

A Greater Detroit

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To date, research on municipal insolvency and urban decline has been focused on the population loss and deindustrialization that befell urban centers such as Cleveland, St. Louis, and Detroit. Far less attention has been paid to the far more numerous small cities that border those urban centers: Ferguson near St. Louis, East Cleveland adjacent to Cleveland, or Ecorse, Hamtramck, and Highland Park located in and around Detroit.

Ferguson (est. population 20,525)² obtained nationwide attention in 2014 after Michael Brown, an 18-year-old unarmed black man, was killed by Darren Wilson, a white police officer. The protest that followed helped uncover racial discrimination in the city's criminal justice system and a pernicious financial dependence on fines and traffic tickets levied on its poor citizens.³ Later, in 2020, under the auspices of a 2016 consent decree between the city and U.S. Justice Department, interim City Manager Jeffrey Blume told U.S. District Judge Catherine Perry that the city was financially troubled. Threatened by lawsuits, the consequences of projected population loss in the 2020 Census, and the cost to reform its Police Department, the city would need to "seriously consider dissolution," said Blume.⁴

In 2016, Mayor Gary Norton of East Cleveland (est. population 16,964) requested the state permit the city to file for bankruptcy.⁵ He chronicled his city's financial and economic distress in an interview with Alexia Campbell of *The Atlantic*:

... In 1970, the population of East Cleveland was 40,000. The number of people working was 20,000. The average household income in today's dollars was \$50,000. Now, I am going to give you that same set of

*numbers today. The population is 17,000, the number of people working is 5,000, and the average household income is \$20,000. Just that set of numbers tells the story.*⁶

Like Ferguson and East Cleveland, the cities of Ecorse, Hamtramck and Highland Park are financially and economically distressed. This paper focuses on Ecorse, Hamtramck, and Highland Park to achieve two ends: first, to make the case that these three small cities specifically, and others like them across the country, should be dissolved and consolidated into nearby urban centers and, second, to demonstrate the inadequacy of state receivership and Chapter 9 bankruptcy as responses to the financial and economic distress suffered by these small cities.

For this paper, "urban centers" are the densely populated nucleus or nuclei of metropolitan statistical areas (called "central cities" by the U.S. Census Bureau). A metropolitan statistical area (metropolitan area or MSA, for short) is the measurement standard used by the Federal Government, namely the Census Bureau, to define areas of the country:

*...associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.*⁷

The Detroit-Warren-Dearborn, MI MSA (i.e., Detroit metropolitan area), for example, consists of six counties and those counties' 212 constituent municipalities for which Detroit, Warren, and Dearborn are the urban centers. As noted, the focus of this paper is not on the nuclei of these urban centers, but rather the focus is on the many small cities that in some cases suffer unnoticed around them.

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² U.S. Census Bureau. 2020. "Ferguson, Missouri."

³ Johnson, Walter. 2015. "Ferguson's Fortune 500 Company." *The Atlantic*, April 26, 2015.

⁴ Salter, Jim. 2020. "Money woes could lead to dissolution, Ferguson leaders say." *The Associated Press*, January 8, 2020.

⁵ Chapter 9 of the U.S. Bankruptcy Code affords insolvent municipalities the power to break contracts with bondholders, labor unions and pensioners, and to otherwise restructure debts.

⁶ Fernandez Campbell, Alexia. 2016. "A Suburb on the Brink of Bankruptcy." *The Atlantic*, June 8, 2016.

⁷ U.S. Office of Management and Budget. 2000. "Federal Register: Standards for Defining Metropolitan and Micropolitan Statistical Areas."

Ecorse, Hamtramck, and Highland Park

Between 1986 (when Ecorse was taken over by court order) and 2020, a 35-year time span, the three small cities have spent a collective 29 years under state control: Ecorse (10 years), Hamtramck (10 years), and Highland Park (9 years).

