OUT OF CONTROL?
LOCAL DEMOCRACY FAILURE AND FISCAL CONTROL BOARDS

by

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B.S.E., Civil Engineering with Architecture
Princeton University, 2001

Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements for the degree of
Doctor of Philosophy in Urban Political Economy and Governance

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ABSTRACT

The nation’s current recession has strained the finances of local governments such that
many cities with already delicate budgets have plunged into fiscal crisis. This dissertation
examines three causes of fiscal crisis – a local government’s dependence on the market,
majoritarian tyranny within federalism, and local democracy failure. Since New York City’s
highly publicized board in 1975, 119 municipalities of all sizes have been assigned control
boards, in which a state appointed team oversees the budgetary decisions of a municipality in
fiscal emergency. This study analyzes how control boards address each cause of fiscal crisis.

This research builds on the fiscal crisis literature to measure the fiscal impact of control
boards. Evidence suggests that boards were implemented in most large cities with fiscal crisis
and that those cities recover. However, crisis cities without control boards also improve.
Regressions indicate that control boards in municipalities with populations below 25,000 are less
successful. The control boards are not assigned to municipalities that most need intervention, and
they do not improve fiscal outcomes more than similar cities.

This dissertation explores the governance implications of control boards through a
framework developed about International Monetary Fund stabilization teams. The literature
suggests these institutions can bring technical expertise to ill-equipped governments; offer
credibility to governments needing access to resources; and provide a scapegoat for unpopular
policies. Conversely, disadvantages include diminished sovereignty; power to external political
actors; favorable concessions to the private market; and uncertain benefits.

Case studies of Miami and Washington, DC between 1995 and 2001 highlight the fiscal
and local democracy benefits of control boards as well as their risk of exacerbating an
intergovernmental political imbalance. State and local leaders set a cooperative tone in Miami
that increased local buy-in and bolstered long-term success. The credibility of DC’s board
helped the city obtain resources from Congress, but the real and perceived threat to local
democracy was much stronger in the District than Miami and exacerbated by the control board’s
expansive powers. Thus, controversy throughout DC’s control board era distracted from the
board’s goals and reduced its long-term impact.

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Title: Associate Professor of Urban Politics
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# Table of Contents

Abstract
Acknowledgments
List of Tables
List of Figures

## SECTION I. INTRODUCTION

Chapter 1. The Presence of Failure

## SECTION II. FISCAL IMPACT

Chapter 2. The Control Board Landscape: A Context of Urban Fiscal Stress
Chapter 3. Assessing the Popular Triumph of Large City Control Boards
Chapter 4. Size Matters: Outcomes of Control Boards in Small Municipalities

## SECTION III. GOVERNANCE IMPACT

Chapter 5. Governance Lessons from the IMF
Chapter 6. From Chaos to Control: Miami’s Oversight Board
Chapter 7. Fighting for Control: District of Columbia’s Control Board
Chapter 8. A Tale of Two Cities: Comparing Miami and Washington, DC

## SECTION IV. CONCLUSION

Chapter 9. Policy and Research Implications

Appendix I. Fiscal Methodology
Appendix II. Governance Methodology
References
LIST OF TABLES

Table 1-1. Linking Management Outcomes and Political Institutions ...................................... 26
Table 1-2. Control Board Municipalities since 1975 ................................................................. 29
Table 3-1. Largest Cities: Fiscal Attributes ............................................................................. 71
Table 3-2. Largest Cities: Socioeconomic Characteristics ....................................................... 72
Table 3-3. Largest Cities: State Attributes and Policies .......................................................... 74
Table 3-4. Largest Cities: Recovery from Crisis ....................................................................... 75
Table 4-1. Rates of crisis by type of solution for cities with a population <= 25,000 ................. 92
Table 4-2. Probit regression of fiscal crisis .............................................................................. 93
Table 4-3. Rare events logit regression of control board implementation ............................... 97
Table 4-4. Regression analysis of control board impact on fiscal health ................................. 101
Table 4-5. Regression analysis of control board impact on expenditures ............................... 103
Table 6-1. Miami Timeline of Fiscal Crisis ............................................................................. 144
Table 6-2. Budget Summary for Miami, Florida at the Discovery of Fiscal Crisis .................... 145
Table 6-3. Budget Summary for Miami, Florida at the Conclusion of the Oversight Board .... 158
Table 7-1. Summary of District Budget in 1990, 1995, and 2001 ........................................... 188
Table 7-2. Timeline of the District’s Fiscal Crisis and Control Board .................................... 196
Table 7-3. Local Reaction to the Control Board ...................................................................... 236
Table A1-1. Fiscal Variables ..................................................................................................... 304
Table A1-2. Correlation between Kloha et al’s fiscal stress index and fiscal crisis ................ 309
Table A2-1. List of Interviewees ............................................................................................... 320
Table A2-2. Interview Questions ............................................................................................. 321

