the communities they know best.

The partnership is not a foolproof solution, however. The Michigan Department of Education has an annual budget of $4 million for partnership schools like Muskegon Heights.

This year the number of partnership schools in Michigan increased but the state funding remained the same (Muskegon Heights school district official, phone interview, 2017). While the partnership agreements help local schools build important relationships and address some academic needs, they do not provide the necessary funding for future academic growth. It is a temporary stabilization measure, not a long-term financial or academic solution.

DISCUSSION

What are the Long-Term Implications of Emergency Management for Communities?

Our final research question asked about the implications of emergency management for urban policy. Three themes emerged that guided our analysis and response. These included:

(1) *Bad Implementation or Bad Policy?*;

(2) *Shrinking State*; and

(3) *Erosion of Democracy*.

We define these themes as follows and discuss their significance for local governments and communities' abilities to operate and plan for the future.

Bad Implementation or Bad Policy?

"Bad Implementation or Bad Policy?" refers to the tension in problem definition under PA 436. If one accepts that the problem is local fiscal mismanagement, and that state intervention is necessary at some level, then appointing an emergency manager may be a reasonable solution. Most cities and school districts' leaders seemed to hold this view when they first requested the state financial reviews that recommended emergency management. But what if the problem is actually a range of structural pressures on local public budgets, as described in Figure 1 (p.5) and demonstrated in Appendix 3? We assert that this is the true problem and that emergency management is thus a narrow, short-term, and misplaced policy solution. We argue this point based on two critiques—1) that emergency management has been implemented ineffectively, even accepting its given definition of the problem, and 2) that emergency management is an ineffective policy, because it addresses the wrong problem.

Bad Implementation

The first critique behind this theme is that emergency management relies on the financial, technical expertise of a professional class of managers. Relying on this qualification is flawed because the emergency managers make short-term and sometimes short-sighted emergency decisions that end up costing communities in financial, cultural, and social terms. It is also flawed because it ignores the clear need for other kinds of expertise that are more usually associated with elected leaders and public administrators: a cultural and historical understanding of the community, relationships with local community leaders, organizational leadership abilities, skills in public engagement and public participation processes, and familiarity with the operations of essential public services. For example, one individual-level problem with emergency managers is ego. Many emergency managers seem to start off with bad working relationships with local leaders by making unilateral and alienating decisions.

Emergency managers ignore the local context of communities because they do not have the professional skills or policy mandate to do otherwise. They are finance professionals. Although they must have at least five years of financial or business experience, they are not required to have any experience as city managers or as school district administrators or as public servants. Joyce Parker, as emergency manager in both Ecorse and Allen Park, did have public management experience. In her role, she held regular meetings with elected officials, citizens, and the city workers so they could express feedback on the emergency management process. She considered how both cities would fare once her tenure ended (Michigan policy researcher, phone interview, 2017). Her management style was not universally lauded, but her efforts underscore the importance of public management experience.

Emergency management treats local financial problems as technical issues that can be solved with educated professionals who have specialized technical training. But these are not only technical issues of accounting and financial operations. The communities placed under emergency management have different histories, racial compositions, geographic locations, public assets, and economic growth potentials. The inherent viewpoint of PA 436 seems to be that the democratic process is slow, conflictual, and vulnerable to mismanagement and corruption. Emergency management removes local context and local decision-making power because of this principle.

Although that view of the democratic process may sometimes be true, the problem is that emergency managers govern much more than the finances of cities and school districts. They govern every aspect of cities and school districts. They sign the contracts with private service operators; they approve the construction permits; they have the final say on the curriculum for the school year; they decide who to hire and who to fire. Emergency managers may be good at their jobs, in the sense that they are good at being finance or business professionals with at least five years of experience. They are good at cutting costs and reducing deficits and finding efficiencies—although some of our cases show that their standardized and cookie-cutter approach to fiscal management can miss easy opportunities for greater efficiency.

Emergency managers become mayors. They become city councils. They become school board members. They have all of the powers and responsibilities of elected local officials but none of the accountability. They have none of the familiarity with the community and none of the social burden of living in the communities that have to clean up their mistakes. They make short-term decisions because they can and because that is all they are required to do. They are *emergency* managers, after all.

The problem is that emergency managers are not leaders. They are professional managers. They can't organize a "community agenda," a comprehensive strategy that can deal with the changing structure of a local economy and workforce. Their short-term decisions to resolve financial emergencies relatively immediately can become short-sighted, because they distract attention from larger structural issues or even undermine efforts to address those issues.

Would emergency managers be more effective if they had different qualifications? We question if this might improve the public response to emergency management. The fixes of emergency managers only address the symptoms of financial emergencies. They might put out the fire, but they don't take away the fuel.

Bad Policy

Our second critique in the "Bad Implementation or Bad Policy?" theme is that the overall policy objectives of emergency management are misguided. A local financial emergency is a symptom. The root of the problem is a host of demographic, economic, and political pressures on local governments and school districts that make providing public services harder every day. The combination of deindustrialization, job loss, population decline, falling property values, statewide economic recession, and national economic recession hit Michigan communities hard. When the state finally offered help to cities and school districts under fiscal stress, it came in the form of emergency management. Once in place, emergency managers seemed to operate under a singular agenda of balancing city budgets without regard to social consequences or long-term planning. Their decisions aggravated larger structural issues that only contributed to fiscal stress.

For example, following a breakdown in benefits negotiations with the emergency manager, police officers in Allen Park resigned and left the agency dangerously understaffed. In Muskegon Heights, charter school conversion and teacher turnover seriously impacted school curriculum and destabilized student enrollment (Smith, 2013b; Ronfeldt, Loeb, & Wyckoff, 2013). Structural issues get left behind after emergency management ends: “It never solved the issue of [a] shrinking tax base, dwindling population and a loss of revenue” (Official from Benton Harbor, personal communication, 2017).

The state also may have begun to recognize emergency management’s poor policy design. Emergency management has triggered litigation against cities, the state, and emergency managers themselves. When emergency managers have broken contracts with unions or private contractors, these groups often bring lawsuits and sometimes win settlements—at the expense of the city, not the state government (Benton Harbor city official, phone interview, 2017). This raises doubts about the efficacy of a process that relies on circumventing unions entirely, rather than bringing them to the table as might occur in bankruptcy. Nathan Bomey colorfully recounts the story of Detroit’s dual experience with bankruptcy and emergency management in *Detroit Resurrected* (2016), illustrating the much greater possibilities for change, resolution of a financial crisis, and addressing long-term issues under that unique arrangement. Detroit’s emergency manager and the bankruptcy courts worked in tandem to balance the financial losses to city employees, pensioners, residents and recipients of public services, *and* bond and debtholders to give the city a clean fiscal slate. Although Detroit is an example unto itself, because of its more uniquely extreme circumstances, it effectively presents the beneficial possibilities of municipal bankruptcy to restructure and wipe away debt burdens that may have been ill-advised, sometimes illegal, and altogether too heavy.

While some interviewees report that the state may have shifted its preferences to consent agreements as interventions, we venture the notion that bankruptcy could be a more attractive tool. Emergency management protects the state's credit rating by preventing the financial emergencies that could lead to bankruptcies, at least in cities outside of Detroit. The financial problems of Detroit were much more severe than in most of the other communities placed under emergency management (Hamtramck resident, phone interview, 2017). Emergency managers can cut public services to residents and they can cut benefits to public employees and unions, but they cannot cut payments to bond and debtholders. Bankruptcy would allow for fair and equitable reductions amongst all three.

While it is clear that the cities profiled here underwent considerable fiscal stress, it is less clear that PA 436 is the appropriate policy to resolve that stress. The solutions that PA 436 offers for the problems it intends to address fall short. In fact, the law may address the wrong problem overall. Emergency managers cannot fix the inadequate tax bases in Michigan's struggling cities—the average taxable value per capita of cities under state supervision is $12,060, whereas the state average is about $32,000 (Bach, 2016; see also, Appendix 3). Emergency management is a narrow and controversial state intervention. It is paradoxical because the state is actually a clear source of that fiscal stress. We focus on the added pressure of the withdrawal of state government support from local governments as our second theme.

Shrinking State

The theme of the "Shrinking State" refers to the role that the state government plays in contributing to the fiscal stress of local governments and schools. In Michigan, the state has substantially reduced its state revenue sharing agreements with local governments. Charts for each case study in Appendix 3 reflect this declining support. The Michigan Municipal League has reported that this may total a $7.5 billion loss in support statewide (Bach, 2016). Less funding from the state means that local governments have to provide public services with less money or cut them altogether.

Some interviewees reported that the state has not only withdrawn financial support but oversight as well. When do states have an obligation to intervene in local fiscal crises—before the moment of crisis or after? Although the state should be well aware of local fiscal stress before a breaking point is reached, it is paying less attention to early warning signs. Cities that submit bad financial reports or do not submit financial reports at all are ignored until they face a true emergency.

The question of fiscal responsibility is not solely a local-level one but a state-level one. Local governments should appeal to the state for intervention during a financial emergency—but they should also be able to receive help before their finances reach such a critical state. The positioning of PA 436 as a useful tool to allow the state government to help local governments is ironic, because the state government's lack of financial support and oversight contributed to the need for fiscal intervention in the first place. Without attention to the root of the issue—the structural economic, demographic, and political problems that constrain local governments and schools' budgets—the process of state intervention in Michigan could conceivably become a vicious cycle of state withdrawal, fiscal crisis, intervention, resolution, and then withdrawal all over again.