Ecorse (est. population 9,570) last had its democracy cancelled in 2009 after the state Treasurer reported to Governor Jennifer Granholm that the city was financially distressed.⁸ From FY 2003 to FY 2009, the city ran a deficit (when expenditures exceed revenues) in FY 2005, FY 2006, FY 2007, FY 2008, and FY 2009 (FY 2003 is the earliest period for which audited financial statements are available). The city transferred money between accounts (or “funds”) to maintain a veneer of financial stability. For example, the city transferred money allocated for road construction and maintenance to an account for basic operations. Money derived from a special assessment to make pension fund contributions was also redirected to basic operations.

The account balance of the General Fund (i.e., fund equity—short-term assets minus short-term liabilities—the public sector equivalent of net worth) fell below zero between FY 2005 and FY 2009.⁹

Governor Granholm’s response to the city’s insolvency was to appoint Joyce Parker, a former city administrator, as state receiver or “emergency manager” (2009–2013).¹⁰ Prior to its second time in state receivership (2013–2014), the state Treasurer reported on Hamtramck’s (est. population 21,599) financial distress to Governor Snyder (Governor Granholm’s successor). The state Treasurer found that in FY 2012 and FY 2013 the city appropriated money in violation of state law. Between FY 2003 and FY 2013, the city ran deficits in FY 2004, FY 2005, FY 2010, FY 2011, and FY 2012. The city’s General Fund balance fell below zero in FY 2004, FY 2005, and FY 2012. Additionally, the assets of its pension funds diminished as the city delayed required contributions.¹¹

Governor Snyder appointed Cathy Square, a former city administrator (who from 2003 to 2004 served as the city’s superintendent of the Public Works Department) as state

receiver (2013–2014).¹²

Highland Park (est. population 10,775) may have been in the worst condition of all three small cities. In 2014, the state Treasurer reported to Governor Snyder that the city had run deficits and let its General Fund balance fall below zero. Between FY 2004 and FY 2014, the city ran deficits in FY 2005, FY 2009, FY 2010, and FY 2013, and let its General Fund balance fall and stay below zero between FY 2003 and FY 2007, and once more in FY 2010. Like Ecorse and Hamtramck, Highland Park improperly transferred money between accounts. The city skipped pension fund contributions some years, and in the years in which it did make pension fund contributions, they were made from bond proceeds. The city traded one liability for another: money owed to retirees was swapped for money owed to bondholders.

Highland Park avoided a state takeover, however. Public Act 436, enacted in 2012, allowed the city to mediate with creditors instead. In the absence of Public Act 436, the city’s residents would have had their local democracy temporarily cancelled as it was for the previous decade (2001–2009).

In each case, the state takeover resolved the respective city’s immediate insolvency, at least temporarily. But troublesome indicators are not hard to find. Ecorse ran deficits in FY 2015 and FY 2016. Hamtramck and Highland Park have been able to reduce their indebtedness since receivership, but both ran deficits in FY 2019 (the latest fiscal year for which audited financial statements are available). Moreover, state receivers often laid off staff and contracted out services to save money. As a result, an ability to pay debts as they became due came at the cost of an ability to provide robust services.¹³

Bankruptcy and Civic Assets

Rather than be dissolved like an uneconomic business, Ecorse, Hamtramck, and Highland Park will be taken over—for the second, third or fourth time—when they inevitably tumble back into insolvency.¹⁴ And state receivership may once more prove able to mend those cities’ balance sheets in the short-term. However, the state will have provided no answer for the

⁸ U.S. Census Bureau. 2020. “Ecorse, Michigan.”

⁹ State of Michigan, Department of Treasury. 2009. “Report of the Ecorse Financial Review Team.”

¹⁰ Local Emergency Financial Assistance Loan Board. 2016. “Emergency Financial Manager/Emergency Manager Appointment History.”

¹¹ State of Michigan, Department of Treasury. 2013. “Report of the Hamtramck Financial Review Team.”

¹² Local Emergency Financial Assistance Loan Board. 2016.