LIST OF FIGURES

Figure 6-1. Revenue Proposals by Merrett Stierheim ............................................................. 150
Figure 6-2. Mayor Xavier Suarez ............................................................................................ 170
Figure 6-3. Fire Fee Opposition .............................................................................................. 171
Figure 6-4. Sample Referendum Ballot .................................................................................. 175
Figure 7-1. CFO Anthony Williams and Mayor Marion Barry ............................................. 232
Figure 7-2. Reverend Willie Wilson Leads Protests against the Control Board .................... 243
Figure 7-3. Protests outside the Capitol in response to the Public School Takeover ............... 246
Figure 7-4. Letter Campaign Opposing DC General Closure, Copied to the Control Board .... 250
Figure 7-5. Residents Contact the Control Board about Policy and Personal Issues ............. 254
SECTION I.

INTRODUCTION
The Presence of Failure
Moody’s Investors Service assigned a negative outlook to the creditworthiness of all local governments in the United States… the first time it had ever issued such a blanket report on municipalities. The report signaled how severely the economic downturn was affecting towns, counties and school districts across the nation. (Walsh, 2009)

“While everyone understands we [Worcester, MA] are in a fiscal crisis, this decision [to layoff five public health nurses] places hundreds, if not thousands, of our residents at risk for harm and leaves the most vulnerable in our city stranded without necessary care,” said Anne Cappabianca, chairwoman of the bargaining unit of the Massachusetts Nurses Association. (Kotsopoulos, 2009)

The nation’s current recession has strained the finances of not only individuals and businesses but also local governments. Many cities with already delicate budgets have been plunged into fiscal crisis. In fact, the executive director of the Massachusetts Municipal Association identifies this as the worst fiscal crisis for local governments in over 25 years (Thompson, 2009). Moreover, fiscal crisis will become a reality for many more local governments and their residents in the near future as cities face rising pension and healthcare costs for public employees and revenue losses related to the housing market. Newspaper coverage chronicles the efforts of cities throughout the country to retain solvency – including the major cities of San Francisco, Milwaukee, and Philadelphia and smaller cities such as Fitchburg, Massachusetts, Hartland, Maine, and Clifton, New Jersey. In an effort to reduce growing budget gaps while seeking to protect public services for vulnerable populations, cities have pursued police cutbacks, union concessions, city worker furloughs and layoffs, and reduced hours for city hall (Bruun & Owen, 2009; Epstein, 2009; Lagos, 2009; Monroe, 2009; Sutner, 2009; Yoo, 2009). Similar stories of fiscal crisis are echoed at the state level, with the most publicity on
California. These states are adding to the local burden by reducing aid to cities and cutting services that cities may now have to supply.

Analyses of past local fiscal crises reveal the broader public consequences of fiscal insolvency. State level public service changes spurred by fiscal crisis include prison closures, cuts to state universities, and reductions in Medicaid and TANF eligibility (Krane, 2003). Cities must also cut services not only because of lower revenue but also an increased cost of public service provision: Fiscal stress, particularly when coinciding at the local and state levels, raises the cost of borrowing (Benson, Marks, & Raman, 1988). Many resulting cuts compound into greater troubles for residents. In response to fiscal strain combined with property tax constraints imposed by the state, cities greatly decrease school expenditures, which in turn lowers local property values (Bradbury, Mayer, & Case, 2001). Studies of New York and Boston link arson to fiscal stress, and they find even greater rates when shuttered fire stations can no longer fight the fires (Brady, 1982; Gaffney, Lucas, & Miller, 1981). During a period of an accelerated spread of often drug-related diseases, New York City’s fiscal crisis led to the closure of district, youth, and Tuberculosis (TB) health centers; reductions in drug treatment programs; and personnel and narcotics cuts for the police department. While the measures saved $9.9 billion in city spending between 1976 and 1983, they have since cost between $54 and $160 billion in direct, and indirect expenses associated with a TB, HIV, and homicide syndemic (Freudenberg, Fahs, Galea, & Greenberg, 2006). Thus, short-term fiscal crises lower the long-term quality of life for local residents.

Understanding fiscal crisis will benefit local governments beyond the current recession. Just as waves of crisis have occurred throughout American history, troubles are likely to recur. Fiscal crisis both harms public service provision and emanates from a particular political context.
This dissertation explains fiscal crisis as a product of multiple failures, both economic and political; examines what fiscal control boards, a particular solution to fiscal crisis, imply about the causes of crisis; and analyzes both the fiscal and governance impacts of implementing that solution. In particular, control boards are analyzed from a framework of failure in local governments that occurs because of 1) untenable political conditions set by larger scales of government; 2) the government’s necessary interaction with the market; and 3) failures of the local government itself. Each of these causes is defined more fully below.