What is most problematic about this vicious cycle is the disparate impact it has on poor and marginalized communities. Peck's (2012) research has shown that austerity measures disproportionately affect these communities. The same results are evident in Michigan—most of the communities placed under emergency management are majority African American. All of the communities have high poverty rates and low median household incomes compared to the state average (see Appendix 1). These communities, which may have been shaped by historical discrimination, redlining, white flight, and exclusion, become the communities with the least voice in deciding on the solutions most suitable for them.

Erosion of Democracy

Our last theme is the "Erosion of Democracy," which refers to vulnerable communities' significant loss of democratic control under emergency management. The state takeover in Michigan is so extreme that emergency managers totally replace all of the democratically elected leaders in a community. They do not have to engage with the elected leaders, public employees, or local residents to make their decisions. The governor appoints the emergency managers and does not have to consult with locals or state agencies on who he appoints. Residents do not have much hope of demanding accountability because the emergency managers report to the governor, not to them. The mechanisms for determining when an emergency has been resolved is up to the emergency managers themselves. Local officials may vote an emergency manager out after 18 months, but the governor may always appoint a new one. Although emergency managers may ostensibly report to emergency loan review boards, no real or substantial oversight is apparent based on our preliminary research.

Our case studies indicate that local governments—and their citizens—have had little or no choice in determining how to alleviate fiscal stress. The three alternatives to emergency management under Public Act 436, including mediation, consent agreement, and bankruptcy, may not be real options. In Muskegon Heights for example, the city was forced to choose between accepting an emergency manager or dissolving their entire school district. Both choices had serious implications and potentially catastrophic fallout, but choosing the former option essentially meant that latter option would soon follow. It was a false choice.

When it comes to financial crisis, Michigan's plan seems reactionary, overwrought, opaque, and misplaced--like a knee jerk response to a sharp stimulus, the state washes away the local democratic process and implements a hardline, single-minded solution to fix the emergency without fixing the problem. This "democratic dissolution" (Anderson, 2011) is more of a policy created in crisis than a policy that can adequately address crisis.

CONCLUSION

The threat of such an extreme state takeover has made Michigan cities and school districts pay closer attention to their budgets (Muskegon Heights RTAB member, phone interview, 2017). Some view emergency management as a reprieve from local mismanagement and a way of outsourcing difficult decisions to an outside professional, which can give local governments a fresh start with fewer deficits once emergency management is over (Hamtramck city official, phone interview, 2017). Alternatively, several interviewees described what they believed to be politically or racially motivated decisions by the state to implement emergency management in their communities (Benton Harbor city officials, phone interviews, 2017). Future research should explore if other communities in Michigan under similar levels of financial stress avoided emergency management and how so.

Determining the successes and failures of Emergency Management is a complex task—while there are examples of balanced budgets, there are also many stories of strife. The state itself may be concluding that emergency management does more harm than good—the state legislature has discussed amending the law (Clark and Pluta, 2017). Nearly all interviewees indicated that the state of Michigan is unlikely to send more emergency managers into stressed communities. The decision may be more out of a pragmatic aversion to litigation than concerns about democracy. We wonder if bankruptcy might be a better tool, because it would allow cities and schools to restructure their debts to a manageable level. Under emergency management, only public services and public workers go under the chopping block. Under bankruptcy, a judge would balance these cuts with a share of losses to debt-holders as well.

We conclude that 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. There are tools and strategies that local governments can use to manage fiscal stress and create opportunities for stability. One positive example coming out of Benton Harbor is the passage of a new city income tax. To fill the city's funding gap, residents have agreed to a 1% tax on themselves along with 0.5% tax on those who work in Benton Harbor but do not live there. According to one estimate, the new tax will increase the city's budget by 28%, with all the new revenue being dedicated to badly needed road repairs (Wrege, 2017a).

Due to a lack of political willpower in the state legislature, it is unlikely that PA 436 will be overturned in the near future. For now, Michigan will retain the power to send emergency managers into any community determined to be fiscally stressed. Even if emergency management is waning in popularity in Michigan, this tool could become more common in other state governments. 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. And they should trust local officials who know their communities best and possess a vision for the future.

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Appendix 1: Profile of Cities and School Districts under Emergency Management (EM)

County	City/ School District	Total Pop.	Poverty Rate	Median HH Income	Race - Percent White	Race - Percent African American	Race - Percent Asian	Remedial Method
Michigan State		**9,909,600**	**16.3%**	**$50,803**	**78.8%**	**13.9%**	**2.8%**	**N/A**
Berrien	Benton Harbor	10014	50.3%	$18,085	7.5%	85.7%	0.2%	EM
	Benton Harbor Area Schools	30,809	28.8%	$27,339	38.5%	54.4%	0.3%	Consent Agreement
Genesee	City of Flint	99,802	41.2%	$24,862	39.5%	55.1%	0.4%	EM
Muskegon	Muskegon Heights School District	10,809	42.5%	$20,083	18.6%	76.1%	0.1%	EM
Oakland	Royal Oak Township	2,438	33.8%	$24,541	2.5%	89.9%	3.3%	Consent Agreement
	City of Pontiac	59,928	35.7%	$28,505	39.6%	50.6%	1.9%	EM
	Pontiac City School District	77,844	26.6%	$32,914	47.5%	42.5%	3.1%	Consent Agreement
Wayne	City of Detroit	690,074	40.3%	$25,764	13.4%	80.1%	1.3%	EM, Followed by Bankruptcy
	City of Allen Park	27,676	40.3%	$25,764	95.8%	3.1%	0.6%	EM

Source: ACS 2011-2015 5-year Estimates

	City of Highland Park	11,102	40.2%	$17,250	4%	92.1%	0.2%	EM
	Highland Park City Schools	11,102	40.2%	$17,250	4%	92.1%	0.2%	EM
	City of River Rouge	7,673	41.4%	$26,230	40.1%	53%	0.4%	Consent Agreement
	City of Ecorse	9,338	33.1	$28,131	46.9%	44.8%	0%	EM
	City of Hamtramck	22,150	47.3%	$23,759	55.2%	14.4%	24.6%	EM
	City of Lincoln Park	37,362	19.9%	$41,090	84.8%	6.2%	0.3%	EM
	City of Inkster	24,897	34.9%	$30,210	20.7%	74.3%	0.5%	Consent Agreement

APPENDIX 2: Site Summaries

SITE SUMMARY: City of Allen Park	
Time Period of PA 4 Financial Emergency:	10/26/12-9/25/15
PA 4 Remedial Measure:	Emergency Management
Current Status of PA 4 Remedial Measure:	Complete
Names of Emergency Manager(s), if applicable:	Joyce A. Parker (BLGSS, 2017)
Socioeconomic and Demographic Information:	Population: 28,210 Urban Poverty Rate: 40.3% (US Census, 2010) Median Household Income: $65,948 (ACS 2012-2016) Racial Composition: 95.8% White, 3.1% African American, 0.8% American Indian and Alaska Native, 0.6% Asian, 2.2% other races (ACS 2011-2015)
Summary of Causes of Financial Emergency:	• The City's Long-Term bond rating fell further below the BBB category and is considered a "junk" rating. Standard & Poors downgraded rating to B from BB+, indicating further downgrading in future • City officials violated requirements of Section 17 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act, due to millions of dollars in overestimations in property tax revenues and general funds • City officials had not filed an adequate or approved deficit elimination plan with the Department of Treasury for the 2011 fiscal year • The City's debt was significantly high, due primarily to business-type activities, unfunded pension liabilities, and post-employment healthcare

	• While the number of active employees in the City's pension system decreased from 176 in 1991 to 103 in 2011, annual pension outlays increased from $1,042,595 to $6,908,395 during the same period. The pension system was 70.2% funded • During the 2010 fiscal year, city officials issued limited tax general obligation debt to finance the acquisition of property adjacent to City Hall for the purpose of establishing a movie studio. Because the movie studio was never realized, the City was left with annual debt service which had been remitted from the City's general fund. The City issues bonds for $31 million in general obligation bonds related to Southfield Lease Properties. However, before the close of the 2010 fiscal year, the value of the property had been reduced. The City's general fund balance decreased substantially, primarily due to the appropriation required to pay debt service for the Southfield lease property. • The City requested a dedicated millage to pay debt service for the Southfield Lease properties. The voters rejected the proposal. As a result of the rejection, the City is required to pay debt service for the bonds from the general operating fund, and due to inadequate funds , the payment creates a structural deficit • The city had been experiencing significant cash flow shortages. The City received $2,050,000 in tax anticipation note proceeds in May 2012, without which the City would have depleted its general fund cash. In August 2012, the City repaid the Tax Anticipation Note from property tax collections, which again created a shortfall in operating expenses. • Other cost pressures included the salary benefit structure. The police and fire service budgets represent over 43 percent of the total general fund budgets for 2011 and accounted for 73% of personnel positions in the city.
Reasons Other Remedial Measures Were Not Chosen:	*Bankruptcy* • The requirements under the Act for requesting the initiation of bankruptcy could not be satisfied • An alternative to rectifying the financial emergency through bankruptcy existed *Consent Agreements* • Consent agreements are similar to requirements already imposed by state statutes – which local officials have already not met • "Existence of individuals who possess the wherewithal for day-to-

	day decisions" was needed in positions of power – too much local turnover and interim positions • Review team considers City Council "manifestly dysfunctional" and should have done more (such as apply for emergency loans) to bridge deficit • Handling of police budgeting and contractual services represents incoherent decision making • Failure to negotiate with unions in a way the Review team saw as appropriate
Emergency Manager Actions:	1. Established Allen Park advisory committee to assist with community engagement and development of strategic plan 2. Approval of strategic plan by City Council 3. Retreat for city council to engage in team-building and review procedural rules 4. Eliminated structural and cumulative deficits, ended year with positive balance 5. New policies regarding fund balances and internal control 6. Sold city property to generate funds 7. Residents of Allen Park voted to increase millage rates that resulted in cost savings from rebidding contracts and reorganizations (liability insurance, trash, city attorneys, etc.) 8. Grant money acquired 9. New employment contracts (reductions in pay, elimination of vacant positions, etc.) 10. Relocation of City Hall 11. Filled staff positions (Emergency Manager documents)