“Emergency Financial Manager/Emergency Manager Appointment History.”

¹³ Clark, Anna Fountain and Gorina, Evgenia. 2017. “Emergency Financial Management in Small Michigan Cities: Short-Term Fix or Long-Term Sustainability?” *Public Administration Quarterly*, vol. 41: 532–568.

¹⁴ Anderson, Michelle Wilde. 2011. “Democratic Dissolution: Radical Experimentation in State Takeovers of Local Governments.” *Fordham Urban Law Journal*, vol. 39: 577–623.

economic distress those cities suffer from.

Likewise, bankruptcy does not provide a solution to those cities' economic distress. Why? Because as Mayor Norton said in his interview on East Cleveland, "Bankruptcy is a cost-side solution...designed for debt-laden, future obligation-laden organizations and institutions."¹⁵ For that reason, it is as inappropriate a response to East Cleveland's insolvency as it is to the insolvencies of Ecorse, Hamtramck, and Highland Park. (Hamtramck requested permission to file for bankruptcy in 2010—a request denied by Governor Granholm).¹⁶ Chapter 9 of the Bankruptcy Code does not expand a city's boundaries (i.e., expand a city's tax base), alter its land use policies (i.e., alter its economic policies), nor does it affect almost any other aspect of a city's economic condition. At best, bankruptcy can reduce debt. Ideally, the municipal debtor discharges its obligations and receives a "fresh start," free to redirect money that would have been spent on debt payments to make public improvements.

There is an obvious question that arises from this: if Detroit went bankrupt in 2013, how is it any likelier to recover than Ecorse, Hamtramck, and Highland Park? The answer: civic assets. Detroit's revival is unfinished and has been uneven across its 142.9 square miles.¹⁷ The city, however, has used its civic assets to foment a measurable—if still unsteady—recovery. Here, civic assets are not about physical property owned by the city (yet not exclusive of it either), rather civic assets refer to colleges and universities, tourist attractions, art and cultural institutions, hospitals, and company headquarters—factors that differentiate cities from one another and are likely to create perceptible if not perfectly measurable positive externalities accrued based on proximity.

The Detroit Institute of Arts draws in hundreds of thousands of visitors a year. General Motors's headquarters, the Renaissance Center, means a concentration of business and industrial talent. Wayne State University educates 25,000 students a year.¹⁸ Civic assets expose the city to potential residents and can be reasonably understood to influence people's decision to move in (or stay). Additionally, collaborations between those at the helm of these civic assets and local elected officials can foster a rich civic culture.

Consider an observation made by Alexia Campbell in her interview with Mayor Norton. "Cleveland," like Detroit, has made "a bit of a comeback," she noted. "Why not East Cleveland?" Good question. Why not East Cleveland? Why not Ferguson? Why not Ecorse, Hamtramck, and Highland Park? In his response, the Mayor emphasized civic assets, much the same as this article:

Cleveland is big. It has all of the assets and income-generating centers that a big city has. Think about the tall office buildings and types of businesses that operate in those buildings. Law firms, professional services, professional sports teams, airports, all those things. Each one of those high-rise buildings generates millions of dollars in tax revenue for Cleveland. It is diverse enough to weather the storm of a tough economy, even a tough 50 years.

A smaller place can do very, very well if the right elements are within its borders, or it can do very, very poorly if the right elements leave. The right elements left our borders, and without all the assets that a big city has, without the diversification, that is a bad situation...

Cleveland survives. East Cleveland dies, an unofficial death, where the body, the municipal corpus, is never laid to rest.