**Theories of Government Failure**

Fiscal crisis occurs when a local government insufficiency provides the good of fiscal solvency. Park (2004) argues that municipal bankruptcy sometimes results from temporary shocks that will resolve without intervention, but other times marks underlying structural failure. McConnell and Picker (1993, pp. 472-473) more strongly link insolvency to government failure, describing fiscal crisis as when “democratic decision making has proved incapable of making ends meet.” This view suggests that the inability to provide the particular good of fiscal solvency is a case of local democracy failure that parallels market failure. Political scientists have sought to provide theories of government failure that articulate the conditions under which democratic decision making cannot provide necessary public goods. However, the literature provides an underdeveloped theory of government failure that is overly rooted in theories of market failure.

Economists broadly agree on a standardized definition of market failure in which a certain set of conditions causes the inefficient over- or under-provision of a good at the societal level. First, externalities or spillover effects exist when an actor not included in the market
transaction benefits or suffers from the exchange, and so the market fails to measure a good’s true social cost. Second, a properly functioning free market does not sufficiently provide non-excludable and non-rival goods. Third, a monopoly firm makes competition imperfect and captures additional benefit to the detriment of society. Last, asymmetrical information on the part of either the buyer or seller skews the market by disguising costs of a market transaction.

Market failure illuminates not only the role of capitalism but also the government, because the inadequacies of the market provide the justification for non-market institutions such as political systems to intervene in the provision or regulation of particular goods. In fact, Weimer and Vining (as qtd in Park, 2004) argue that the government has not an opportunity but a responsibility to intervene when the market fails. While the role of the market does not reciprocally spring from government failure, the market realm is defined in relation to the government in that a strong market minimizes concern for too much state power (Friedman, 1962; Adam Smith, 1776; von Hayek, 1960).

The literature has not examined government failure equivalently to market failure. Many of the questions posed by the economic literature, however, could be extended to politics. Does a parallel set of conditions create local democracy failure within a larger successful system of democracy, just as market failure exists within a broadly functioning market? What are the expected public service outcomes of each failure condition? What alternative systems can alleviate political failures to obtain proper outcomes? Given that the market turns to politics in failure, should politics reciprocally turn to the market? When is a democracy justified in turning to non-democratic institutions? Several theorists address these questions by comparing the market and political systems.
Chapter 1

Most scholars of government failure rely on an economic theory of politics that borrows efficiency from market analysis as the basis for testing outcomes (Buchanan, 1988; Pasour Jr., 1992). Stiglitz and Heertje (1989) hypothesize that market and government failure are outcomes of informational problems, and so increasing knowledge improves public outcomes. The political system fails less often, because technical experts employed by the state can properly obtain necessary information. However, the authors fail to explain why governments have an ability to exploit experts in a way that the market cannot. Public choice theorists adopt the wealth maximization model to include transaction costs. They similarly argue that political failure does not exist, positing that efficiency losses are instead necessary transaction costs (Boettke, Coyne, & Leeson, 2007; Lee, 1999). Wittman (1995) expands potential failure conditions to monopolies and irrational behavior. He furthers the claim that the political system responds to these problems better than the market and therefore fails less. However, he briefly cites other potential but “overstated” causes of failure such as powerful interest groups, businesses, and bureaucracy without exploring these concerns. Moreover, Wittman’s narrow measures of success – voting behavior and the federal government’s organizational structure – exclude many forms of political power and outcomes. Although these economic approaches link conditions for market and democratic failure, these authors’ narrow analysis of economic policy allow them to conclude that democracy rarely fails without exploring the complexity of the democratic system.

Several studies move beyond the measure of efficiency to evaluate government failure using alternative mechanisms. Bozeman (2002, p. 150) defines failure as “when neither the market nor the public sector provides goods and services required to achieve core public values.” While recognizing the lack of consensus in defining public values, he argues the concept guides
theory to seven conditions that cause failure, including benefit hoarding and differences manifest in short and long-term time horizons. Provider scarcity, defined as an insufficient capacity to provide agreed upon public goods, is particularly relevant to fiscal crisis. However, the author’s theory does not distinguish between when this is a condition or outcome of public failure.

Bozeman’s failure condition of a broken mechanism to articulate and aggregate public values coincides with other scholars’ focus on the feedback process as the key to government success or failure. Critics of pluralism argue that broad access to influence allows many groups to make many demands, and a government lacking a centralized way to balance these desires becomes overloaded and fails (Etzioni-Halevy, 1983; F. Fischer, 1990). Stein (2003) identifies a decoupled relationship between citizens and government alongside inequality and sovereignty loss as the key components of a democratic deficit. Boettke et al (2007) identify the policy system of exchange as the site of failure because bundled goods, dispersed costs with concentrated benefits, and voting as indirect and infrequent feedback obscure comparative political choices and skew the system towards the status quo. Moreover, markets do not require majority preferences as politicians do. The authors present these areas as openings for failure without detailing the conditions under which failure does and does not occur in the political system.