SITE SUMMARY: City of Benton Harbor	
Time Period of PA 4 Financial Emergency:	10/26/12-9/25/15
PA 4 Remedial Measure:	Emergency Management
Current Status of PA 4 Remedial Measure:	Complete
Names of Emergency Manager(s), if applicable:	Joseph Harris (4/1/10-2/1/13) Tony Saunders (2/1/13 - 3/10/14) (BLGSS, 2017)
Socioeconomic and Demographic Information:	Population: 10,038 Urban Poverty Rate: 50.3% (US Census, 2010) Median Household Income: $18,962 (ACS 2012-2016) Racial Composition: 7.5% White, 85.7% African American, 0.2% Asian, 0.7% Other races (ACS 2011-2015)
Summary of Causes of Financial Emergency:	● The inability of the City to operate within its budgets and to avoid fund deficits ● Re-current accumulated deficit spending ● Severe cash flow shortages resulting in an improper reliance on interfund borrowing, ● Unresolved material internal control deficiencies such as failing to keep financial records current and performing timely bank reconciliations ● City's inability to file timely financial audit reports, distribute property taxes, or submit payroll taxes ● 13.1% increase in City's general fund deficit from June 30,2008 to June 30,2009 ● Failure of the city for the last 8 fiscal years to file annual financial audit reports with the Dept. of Treasury as req. by State Law ● Marked deterioration in the City's pooled cash over last 4 years, from $1.7 million in 2006 to $315,000 in 2009, representing one measure of the extent to which City expenditures outpaced available revenues ● Failure to make minimum required contributions to the City's

	General Employees Retirement System and the Police and Fire Retirement System for last several years, resulting in both retirement systems having to liquidate assets to make pension payments ● Failure to reconcile financial records in a timely manner resulting in cash balances in the City's general ledger differing significantly from actual; bank balances and causing the City to incur bank service charges, mostly for overdraft charges, of \$80,000 to \$100,000 annually ● For fiscal year that ended June 30, 2008, the City failed to comply with provisions of Public Act 2 of 1968: City Attorney Budget \$270,000 to Actual \$477,612 (a variance of \$207,612); Transfers Out Budget \$0 to Actual \$647,131 ● City withheld federal income taxes but did not timely remit those withholding taxes to the Internal Revenue Service
Reasons Other Remedial Measures Were Not Chosen:	"In accordance with Section 14 (3)(c) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, that a local government financial emergency exists within the City because no satisfactory plan exists to resolve a serious financial problem, and recommends the appointment of an emergency financial manager." (Kleine et al., 2010)
Emergency Manager Actions:	• Nullified actions taken by City Commission to appoint committees/boards (EFM 12-01, 13-08) • Sold properties (EFM 12-5, 12-13, 12-10, 13-01, 13-17, 13-03, 13-21, 13-35, 13-45, 13-12, 12-27, 12-30, 12-33, 12-34, 12-35, 12-38, 14-27) • Secured loans for \$1,172,500; \$3,000,000; \$3,900,000; \$2,700,000; \$2,300,000 (EFM 12-06, 12-07, 13-04, 13-23, 13-64) • Amended zoning ordinances (EFM 12-14, 11-29) • Accepted donations from Whirlpool to police and fire pension funds: \$200,000 per year from 2011-2014; \$300,000 per year from 2013-2023 (EFM 12-15) • Approved industrial facilities, personal property tax exemption for Whirlpool (EFM 12-16, 12-17) • Repealed compensation and benefits for department heads (EFM 12-19) • Eliminated life and disability insurance, dental, vision, and increasing health care premium contributions for non-union employees (13-10, 13-11) • Changed health care plan for non-union employees (EFM 13-01) • Eliminated health savings account contributions for non-union employees (EFM 13-15) • Authorized furlough days for non-union, non-public safety

	employees (EFM 13-14, 13-16) • Eliminated holidays for non-public safety employees and non-union city employees (EFM 13-14, 13-16) • Approved homeownership assistance through CDBG (EFM 12-23) • Submitted Deficit Elimination Plan to Treasury (EFM 13-03) • Authorized millage proposals for vote (EFM 13-07) • Committed $191,500 in matching funds for proposed Michigan Natural Resources Trust Fund-funded Union Park project (13-18) • Opted out of state legislation to lessen burden of employee health care costs on public employers (EFM 12-28) • Centralized city department operations (EFM 13-43) • Reinstituted PILOT ordinance with Trinity Village Estates Nonprofit Housing Corporation (EFM 13-02) • Rescinded 1994 procedures for water and sewer customer services (EFM 13-42) • Reduced water rates by 5% (EFM 13-50) • Received grant for sewage collection and treatment systems from Michigan Finance Authority and Department of Environmental Quality (EFM 13-71) • Appointed Municipal Employees Retirement System (EFM 13-37) • Established North Shore as manager of cemeteries (EFM 13-46) • Transferred assets from Benton Harbor Township during water services separation (Order 10) • Prohibited city commission officials from appearing at city meetings (EFM 11-21) • Proposed consolidation of city wards in city charter vote (EFM 11-32) • Established industrial development district (EFM 11-42, 11-46) • Approved industrial facilities exemption certificates (EFM 12-09, 12-18) • Established Obsolete Property Rehabilitation District (EFM 12-28) • Approved obsolete property rehabilitation exemption certificates (EFM 12-41) • Closed Fifth Third Pension Investment Accounts and transferred to Municipal Employees Retirement System (EFM 14-11) • Closed bank accounts (EFM 14-12) • Rescinded city commission meeting as unlawful (EFM 11-12) • Approved pension contributions (EFM 14-23)

SITE SUMMARY: City of Hamtramck	
Time Period of PA 4 Financial Emergency:	● PA 72, 11/16/2000-2006 ● PA 436, 4/1/2013-12/18/2014
PA 4 Remedial Measure:	Emergency Management
Current Status of PA 4 Remedial Measure:	Complete
Names of Emergency Manager(s), if applicable:	● Louis H. Schimmel, 11/16/2000-2/23/2006 ● Cathy Square, 4/1/2013-12/18/2014 (BLGSS, 2017)
Socioeconomic and Demographic Information:	Population: 22,150 Urban Poverty Rate: 47.3% Median Household Income: $9,589 Racial Composition: 54.7% Non-Hispanic White, 24.6% Asian, 14.4% Black (US Census, 2010)
Summary of Causes of Financial Emergency:	● Budgets do not comply with Public Act 2 ● Existing deficit elimination plan 'unacceptable' ● "Borrowing from other funds is indicative of cash flow issues." ● City delayed pension contributions ● Water and sewer rates have not risen with costs (Dillon, 2013) ● "Frequent turnover in the City Manager position and significant dysfunction within the City Council." (Chiddister, Headen, Koryzno, Lupher, & Ringler, 2013)
Reasons Other Remedial Measures Were Not Chosen:	"When Review Team members inquired of City Councilmembers regarding a proposed plan to address the City's financial condition, the response from most City Councilmembers was that they intended to request an emergency manager. Indeed, the prevailing attitude among several City Councilmembers was that an emergency manager would quickly remedy the City's financial condition (by which they meant that an emergency manager would relieve them of the financial burdens of collective bargaining agreements into which they now believe they improvidently entered)

	and that just as quickly State officials would remove the City from receivership and return it to local control." (Chiddister, Headen, Koryzno, Lupher, & Ringler, 2013)
Emergency Manager Actions:	● New contracts: city attorney, liability insurance agent, health care insurance, police chief, fire chief, police patrol, ranking police officers, firefighters, city hall employees (AFSCME) and the city auditor; eliminated non-contractual reimbursements for retirees ● Service contracts rebid out: Water and sewer maintenance, garbage collection, street sweeping, cross connection for water and IT ● Outsourced services: Ambulance (EMT), building department, income tax and janitorial ● In-sourced: controller position ● Changes in the staff organization: bonding the treasurer; requiring an upgrade in licensing for the public works director, new treasurer, city clerk, assessor and financial controller; combined the police and fire dispatchers as well as combined the Downtown Development Authority (DDA) and Community Development Department ● Improvements to city hall and the fire station ● New ordinances: water department and its billing system ● City council training: parliamentary procedures, ethics and municipal financial training ● Selling many vacant lots off as well as tax foreclosed properties and city-owned vacant houses ● new contract with the Detroit Water Department and got DTE Energy (Michigan-based private electric utility) to install new street lighting (Emergency Manager documents) ● $2 million emergency loan through the state to shore up deficit to pension fund (Sercombe, 2015)

