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Mayor/Professor Ronald O. Loveridge

Center for California Studies, California State University Sacramento

Visiting Scholar Presentation: Dr. Robert Benedetti

Avoiding the Cliff: Bankruptcies in California

Panel # 1: Views from City Hall

Thank you for the invitation to participate.

I have now heard Benedetti's presentation as well as read his research paper. It is an informed, well framed, and thoughtful look at Stockton and the context of its bankruptcy.

I particularly noted his cautionary comments on the enhanced role of the mayor. The strengthening of the powers of the mayor is a reform often advocated, especially in larger cities.

As to my views from city hall, I will highlight ten quick ideas/points. They are from the perspectives of 33 years in elected office and in 2015, 50 years of teaching political science at UC Riverside. And for the record, I graduated from UOP in 1960.

One caveat--avoiding the cliff is a static metaphor. I like the quote from Robert O'Neill, ICMA's Executive Director, in the 2014 issue of the Municipal Yearbook: "The fiscal challenges gripping our federal and state governments will force local governments to fend for themselves for at least the next ten years. This decade of local government will be a time of creative destruction that will produce an unprecedented amount of innovation."

1st) The cover story by Liz Farmer for the February issue of Governing Magazine is titled, Smart Money: Do state and local leaders know enough about finance? The short answer is no. She says, "There is a big difference between what public leaders know about finance and what they need to know." She continues, "Failure to understand financial outcomes...is more dangerous to states and localities than it has ever been."

For most electeds, budget documents and balance sheets are obscure papers with arcane difficulties lurking beneath the numbers.

Most of us are not fiscal experts. And only a few of us look for best practices for fiscal planning and/or fiscal long term strategies.

2nd) How is my or your city doing? How does an elected answer the question? What measures? What tools? In my view, electeds need guidelines, a roadmap. Last initiative when I was on League of CA Cities Board of Directors in 2012. State of Washington.... Michael Coleman... Anxiety among the city managers. May soon go public? Can help in raising good questions about the potential of bankruptcy.

3rd) Pension costs and health care costs will keep rising even in the best managed cities. Over time, their impact on bankruptcies is important to study and understand. Ron Bates....sees bankruptcy as much more likely for cities in the future. These two costs will surely act as pacman for city employees and services.

4th) Public safety is the big cost for cities--percentage in most cities is around 2/3 of the general fund. In San Bernardino, it is close to 80 percent. Over time, this percentage continues to increase. Ted Gaebler said when he started in city management, the percentage was closer to 1/3. Noteworthy, public safety unions play a major role in local campaigns--money, manpower, and symbols. Electeds agree that a good city must be a safe city.

5th) Shared governance is critical, complicated, and difficult. Yam Tang who studied local bankruptcies concluded, "The interactive dynamics between elected officials and senior appointed staff are always the key." Or explained differently, "A good relationship between the top administrator and the elected officials is critical for effective governance." Shared governance is particularly important on budget matters. Expertise must be combined with political choices.

Also, research suggests that public engagement may be important. That is, a participatory and collaborative budget process may lessen the likelihood of bankruptcy.

6th) Poor cities are more likely to face the potential of bankruptcy. To wit, San Bernardino and Desert Hot Springs. The risks of bankruptcy go beyond failed decision making and surely increase for poor cities. SES matters. Low household income and low talent dividend make fiscal success more difficult.

7th) Where has Mayor Brown gone? Cities are the wealth of nations. They are where we live, work, play, and visit. Cities should be on the agenda of the Governor, and especially their financing.

Examples--first, redevelopment is closed down. Five billion dollars in local economic development has ended, including funding for affordable housing. Second, AB 109 is a major initiative, redefining the work of state and local enforcement, yet cities are not at the table, Third, the governor has focused major funding reforms on poor schools. Yet, school performance closely follows zip codes. The arguments for helping poor schools are the same for helping poor communities. Fourth, the Governor has invested little time or funding to help high crime cities. Why not a COP's program for a limited number of cities in CA? And fifth, San Bernardino is the poster child for bankruptcy in Inland Southern CA. Yet the Governor has made no contact with the City.

8th) Beyond the Governor, what role should the State play in city bankruptcy? For example, the New York Controller has established a Fiscal Stress Monitoring System; it is designed to stave off drastic measures such as control boards or bankruptcy. In CA, the State role is quite different between cities and school districts. This question deserves some attention.

9th) Cities need development tools. How to increase revenues? How to be prosperous? How to compete with cities outside of CA? Place making is important.

10th) Cities differ. Causes of bankruptcy differ. Contrast Riverside with San Bernardino--less than ten miles apart. Riverside has a balanced budget with a 15 percent reserve and San Bernardino is in bankruptcy. Besides good leadership, the two cities have a different kind of economy, different kind of politics, different kind of SES, different sources of revenue, and different kinds of civic infrastructure/social capital.

In summary, my view from city hall centers on ten points: 1) Lack of fiscal fluency; 2) Need for a diagnostic tool; 3) Rising health benefits and pension costs; 4) High public safety costs; 5) Difficulty of shared governance; 6) Some cities are poor; 7) Where has Mayor Brown gone?; 8) What role the State?; 9) Cities need place making tools. And 10) Cities differ. Causes of bankruptcy differ.

Thanks for your attention. I look forward to our conversations and the Q &A.