Dollery and Wallis (2001, p. 39) combine many of these considerations into a thorough analysis of government failure, which they define as “the inability of a governmental agency… to intervene optimally in a market economy to achieve” both efficiency and equity. The authors recognize various types of failure along the political chain including political or legislative, bureaucratic or administrative, judicial, enforcement, and “inherent impossibilities.” They posit that these failures can occur as a result of several conditions that dominate at a local level,
outweighing the reduction in failure emerging from an easier ability to move out of municipalities.

The authors argue that the first condition, voter apathy, emerges from a perception of a lack of local accountability because of policy constraints imposed by higher levels of government; the ambiguity of elected and appointed leadership responsibilities; and minimal media attention. Moreover, when these conditions cause legislative failure, a state takeover of local responsibilities further increases apathy. Second, asymmetric information occurs locally because elected officials are often part time, but rely on full-time administrators for information. These bureaucrats can use information to shape and enforce policies without electoral accountability. Bureaucratic power also contributes to the third condition, iron triangles capturing the benefits of government for organized interest groups, because interest groups can target them to advocate their preferences at the detriment of the larger, unorganized community.

Finally, fiscal illusion exists because the lack of transparency in the flow of funding across multiple levels of government hides the costs of policy decisions. Dollery and Wallis pose two broad strategies to overcome these problems. They suggest reducing apathy by encouraging involvement through greater deliberation or containing the harm of failure by minimizing the role of local government.

The existing literature on government failure has several key deficiencies. First, these studies discuss government failure broadly but assume a democratic voting process in their analysis. The theory should distinguish between government and democracy failure, because non-democratic forms of government can replace democracies without reducing the role of the state. Failure theory should more usefully examine what forms of failure can be resolved democratically and what require alternative state institutions. Second, the literature largely
The Presence of Failure

ignores the horizontal and vertical interactions among governments within a federalist structure. Third, scholars present a limited conception of the role of government beyond efficiently distributing goods. Even Dollery and Wallis revert to a focus on economic policy in their empirical analysis, exploring the cost efficiency of services without linking their findings to their theoretical reasons for failure. Fourth, these analyses do not identify when failure exists as opposed to a non-optimal policy that will improve through the democratic system. Just as the market is not static, political outcomes evolve. Finally, the discussions of government or democracy failure lack suggestions about how to correct failures and what alternative institutions could provide those solutions. This dissertation reevaluates the conditions of local democracy failure while exploring potential solutions through an examination of a single type of response to one form of failure.

Framework for Failure

While the literature has not developed a solid theoretical definition of local democracy failure, practitioners interacting with local governments in the US occasionally determine that such failure exists. Thus, analysis from this on-the-ground perspective of fiscal crisis informs this dissertation's theory of local failure. This study argues that local service failures including fiscal crisis emerge as an occasional product of three components of this country's fiscal federalism and local service responsibilities: 1) federalist democracy's potential for majoritarian tyranny in which elected officials in larger scales of government impose harmful political constraints on local governments; 2) the dependence of local governments on the private market for the resources needed for service provision; and 3) failures of incompetence, corruption, or institutional structure within the local democracy itself. Both policy makers and theorists often
Chapter 1

mistakenly conflate these three causes, but should instead disaggregate them when considering solutions to local service problems. This dissertation’s analysis of fiscal control boards considers both fiscal and political theory through a framework that disentangles these categorical causes of fiscal crisis.

Federalist Democracy

Across models of democracy, a shared basic principle is the ability of citizens to shape their government, whether through direct participation, open debate, or a representative electoral structure (Held, 2006). In the United States, an individual is governed by numerous jurisdictions that coexist vertically at the federal, state, county, and local levels and horizontally as municipalities, school districts, utility and other special districts. These various governments do not always have coinciding interests and are not equally empowered. Moreover, failure can emerge within a local government because of policies imposed externally through majoritarian tyranny within this federalist structure. For example, the preferred policies of a city may be overruled at the state level because the state’s majority preferences reflect that of suburban or rural residents. In turn, the city is less able to provide the services that its residents desire. When other governments have a greater ability to constrain a local government’s powers, this form of local failure can occur more easily. Dollery and Wallis (2001) recognize this potential for failure in their cyclical view of voter apathy and state takeovers, summarized above.

The responsibilities and powers of local governments emerge from the complex legal history of municipalities in the US. The Constitution recognizes only federal and state governments, while leaving the states to determine the role of their local governments. Thus, the legal structure and power of American cities has evolved such that their role has not been
consistent across time or states. In one view, local governments are considered creatures of the state, lacking authority unless specifically granted (Dillon, 1911; "Hunter vs. City of Pittsburgh," 1907). A contrasting view of city power promotes home rule initiative and immunity as a local policy sphere reserved for city control. However, this local sphere is ambiguous because judicial rulings have established that issues that are not purely local – generally social policies – are the realm of the state ("Arlington County v. White," 2000; Barron, 2003). In addition, home rule does not extend into civil law. The legal literature debates whether local or state forces predominate, with Frug (1980) and Barron (2003) arguing that cities have limited power while Briffault (1990a; 1990b) contends that localism dominates. In practice, states grant their cities different levels of responsibility, and can constrain or empower localities in achieving their goals. The unique city-state relationships across the country require local democracy to provide different services according to place.