SITE SUMMARY: Muskegon Heights School District	
Time Period of PA 4 Financial Emergency:	04/2012 - 10/2016
PA 4 Remedial Measure:	Emergency Management
Current Status of PA 4 Remedial Measure:	Receivership Transition Advisory Board
Names of Emergency Manager(s), if applicable:	Donald Weatherspoon (4/23/12-10/14/13) Gregory Weatherspoon (10/14/13-4/15/15) Steve Schiller (4/15/15-10/28/16)
Socioeconomic and Demographic Information:	Population: 10,857 Urban (US Census, 2010) Poverty: 43.5% Median Household Income: $21,903 (ACS 2012-2016) Racial Composition: 18.6% White, 76.1% African American (ACS 2011-2015)
Summary of Causes of Financial Emergency:	• A school district has a deficit for three or more consecutive years, including the current year. Deficit greater than $1,000,000 and is greater than 15 percent of general fund revenues, excluding incoming transfers. • A fiscal review by a program office of the Michigan Department of Education, or an external auditor, reveals one or more material internal control weaknesses as evidenced by notes or findings in the financial audit. • A school district shows unsatisfactory progress in eliminating a deficit. • The failure by a school district to comply with bond or note covenants or to make pension fund deposits. • School district had a deficit for three or more consecutive years, including the current year. • School district's existing deficit was greater than $1,000,000. • School district's existing deficit was greater than 15 percent of general fund revenues, excluding incoming transfers. • A fiscal review by a program office of the

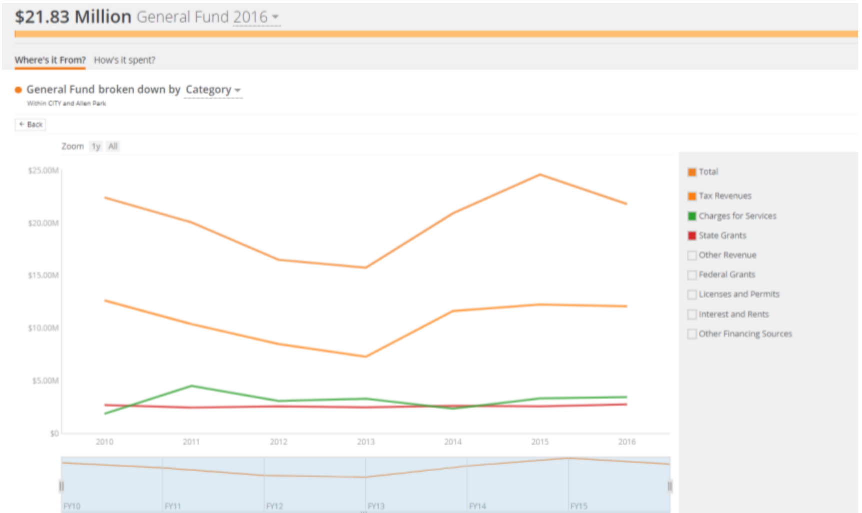
	Michigan Department of Education, or an external auditor, revealed one or more material internal control weaknesses as evidenced by notes or findings in the financial audit related to any of the following: o A lack of written policies and procedures or a failure to follow the written policies and procedures. o Poor cash management. o A failure to provide personnel activity reports for employees paid with federal funds. o A history of spending outside of appropriations established by the local school board, in violation of Public Act 2 of 1968. o The use of grant funds on unallowable expenditures. o Going concern issue, or qualified financial audit opinions, or both. • School district showed unsatisfactory progress in eliminating a deficit, which was determined by identifying one or more of the following conditions: o A deficit increase from the previous year. o Lack of cooperation from school district officials in submitting deficit information (i.e., late submission of deficit elimination plans, delinquent return of phone calls or correspondence relating to deficit elimination plans, and chronic late submission of monthly budgetary control reports). o A history of supplying the Department with deficit elimination plan information which either was inaccurate or inconsistent with actual revenues and expenditures at year end.
Reasons Other Remedial Measures Were Not Chosen:	• School district has experienced turnover in at least two key positions: Intermediate School District Superintendent and Finance Director. Given their detailed involvement in the day-to-day operations of the School District, these two officials likely possess the most comprehensive understanding of the School District's financial condition of anyone associated with the School District. Therefore, it was significant that both

	officials expressed to the Review Team their unequivocal opinion that an emergency manager would be necessary. • The school board requested that "the Michigan Department of Education assist the District in facilitating the appointment of an Emergency Manager under Public Act 4 of 2011." It is noteworthy that school board members apparently considered the financial condition of the district to be so dire that they made no real attempt to devise a consent agreement nor actively to lobby for consideration of a consent agreement by the Review Team. • During a 2011 site visit, several school board members expressed the need for them to impose more stringent monitoring over the district's administration. However, the actual experience of school board members in carrying out such monitoring is untested. Therefore, appointment of an emergency manager may allow the school board to establish and refine its monitoring role, and under the tutelage of an emergency manager, better prepare itself for a transition back to an effective Superintendent-School Board relationship once the financial condition of the School District has been stabilized.
Emergency Manager Actions:	• Assumed control over all school district financial matters • Suspended all travel to conferences and workshops at district expense • Authorized sale of surplus school district equipment and supplies • Laid off district employees • Organized/consolidated Muskegon Heights Public Charter System • Sold E. Grace Loftis Early Childhood Academy and Martin Luther King Elementary • Proposed operating millage renewal

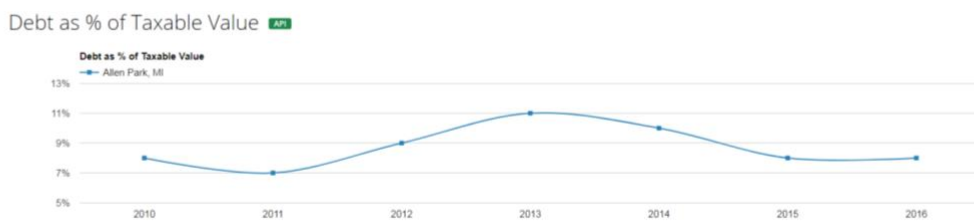
	• Established Board of Directors for the Muskegon Heights Public Schools Academy System • Approved charter contract for the Muskegon Heights Public Schools Academy System • Approved service agreement between the School District of Muskegon Heights and the Muskegon Heights Public School Academy System • Reduced financial and operating plan for Muskegon Heights School District • Hired governmental compliance manager • Adopted Freedom of Information Act Policy for Muskegon Heights School District • Transferred property to the Michigan Land Bank • Reappointing MHPSA board members • Extended contract of Fiscal Control Manager • Approved the issuance and delegation of the sale of refunding Series A and Series B bonds • Adopted 2-year budget (Emergency Manager Orders)

Appendix 3: Financial Health Charts

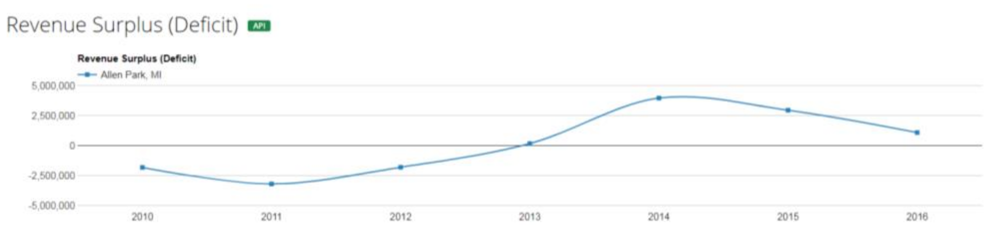
City of Allen Park



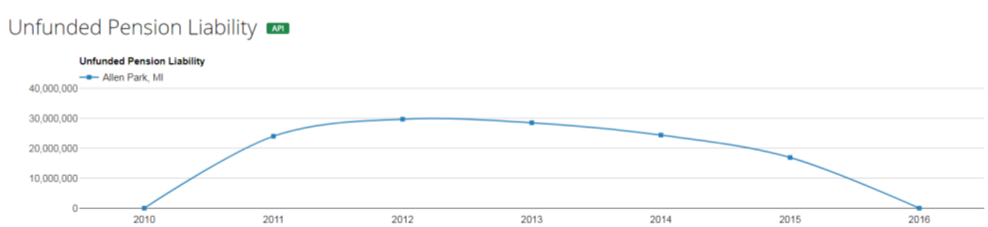
(State of Michigan, 2016a)



(State of Michigan, 2016b)



(State of Michigan, 2016c)



