Community Development in Lean Fiscal Times

Policy Note prepared by Tony LoPresti

ISSUE

The current recession has fallen hard on local governments, because their revenue base relies heavily on real estate maintaining or increasing its value, spurring local governments to take new approaches to maintaining their fiscal health.

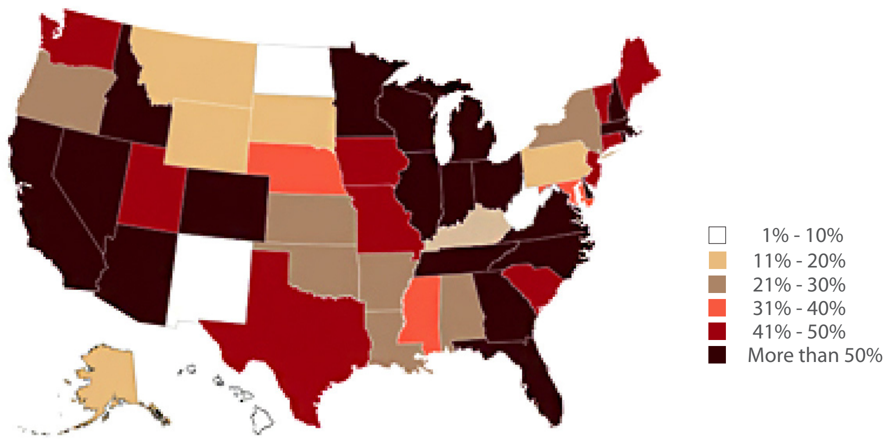

Figure 1. Percentage Increase in Number of Nonseasonal Vacancies by State Between 2000 and 2010. More than half the states have seen property vacancies rise by 40% or more between 2000 and 2010.
Source: Government Accountability Office

FINDINGS FROM THE PANEL

Dan Kildee described what occurred when properties became vacant in Genesee County, Michigan, where he is Treasurer. Local government faced increased costs for services, while owners of land near the vacant properties experienced declines in their own land values. Under the typical foreclosure method, abandoned properties were sold, often to speculators, for pennies on the dollar. This process privatized the profits while socializing the costs.

Michelle Wilde Anderson explained a trend in capping or reducing local government services. This has been accomplished through state initiatives in many instances. Many municipalities are engaging in an extreme form of privatization that includes broad outsourcing of most public functions, which results in the downsizing of city staff and heavy and potentially irreversible reliance on the private sector for services.

Dissolution, once reserved for ghost towns, is being employed by municipalities to terminate their incorporated status and revert to dependence on county governance. In the last 10 years there have been three times as many dissolutions as in the entire 20th Century. Changes in state receivership laws that govern municipalities are making it easier to declare fiscal emergency—literally locking out the mayor and council and appointing a manager to assume operations. In Michigan, receivership allows the state to modify or terminate collective bargaining agreements, suspend future collective bargaining for up to five years, and approve any new collective bargaining agreement.

California Senator Mark Desaulnier explained that one of the principal challenges to economic recovery is whether elected politicians have the authority and will to institute new systems and strategies to address expanding needs while budgets shrink.

RECOMMENDATIONS

Land banks are a proven strategy for reclaiming and redeploying vacant and foreclosed properties to protect land values and facilitate community development, Kildee explained, describing his experience as Genesee County Land Bank Chairman. The land bank borrows money to become the lien holder, foreclosing on those who don't pay and helping owners who need additional time, creating a self-financing system.

This process in turn restores land values to property owners and governments. In one instance a $3.5 million investment in 400 land bank properties restored more than $112 million in value. Further, targeted investments in properties that the market would not find attractive have supported community revitalization efforts. The restoration of an aging hotel in Flint provided the underpinning for a broad downtown redevelopment process that has included construction of 1,200 new residential units.

Figure 2. Downtown Seneca Falls, NY, which voted for dissolution.
Photo credit: Seneca Falls Historical Society

The land bank's success has hinged on the adaptability of government. Then-Michigan Governor Jennifer Granholm (who was the conference's keynote speaker) and state legislators backed key reforms to make land banks feasible. For instance, state brownfield law was changed to make land bank property brownfield eligible, allowing for the collection of tax increment financing. Just as important, local government officials had to abolish the tax foreclosure sale system.

The drastic measures that some governments are taking could harm long-term prospects for recovery. Dissolution has far-reaching reverberations, including staff layoffs, nullification of the municipal code, termination or reassignment of a broad range of city services, and restructuring of all assets, debts, and contracts. Some reforms are animated by anti-government sentiment and others by a sense that local government has become too fragmented. Whatever the motivation, the stakes are high. Anderson cautioned that reforms of this drastic a nature could have a long-term impact on the role of local government.

Governments must abandon obsolete systems for those that increase efficiency and value. In California, Desaulnier said, a more efficient and better coordinated economic development program must be devised after the elimination in February 2012 of the 400-plus redevelopment agencies with $5.8 billion in tax income.

PARTICIPANTS

Presenters

Dan Kildee, Treasurer and Chairman Genesee County Land Bank, President of Center for Community Progress

Michelle Wilde Anderson, Assistant Professor of Law, Berkeley Law

California Senator Mark Desaulnier, Chair of the Transportation and Housing Committee

Moderator

John Ellwood, Professor, Goldman School of Public Policy

This is a Policy Note from the first panel in the second conference, "Sustainable Economic Development Strategies in Lean Fiscal Times," in the Sustainable Cities series held in 2011-2012 at UC Berkeley, organized by Berkeley Law, the College of Environmental Design, the Institute of Urban and Regional Development, the University of California Transportation Center, and the Berkeley Program on Housing and Urban Policy. The Ted and Doris Lee Fund sponsored the series.