The existing structure and local institutions may be more capable of serving some of these functions, including fiscal solvency, than others. The structure places a large responsibility on local governments to provide much of their own resources despite their limited legal authority of taxation and intervention in private affairs (Barron, 2003). Over the past thirty years, states have played a relatively constant role in local finances, providing approximately one-third of local revenue (U.S. Department of Commerce, 2006). In addition to aid, states regulate city finances by banning or capping local income, sales, and property taxes with measures such as California’s Proposition 13; often requiring that cities have balanced budgets, preventing annual deficits; and sometimes mandating that local governments pay for specific services such as welfare or education. This relationship creates a local focus on the imperative of municipal
fiscal solvency that is predominantly American but applies to other countries to the extent that localities raise their own revenue.

*Democracy within a Market System*

The market and democracy have coexisted throughout United States history as the two most pervasive structures of collective behavior. Each of these systems provides governance and distributive mechanisms that can either complement or regulate the other. The power of local governments to regulate the market depends on the political power of the municipality, described above, and its economic scale. A town of fifty residents will have less ability to shape the private market than a city of 500,000. However, both governments are equally dependent upon the resources generated in the private market to provide services to residents. This relationship between the capitalist and democratic systems can expose local governments to fiscal failure either in times of economic downturn or when the market shifts its resources away from the city.

The need for fiscal solvency shapes local government relationships with both other levels of government and the private sector. Local action is bounded by the resources cities can raise. Thus, even if a local government has formal autonomy to create policy without intervention by higher levels of government, it may lack the substantive authority that comes with the ability to achieve its desired outcomes (Barron, 2001). The need to provide revenue for local service provision translates into local governments working to attract private capital through popular pro-growth strategies led by both the private and public elites (Mollenkopf, 1983; Stone, 2002). These coalitions argue that growth is a value-free public good for the city (Logan & Molotch, 1987; Peterson, 2002). However, localities do not always favor the interests of businesses and the wealthy over other city voices. In particular, municipalities in better economic bargaining
positions often promote social policy even when it conflicts with growth interests (Savitch, Kantor, & Vicari Haddock, 2002). In a cross-national comparison, Sellers (2002) highlights the role of fiscal federalism in city bargaining power and therefore the balance between growth and social aims. He finds that cities in countries with a greater centralization of finances pursue more flexible business strategies and maintain resources for other political concerns.

In the United States, state oversight mechanisms and popular support for attracting private capital have not prevented cities from occasionally running into serious fiscal problems. The first major wave of local fiscal crisis followed the Panic of 1873 when a national recession devalued property, lowering property tax revenue and making cities struggle to pay their bonds. Trouble peaked in the late 1870s, and Pittsburgh, Elizabeth, NJ, and Memphis each defaulted on city loans (Teaford, 1983). States and local governments retrenched and reorganized to stabilize the municipal bond market until the Great Depression. In 1934, a Senate study indicated that 1,000 municipalities had defaulted on their bond payments and many other jurisdictions remained in danger (Park, 2004). States once again responded with a range of policies from budget regulation by the state government in North Carolina to takeovers in New Jersey. In addition, the federal government passed bankruptcy legislation available to municipalities with state permission (Park, 2004; Stason, 1932).

Municipal fiscal distress subsided until the national recession of the late 1960s and early 1970s, when national stagflation and urban flight led many jurisdictions into financial emergency in the mid-1970s. New York City became the national poster child for local crisis in 1975 with its near-bankruptcy. Unlike past waves of fiscal emergency, problems in local governments have persisted since the 1970s, although at a lesser scale. The rate of fiscal crisis increased again with the mild recession of the early 2000s and the current national economic crisis. Emergencies are
rare given the approximately 30,000 local governments in the country, but they impact residents of municipalities that are small and large, urban and suburban, Rustbelt and Sunbelt.

**Local Democracy Failure**

Local failure emanates from not only externally imposed political and market constraints but also sources internal to the local government. The public interest may fall to incompetent or corrupt elected officials who behave irresponsibly or the institutional structure may not be able to adequately balance competing interests. In these cases, the local government may not provide necessary services. This type of failure, in contrast to the previous two, can be accurately described as local democracy failure, because it is the only type that emerges from the local government itself. The perception of such cases of government failure creates an opening to evaluate and alter underlying permanent institutions. For example, Frug (2002) notes that the EU emerged out of opportunity caused by the crisis of World War II. While the EU’s new level of government followed a crisis that shattered political, economic, and communal structures beyond the merely fiscal crises, the changes parallel the domestic creation of new local institutions in response to urban crisis.