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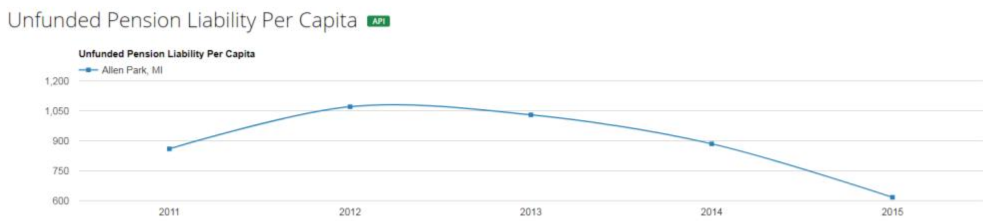

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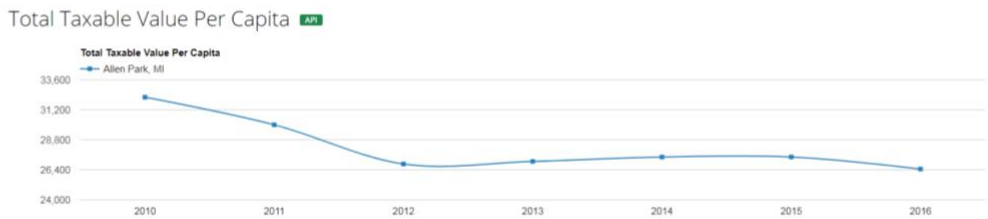

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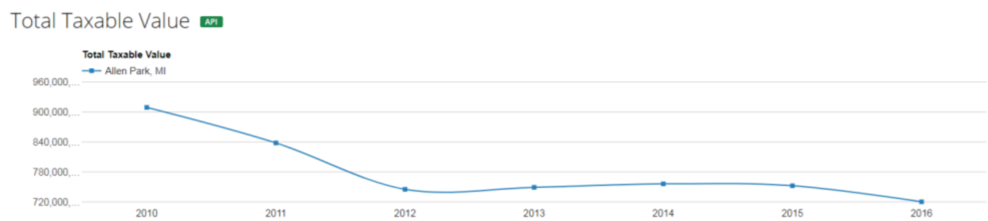

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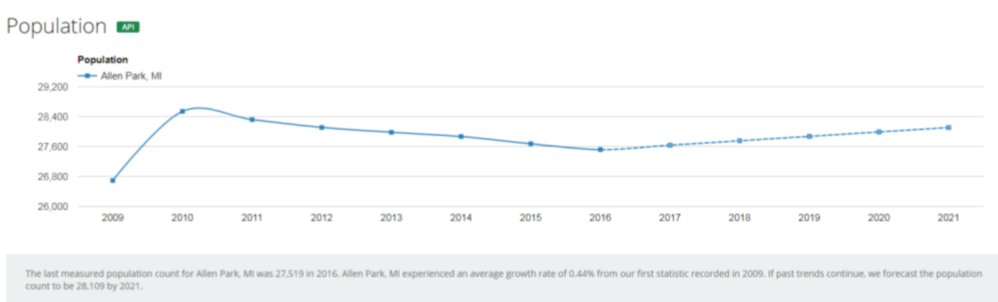

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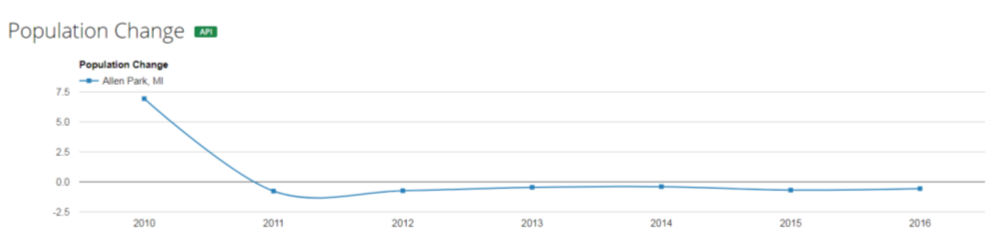
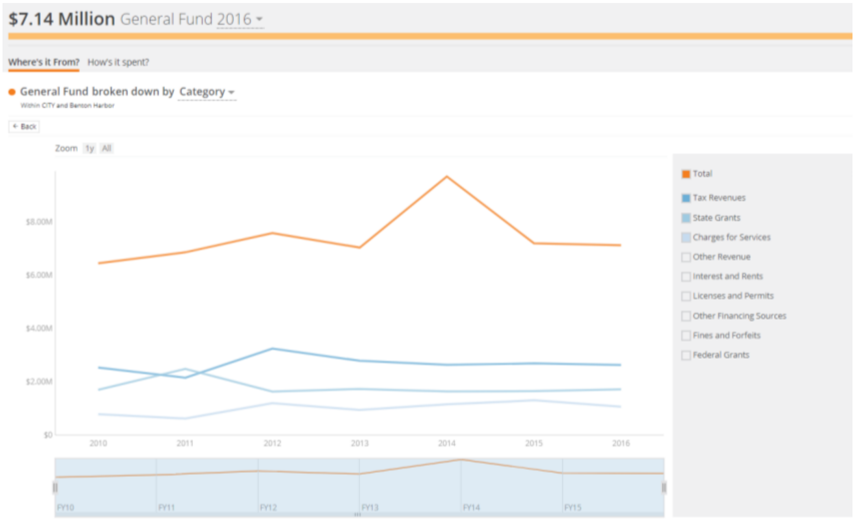
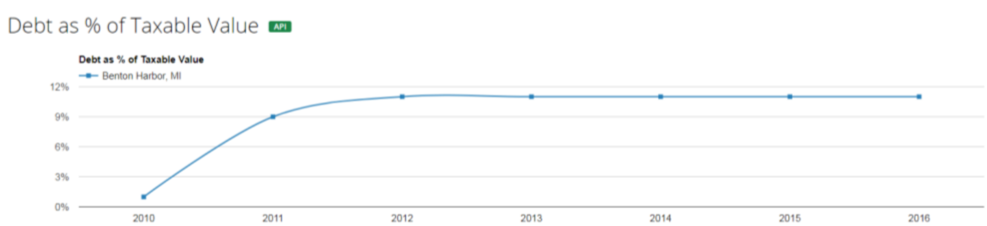


(State of Michigan, 2016f)

City of Benton Harbor



(State of Michigan, 2016g)



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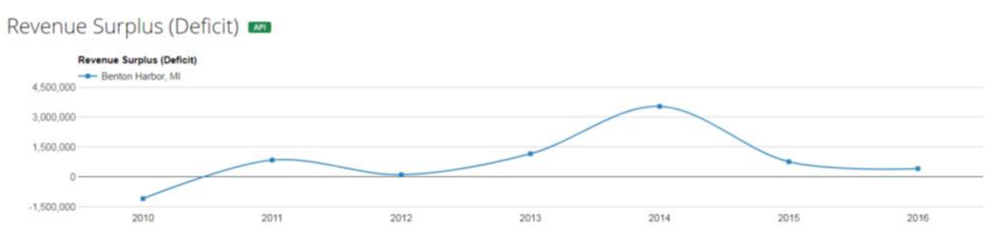

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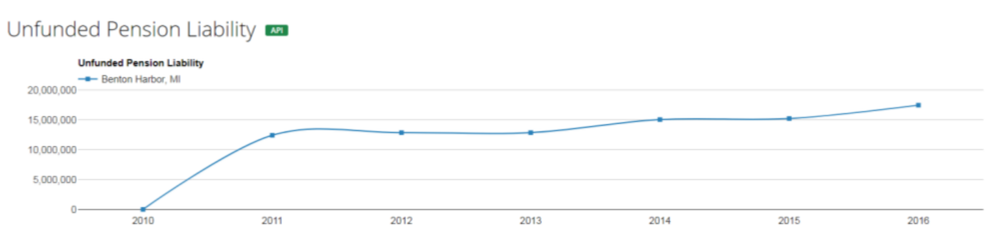

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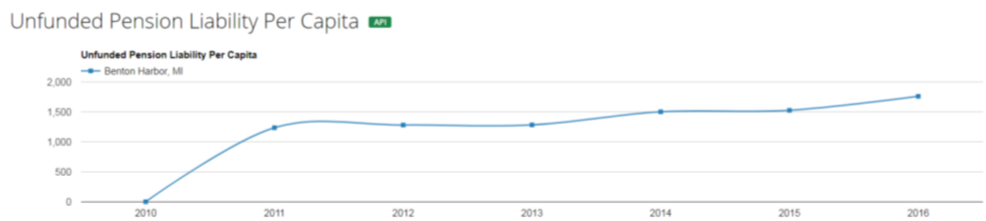

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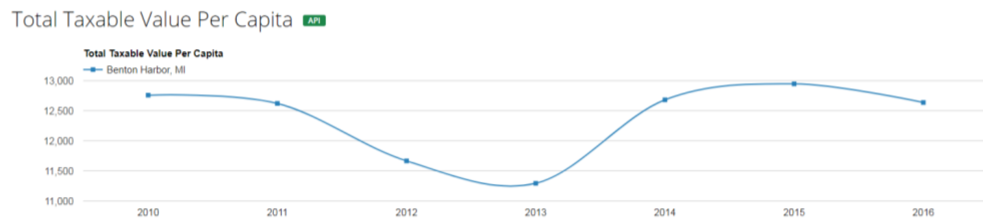