The Mayor's response relates to another important issue: that the size of a city, both in terms of physical space and population, matters. Population loss must be measured relative to how much population there was to lose. In 1950, Detroit had a population of 1.8 million. That population shrank to under 1 million in 2000 and is expected to shrink to 670,031 in the 2020 Census. However diminished, Detroit remains a "big city," a major hub of population, commerce, trade and industry, arts, and entertainment. Detroit is the 23rd most populous city in the U.S..¹⁹

So however unfinished and uneven Detroit's recovery may appear to be, the size of the city means that it may cultivate recovery in some areas to offset decline in others. Growth, that has mostly been concentrated in the city's Downtown for example, does not redound only to those who superficially appear to be its only benefactors. Between 2014 and 2019, the commercial portion of Detroit's taxable value increased by 11 percent compared to a 44 percent decrease in the residential portion after a citywide reassessment. Yet public investments

¹⁵ Fernandez Campbell, Alexia. 2016. "A Suburb on the Brink of Bankruptcy." *The Atlantic*, June 8, 2016.

¹⁶ Davey, Monica. 2010. "Michigan Town is Left Pleating for Bankruptcy." *New York Times*, December 27, 2010.

¹⁷ Reese, Laura A., et al. 2016. "'It's safe to come, we've got lattes': Development disparities in Detroit." *Cities*, vol. 60: 367–377.

¹⁸ Wayne State University. 2020. "Wayne State at a Glance - Enrollment Headcount Quick Facts."

¹⁹ U.S. Census Bureau. 2020. "Annual Estimates of the Resident Population for Incorporated Places of 50,000 or More, Ranked by July 1, 2018 Population: April 1, 2010 to July 1, 2018 - United States - Places of 50,000+."

in residential areas have concurrently expanded (see Detroit’s Strategic Neighborhood Fund, Housing for the Future Fund and Affordable Housing Leverage Fund).²⁰

Much of what cities, states, and the Federal Government do is redistribute wealth: those who have a lot, help those who have a little. Richer citizens bear the brunt of the tax burden and receive fewer benefits compared to poorer citizens that tend to rely on public services: transportation (local bus services), economic aid (unemployment insurance, Social Security, and the earned income tax credit), health care (Medicaid and Medicare), etc. For that reason, a city’s ability to incur economic development—to provide jobs for its residents, to create sources of tax revenue to pay for public services—becomes especially important.

Detroit has the size, population and civic assets needed to incur that economic development. In 2019, for example, it was announced that Fiat Chrysler Automobile’s (FCA) idle Mack Avenue factory, which previously made V6 engines, would be retooled over the next year or so, so that it could produce a new Jeep model. The expansion represents \$2.5 billion in private investment and the city’s first new factory in decades. Estimates are that the plant will employ 4,950. Moreover, Detroit residents will have the first chance to apply for new jobs. The deal was made possible by the city’s purchase and assembly of 215 acres of land on which the new factory will be built (aided by state offered tax breaks valued at \$223.5 million).

Economic development schemes and land use coordination of this size and scale are not uncommon to major cities that have the physical space, resources, and political power to initiate them. Small cities on the other hand are physically constrained: Ecorse is 3.7 square miles,²¹ Hamtramck (2.1 square miles)²² and Highland Park (3 square miles).²³ Spatially, it is difficult to develop a downtown or other area separable from residential areas in decline. In effect, the lawful and proper boundaries of small cities often serve to isolate and concentrate poverty and low property values.

To illustrate the importance of size and civic assets, consider the near inverse of the proposal at hand: what if Detroit were broken up into small cities? The fates of these small cities would be considerably different from each other, dependent on the civic assets that they happened to capture. In the

small cities that constituted the current Downtown, their tax bases would benefit from GM’s headquarters (the Renaissance Center) and a concentration of other commercial taxpayers. In Midtown, the small cities would host Wayne State University and a major hospital. How about the areas of Detroit that have seen the least development and most decline? You could reason that these small cities would have a depressed tax base, elevated crime and be in perpetual fiscal crisis. In other words, you could describe cities that sound a lot like Ecorse, Hamtramck, and Highland Park.