The riots of the 1960s and subsequent Great Society efforts highlighted that many local governments were broadly failing their poor and minority communities. The sheer extent of these service problems suggested major structural failure, and the urban studies literature analyzing that period is one of crisis (Banfield, 1974; Hirsch, 1983; Katzenelson, 1981; Sugrue, 1996). Participatory democracy theorists argue that increased deliberation and involvement in local government could help overcome these wide-ranging problems, and community
participation became a mark of Great Society programs. This tradition seeks to resolve government failures by expanding, not replacing, the existing democratic structure.

Policymakers pursue a radically different approach to addressing democracy failure when they dissolve jurisdictions or override local democracies through an alternative system of state appointed teams that takeover local decision making. Such takeovers not only change the particular poor outcomes but also the policy and service provision process. This institutional shift implies that the existing mix of conditions creates a flawed process, and substituting an appointed system for an electoral one points to democracy itself as the problem. States legislatures and courts sometimes place dysfunctions school districts, prison systems, and housing or health agencies under appointed control. Most common with school systems, Berman (1995) notes that takeovers occur for a wide variety of reasons including low test scores and poor management. In contrast, fiscal crisis is almost exclusively the cause when state legislatures or governors shift municipal budgetary responsibility to appointed control boards.

Many residents disagree with the policymakers who identify fiscal crisis as a cause for political restructuring. A national survey conducted in September 1997, in the wake of Washington, DC’s fiscal crisis, finds that only 37 percent of respondents agree with the statement that “if your local town or city government is poorly managed, your state or the federal government should take over and put different leaders in charge.” In contrast, six out of ten disagree, including almost half who strongly disagree (Table 1-1). Younger and less educated residents are more likely to favor a takeover. While most regions had similar results, Westerners were the least likely to agree with the statement. In addition, seven out of ten respondents agreed that “replacing elected officials with unelected ones in the city of Washington, D.C. goes against the principles of our American democracy” (Richards, 1997). This survey questions the core
Chapter 1

If YOUR local town or city government is poorly managed, your state or the federal government should take over and put different leaders in charge.

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</tr>
<tr>
<td>North Central</td>
<td>37%</td>
<td>59%</td>
<td>4%</td>
</tr>
<tr>
<td>South</td>
<td>38%</td>
<td>60%</td>
<td>3%</td>
</tr>
<tr>
<td>West</td>
<td>31%</td>
<td>64%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Table 1-1. Linking Management Outcomes and Political Institutions.
Reproduced from (Richards, 1997)

relationship between local fiscal and democratic failure. However, fiscal control boards rely on this link for combating fiscal crisis.

Introducing Control Boards

I guess I was thinking more along the lines of, “OK, I guess maybe I’ll take care of their bank accounts”... and then just all of a sudden it sort of dawned on me that “I’m running this town.” (Louis Schimmel, fiscal overseer for Hamtramck, MI as qtd in Carvlin, 2002)

Local democracy failure can be defined, identified, and confronted in myriad ways. An increasingly popular institution acting at each of these three stages is the fiscal control board.
Control boards vary across cities and states, but the basic model is that a state appointed team oversees the budgetary decisions and fiscal management of municipalities recognized as in fiscal emergency. The political and fiscal consequences of these boards are not well understood. By reducing the authority of locally elected officials, fiscal control boards inhibit access to local democratic government in the short term. However, this strategy turns to a different scale of government rather than entirely abandoning democracy. This shift in scale may provide an opportunity to redefine the local political climate in a way that overcomes conditions detrimental to the local government. If so, then local democracy may be stronger in the long term. Conversely, if boards undermine citizen investment in democratic institutions, then they may weaken local democracy. In addition, the fiscal improvements of control board cities have not been measured against crisis cities relying on other solutions. Despite their long history and potential to help resolve the major challenge of fiscal crisis, control boards remain understudied.

The first cases of state appointed oversight boards for local jurisdictions were in Missouri during the fiscal crises of the 1870s (McConnell & Picker, 1993). State intervention in local governance became controversial later in the decade when Tennessee placed Memphis in receivership, dissolved the city in 1879, and then reformed it as a tax district only. These actions spurred the Supreme Court case of Meriwether v. Garrett ("Meriwether v. Garrett," 1880) that established precedent for local government laws addressing bad debt, control boards, and receivership. The Court cemented control boards as an accessible state option by determining that the state legislature has a right, even over the courts, to define local revenue structures and appoint individuals to manage local finances. With this approval, additional states turned to control boards during the Great Depression. New Jersey, Michigan, North Carolina, Oregon, and Massachusetts all relied on fiscal receivership. However, controversy continued because
residents resented their apparent loss of local electoral control. Carpenter and Berger (1935, p. 732), political scientists of the time, described the solution as “the most thoroughgoing invasion of municipal autonomy (save only in the subsidization of relief allowances) that has yet been exercised.” This critique of control boards as increasing the potential for majoritarian tyranny became part of a tradition and continues in many recent control board cities.