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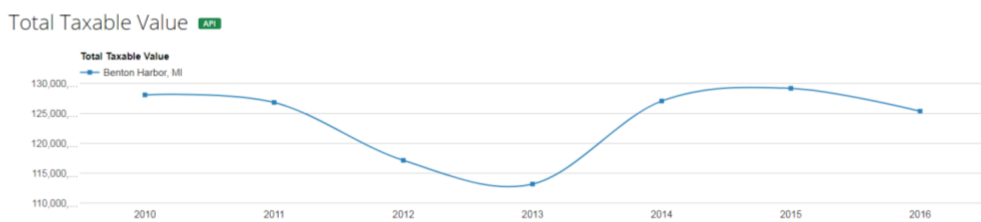

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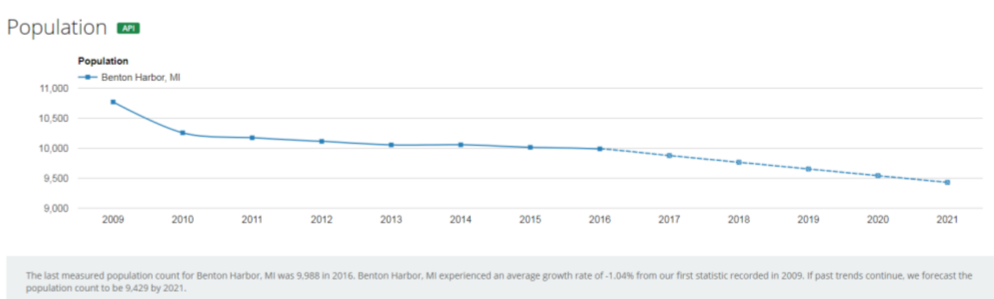

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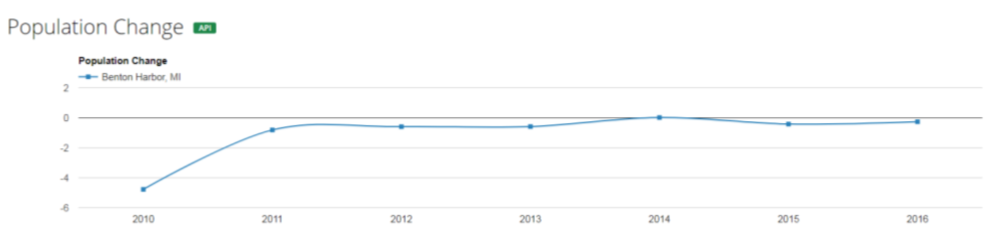
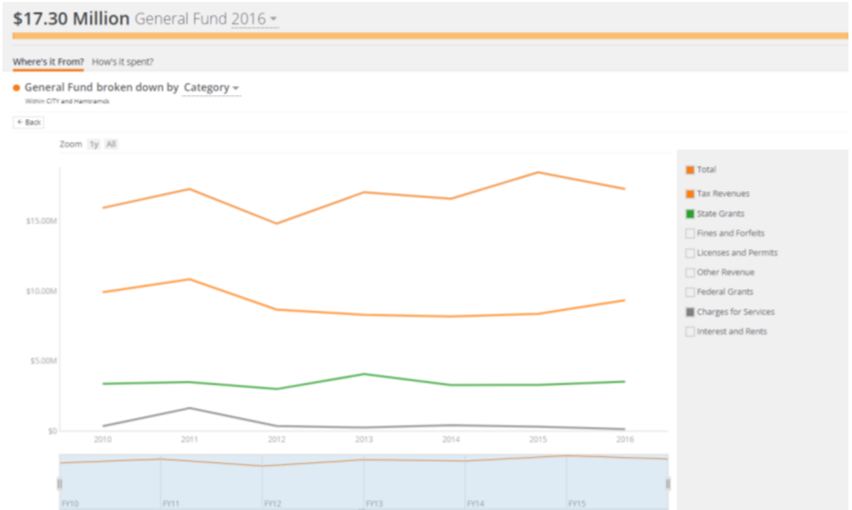
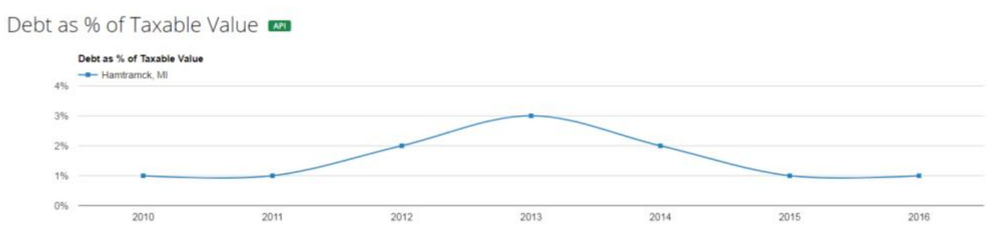


(State of Michigan, 2016l)

City of Hamtramck



(State of Michigan, 2016m)



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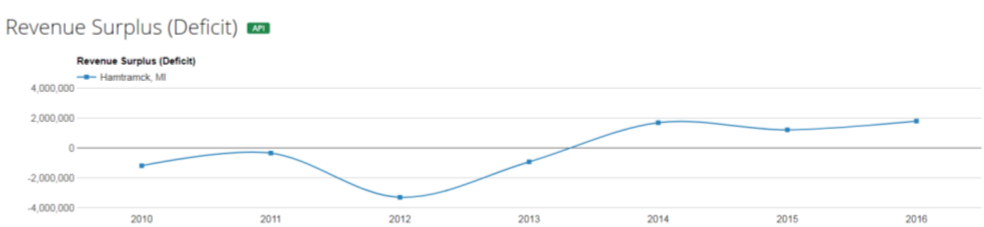

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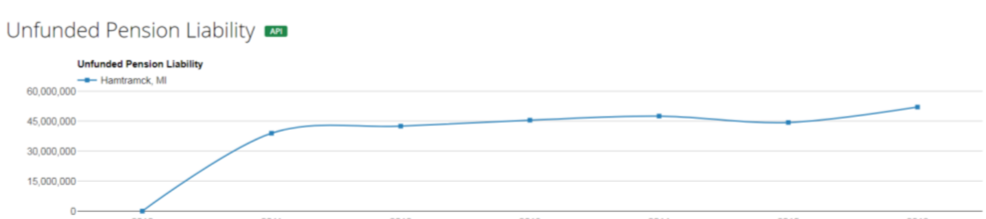

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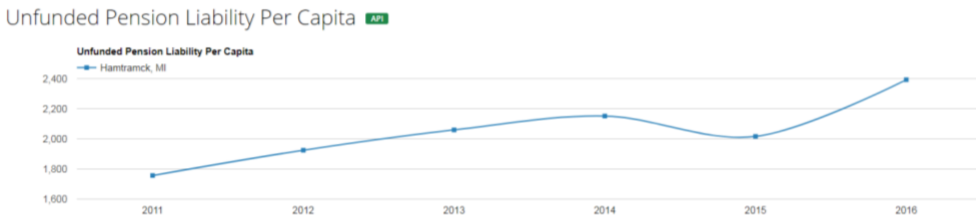

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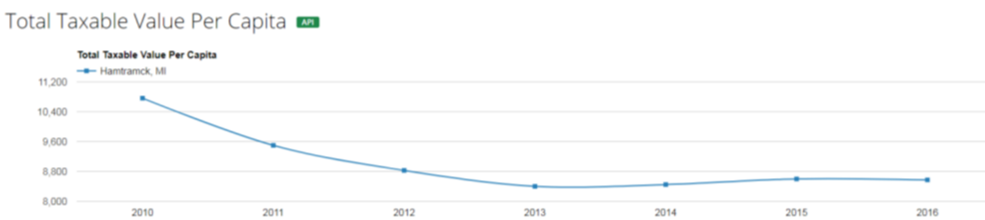
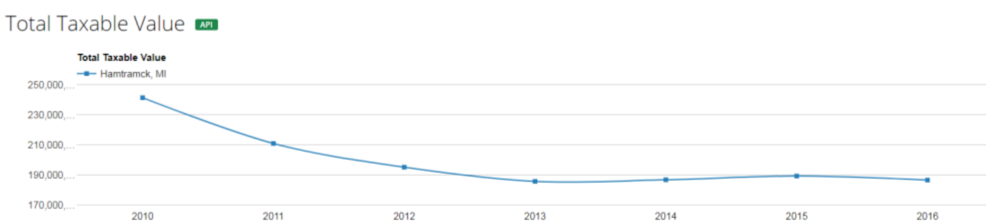


(State of Michigan, 2016q)