A Greater Detroit

If Ecorse, Hamtramck, and Highland Park dissolved and consolidated into Detroit, the residents of these cities might understandably fear that their voices would be drowned out by the 670,031 citizens currently living in Detroit. However, while these citizens would lose political power (or at least lessen its potency), they would obtain access to more substantial resources. In 2019, Detroit collected \$1.1 billion in General Fund revenue. On a per capita basis, Detroit received \$1,672 from each of its residents. For demonstrative purposes, assume those revenues were expended equally across the citizenry. If Ecorse (\$1,434 in revenue collected per capita), Hamtramck (\$779 in revenue collected per capita) and Highland Park (\$988 in revenue collected per capita) were dissolved and consolidated into Detroit, those small cities would add 41,944 people to Detroit’s population, and still, if you held the amount of revenue collected by Detroit constant, citizens in those three small cities would have access to more substantial resources (\$1,574 in revenue collected per capita).

Losses in political power are not absolute either. Currently, Ecorse, Hamtramck, and Highland Park collectively send three state Representatives²⁴ and two state Senators²⁵ to the state Legislature. Detroit sends 10 state Representatives and five state Senators to the state Legislature. The residents of Ecorse, Hamtramck, and Highland Park would have a better chance to have their concerns on state matters (and likely federal matters too) heard and answered were they to join the Detroit bloc.

For this reason, Detroit should happily welcome the citizens of Ecorse, Hamtramck, and Highland Park to its ranks. If Ecorse, Hamtramck, and Highland Park dissolved and consolidated into Detroit, the city’s population would increase by approximately 41,944 and its political power

²⁰ Invest Detroit. 2019. “An Unprecedented Effort to Strengthen Our Neighborhoods.”

²¹ U.S. Census Bureau. 2020. “Ecorse, Michigan.”

²² U.S. Census Bureau. 2020. “Hamtramck, Michigan.”

²³ U.S. Census Bureau. 2020. “Highland Park, Michigan.”

²⁴ State of Michigan. 2020. “Michigan’s 110 House Districts.”

²⁵ State of Michigan. 2020. “Michigan’s 38 Senate Districts.”

(power often distributed in the U.S. based on population) would increase too. Of the 314 cities with populations above 100,000, Detroit is ranked 23rd—with the population boost from Ecorse, Hamtramck and Highland Park, the city would move from 23rd to 20th, past El Paso, Texas, Boston, Massachusetts, and Washington D.C. Federal and state aid is also often distributed based on population.²⁶

If the state wished to properly incentivize dissolution and consolidation, it would earmark additional resources for the entity that will receive the citizens of dissolved entities—above and beyond what would have come from the population boost alone. That policy could also answer, at least partially, any fears that these unions are a detriment to the urban center. If residents of Detroit currently have access to \$1,672 on a per capita basis, those resources would fall to \$1,574. There should be some effort by the state to lessen this effect. Additionally, the state should contribute resources to the now Greater Detroit for public improvements and require that those resources be spent in the territories that sacrificed their independence.

In the case of Ecorse, Hamtramck, and Highland Park,

dissolution and consolidation into Detroit would be to the state’s benefit and the citizens’ benefit. The state would finally have a chance to resolve these cities’ insolvencies. More importantly, the citizens in each territory would have a more reliable counterparty to the social contract.

Conclusion

Should Ecorse, Hamtramck, and Highland Park approach the brink of insolvency in the future, the State should consider responding not by canceling local democracy, but by requiring that a vote be held on dissolution and consolidation into Detroit. In turn, citizens should consider surrendering absolute control over their cities rather than suffer another state takeover. Doing so at least holds promise for reversing their economic misfortunes in ways that neither state takeover nor bankruptcy could. A Greater Detroit—a Detroit of 151.7 square miles—would have more land to coordinate land use and economic development. A Greater Detroit—a Detroit with 711,975 people—would become a more potent political force at the state and national level. A Greater Detroit—a Detroit with billions of dollars at its disposal—could better serve the needs of its citizens.

²⁶ U.S. Department of Treasury. 2020. “The CARES Act Provides

Assistance for State and Local Governments.”

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