The modern era of control boards began in 1975 with New York City’s highly publicized Municipal Assistance Corporation and the Emergency Financial Control Board. The national press and political scientists closely monitored the political restructuring brought by the boards after the city was shut out of the bond market. Reactions were mixed, disliking the disruption to the existing political process and its system of accountability, but favoring the resulting long-term structure of centralized control (Bailey, 1984). Although New York’s problems emanated from a unique local service burden for welfare and education, friendly corporate incentives, regional fragmentation, the city’s shifting political alliances, and its place in a changing national economy (Gramlich, 1976; Shefter, 1985; Tabb, 1982), the city set the tone for other dissimilar municipalities responding to their own crises. When Cleveland became the first sizable city to default on its bond payments since the Depression (Hildreth & Zorn, 2005), Ohio not only followed New York’s lead in creating an individual control board but also passed statewide legislation with standardized criteria for all municipalities to establish future control boards. Pennsylvania has also since adopted a state law providing voluntary control boards for qualifying governments.

Since New York’s board, over one hundred control boards have been implemented in thirteen states and Washington, DC (Table 1-2). States have designed boards for municipalities
## Table 1-2. Control Board Municipalities since 1975

Sources: Control Boards compiled from Ohio State Auditors Office, Local Governments in Fiscal Watch/Emergency (2009); Pennsylvania Governor’s Center for Local Government Services, Municipalities Financial Recovery Program: Act 27 of 1987 Distress Designations (2009); internet and Lexis-Nexis searches; and newspapers. Population data from the Decennial Census closest to the date of control board creation unless otherwise noted.

1 Census Bureau 2007 population estimate

2 Census Bureau 2008 population estimate

<table>
<thead>
<tr>
<th>State</th>
<th>City</th>
<th>Population</th>
<th>Years</th>
<th>State</th>
<th>City</th>
<th>Population</th>
<th>Years</th>
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<td>2006 - 2007</td>
<td>Girard</td>
<td>10,902</td>
<td>2001 -</td>
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<td>2004 -</td>
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<td></td>
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<td>Galion</td>
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<td>2005 -</td>
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<td></td>
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<td>2007 -</td>
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<td>2001</td>
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<td>1988 -</td>
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<td>Johnstown</td>
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<td>1992 -</td>
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<td>1995 -</td>
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<td>2003 -</td>
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<td>Plymouth Township</td>
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<td>New Castle</td>
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<td>Westfall Township</td>
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<td>937</td>
<td>1985 - 1990</td>
<td></td>
<td></td>
<td>2009 -</td>
<td></td>
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<td></td>
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<td>1985 - 1993</td>
<td>West Warren</td>
<td>86,427</td>
<td>1993 -</td>
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</tr>
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</table>
as small as Ohio’s village of West Millgrove with a population of only 171 (Ohio State Auditor’s Office, 2007) and major cities such as Philadelphia and Washington, DC. While most states using control boards are in the Rustbelt, Florida has created a number of boards – most notably in Miami from 1996 to 2001. Other southern states that have used this solution are North Carolina and Mississippi, and Nevada created its first board in 2006. These boards are usually created to last until specified fiscal conditions have been met. In practice, their duration has ranged from under one year to 18 years. These boards have been imposed by the states as well as requested by local governments.

Control board usage is increasing: 48 control boards have been created since 2000, as compared to 36 in the 1980s and 34 in the 1990s. Local fiscal control boards in the US have also served as an international model. In August 2001, the Kenyan Embassy requested to meet with Washington, DC’s control board, because the country planned to use similar boards for their fiscally distressed local governments and had recently established an Interim Oversight Board in Nairobi. The government sought control board characteristics and the legal framework for case throughout the country. The Kenyan leadership recognized the link between fiscal and political success, stating a goal for Kenyan control boards to “build capacity in Local Government structures that facilitate democratic participation of all stakeholders and in the decision making process of local governance” (Amolo, 2001).

Outline of Dissertation

In a federalist system, the potential always exists for majority decisions by higher levels of government to override local needs. In a market system, economic shifts can always hinder a government’s ability to provide services. In any government structure, incompetence,
corruption, and poor institutional design always threaten strong outcomes. The challenge in resolving local failure is to disentangle these causes before designing a solution. The argument underlying this dissertation is that while the local failure sometimes emanates from the majoritarian tyranny of higher levels of government or changes in the market beyond the control of locally elected officials, such instances should not be viewed as examples of local government failure. Rather, only failure that emerges because of the internal dynamics of a local government should be defined as local democracy failure.