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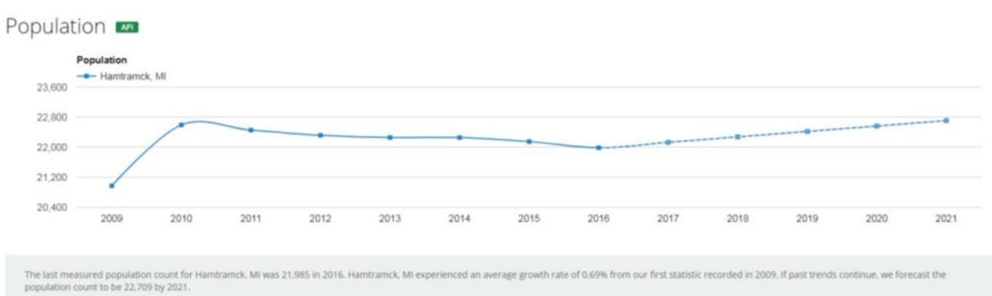
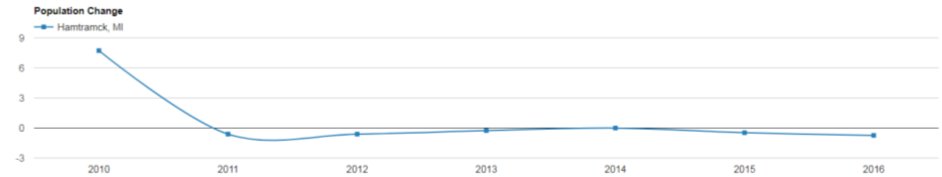


(State of Michigan, 2016r)

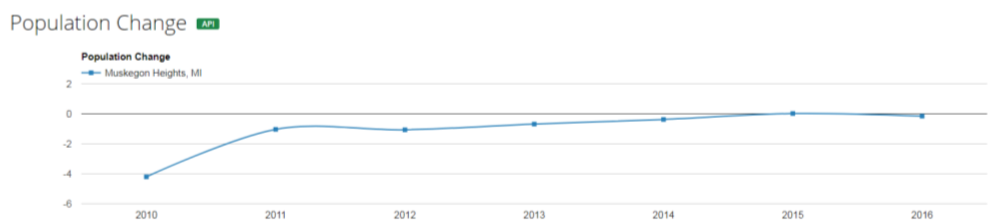
Population Change



(State of Michigan, 2016r)

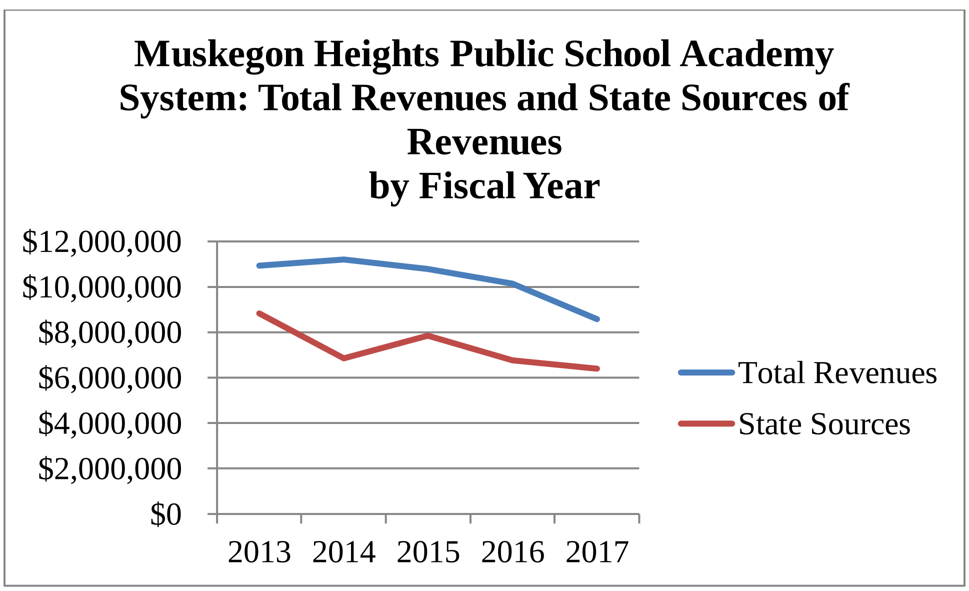
Muskegon Heights School District

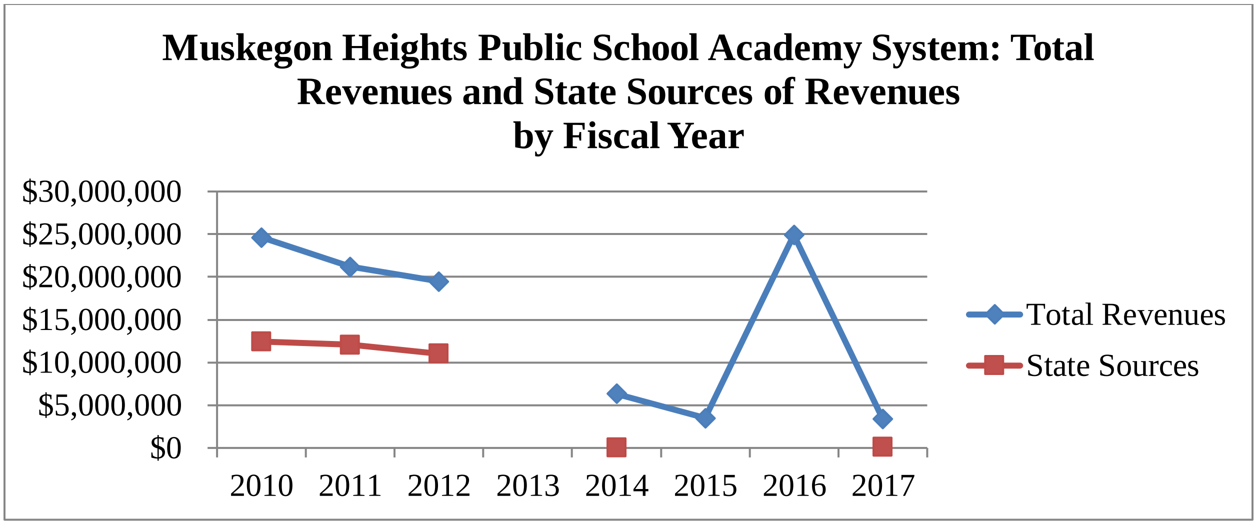
(State of Michigan, 2016s)

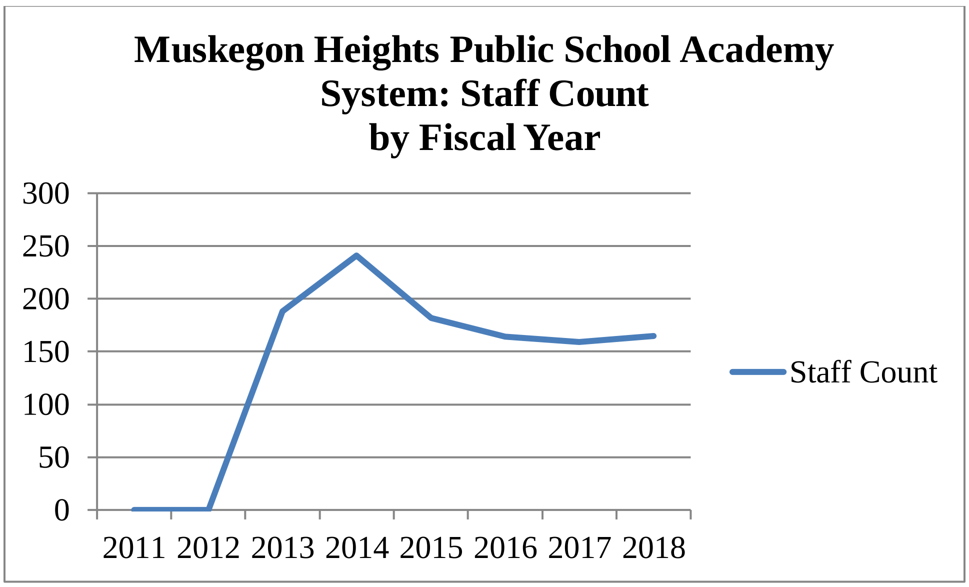


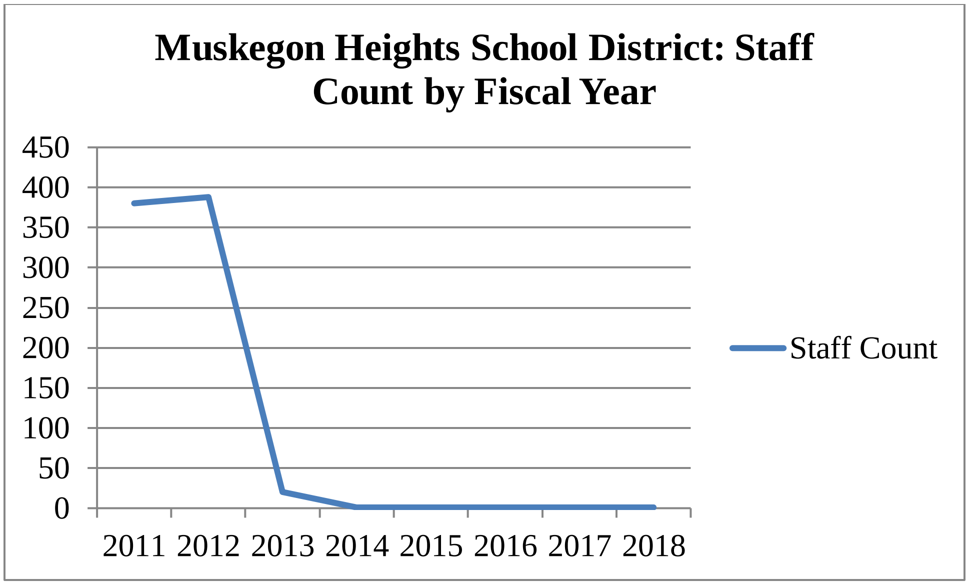
(State of Michigan, 2016s)

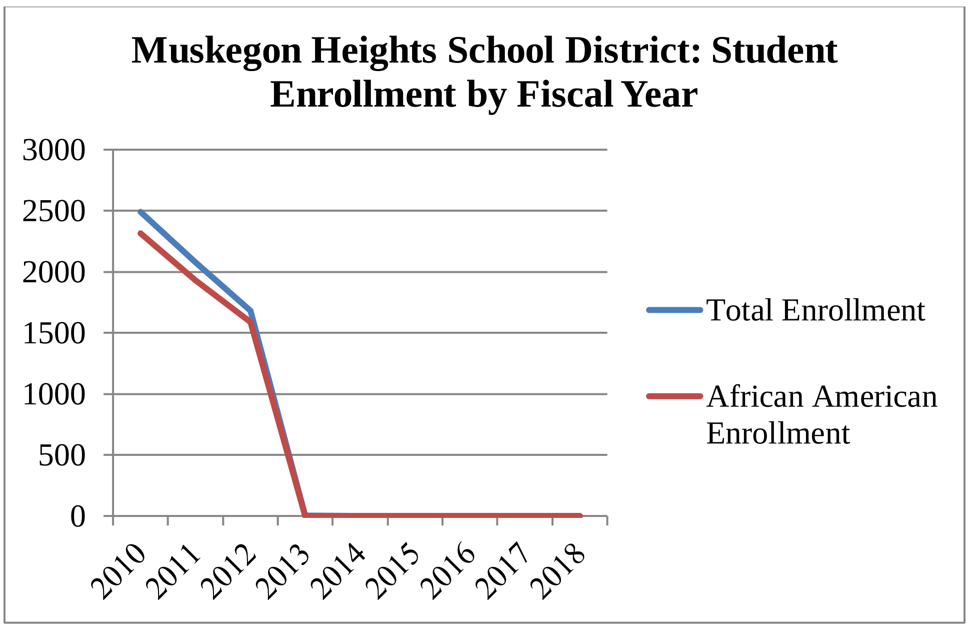
The following tables are author calculations based on data from the Michigan Department of Education (Michigan Department of Education, n.d.):

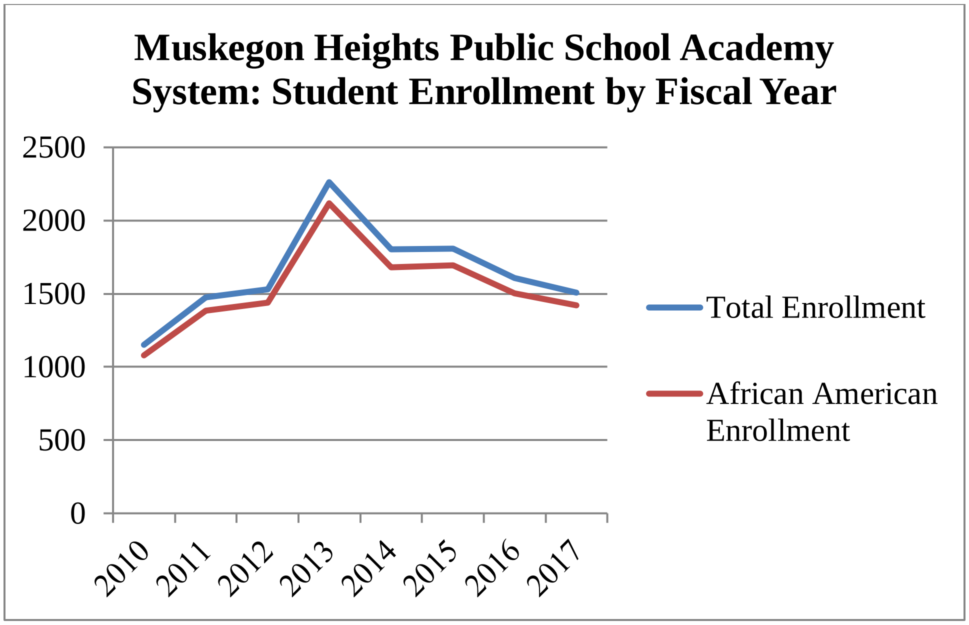



Muskegon Heights Public School Academy System: Total Revenues and State Sources of Revenues by Fiscal Year
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
2010
2011
2012
2013
2014
2015
2016
2017
Total Revenues
State Sources

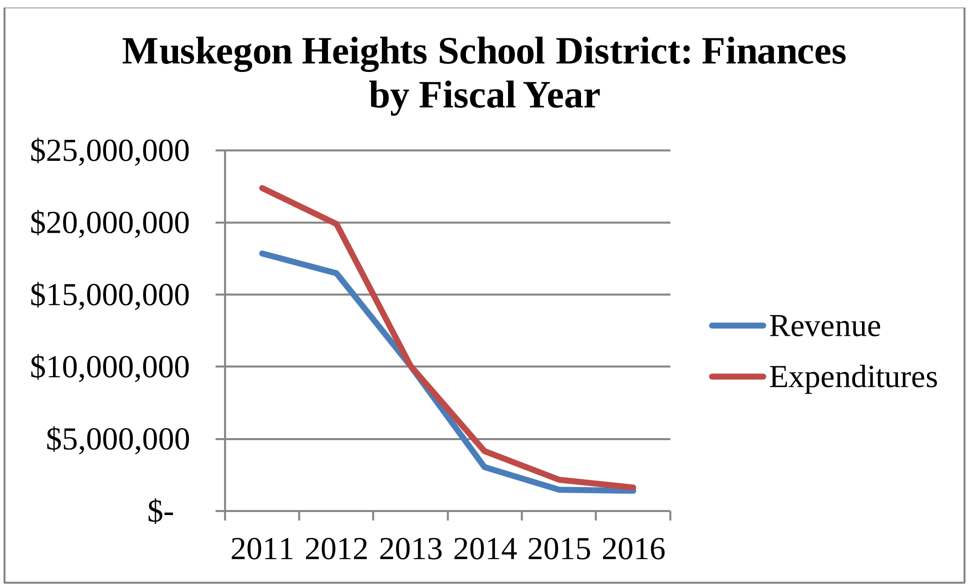

Muskegon Heights Public School Academy System: Staff Count by Fiscal Year
300
250
200
150
100
50
0
2011
2012
2013
2014
2015
2016
2017
2018
Staff Count


Muskegon Heights School District: Staff Count by Fiscal Year
450
400
350
300
250
200
150
100
50
0
2011 2012 2013 2014 2015 2016 2017 2018
Staff Count

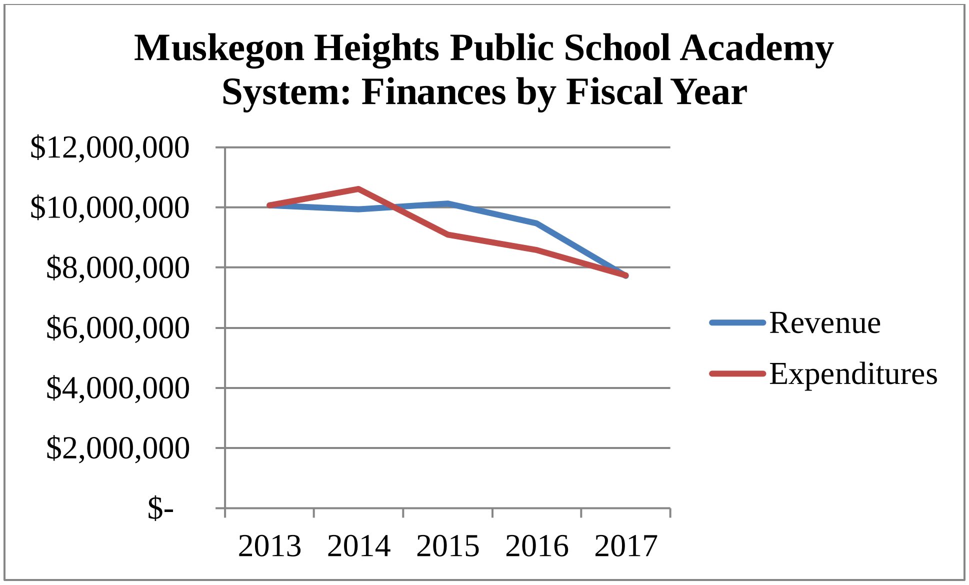

Muskegon Heights School District: Student Enrollment by Fiscal Year
3000
2500
2000
1500
1000
500
0
2010 2011 2012 2013 2014 2015 2016 2017 2018
Total Enrollment
African American Enrollment



Muskegon Heights Public School Academy System: Student Enrollment by Fiscal Year
2500
2000
1500
1000
500
0
2010
2011
2012
2013
2014
2015
2016
2017
Total Enrollment
African American Enrollment



Muskegon Heights School District: Finances by Fiscal Year
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$-
2011 2012 2013 2014 2015 2016
Revenue
Expenditures


Muskegon Heights Public School Academy System: Finances by Fiscal Year
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
2013
2014
2015
2016
2017
Revenue
Expenditures