This dissertation explores fiscal crisis and the institutional response of fiscal control boards as a means to disaggregating the causes of failure that manifests locally. As a non-democratic institution that temporarily supplements or replaces the existing democratic system, control boards emphasize problems of local democracy failure rather than other causes. However, this fiscal and political analysis of control board cities reveals that fiscal crisis actually emerges from an interaction among internal and external political and economic causes. Thus, fiscal control boards are often insufficient and can be harmful if they mask or even amplify the other causes of local failure.

Section II considers control boards from the perspective of urban fiscal health and crisis. Chapter 2 reviews the existing literature on the causes of and solutions to municipal fiscal crisis within the framework of crisis described above. Chapters 3 and 4 provide my findings for the impact of control boards on fiscal health in large and small cities. Section III examines control boards from their governance perspective. Chapter 5 introduces links the international literature on International Monetary Fund stabilization agreements to the theoretical framework of local causes of crisis as a basis for understanding the structural strengths and weaknesses of control boards. Chapters 6 and 7 compose my findings for the cases of Miami and Washington, DC,
respectively. These cases are compared in Chapter 8 to illustrate how the causes of crisis determine control board success. Section IV concludes.
SECTION II.
FISCAL IMPACT
Control boards have a variety of governance implications, but they are primarily created as solutions to fiscal crisis. Thus, they should first be analyzed for their fiscal impact. This dissertation begins by addressing this gap in the literature. In particular, this section seeks to evaluate whether control boards are assigned to the cities with the most need for intervention and whether control boards lead to better fiscal outcomes relative to other cities. The analysis is separated into small and large cities, because they have different relationships to the market and federalism. In addition, the internal structure of local government also varies by city scale.

This section not only considers the fiscal outcomes of cities that use control boards but also relates those outcomes to whether crisis is caused by the local government’s relationship to the market, the presence of majoritarian tyranny within a federalist political structure, or local democracy failure. While I find that control boards improve the finances of large cities in fiscal crisis, cities with small populations do not benefit from control boards. This divergence reflects the different causes of crisis across these types of cities.

The relationship between causes of fiscal crisis and outcomes, even when examining a single type of response, indicates that a single solution such as a control board should not be used in all circumstances. Rather, control boards and other institutional responses should be matched to the causes of crisis.
CHAPTER 2

The Control Board Landscape: A Context of Urban Fiscal Stress
A robust literature on municipal fiscal stress provides a useful backdrop for understanding the fiscal impact of control boards. The literature details methods for identifying cities in fiscal trouble, many potential causes of fiscal deterioration, and solutions to fiscal stress and crisis. The range of causes of stress focuses on interactions with the market, but includes both federalist political constraints and problems emerging from within the local government. Hendricks (2004) and Honadle et al (2003; 2004) offer particularly useful reviews of these issues. Scholars distinguish between the problems of small and large cities – reflecting the impact of scale on defending against external political and capitalist pressures – and detail how city scale impacts local response. Although studies trace both local solutions and state reactions to municipal fiscal stress, existing research largely overlooks control boards. Moreover, perceptions of control boards do not match the lessons of the urban fiscal health literature.

**Identifying Fiscal Crisis**

After New York’s crisis focused the nation’s attention, academics began to evaluate the extent of local fiscal crisis. The urban fiscal stress literature now offers myriad definitions of fiscal conditions ranging from healthy to being in crisis. Measures based on economic, fiscal, and social indicators accompany these terms as a means to identify the fiscal problems of municipalities.
The three most basic fiscal conditions of cities are healthy, stressed, and in crisis. Honadle et al (2004) review the literature’s use of these terms. Fiscal health is widely understood as the ability to pay for needed services. Hendrick (2004) refines this definition by describing short-term health as liquidity and lack of operating deficits; medium-term health as the ability to respond to a fiscal shock in the next few years; and long-term health as the degree that current actions obligate future revenue. Fiscal stress emerges as the gap between necessary expenses and the ability to pay for them. Although definitions vary more than for other terms, studies tend to describe fiscal crisis or emergency as a city’s inability to meet its fiscal obligations and therefore default on debt, fail to meet payroll, or not maintain adequate services (Advisory Commission on Intergovernmental Relations, 1973; Inman, 1995; Kloha, Weisset, & Kleine, 2005). The literature does not draw a clear line between stress and crisis, instead describing stress as precursor to crisis or crisis as “acute financial distress” (ACIR 1973; Honadle, 2003). In identifying cities requiring intervention, states rely not on underlying stress indicators but rather short-term insolvency indicators (Cahill, James, Lavigne, & Stacey, 1994). However, existing studies often focus on stress frequently addressing entrance into crisis.

Each of these definitions must be translated into specific metrics to allow quantitative analysis. The most common measure of fiscal condition or burden in the literature is tax effort, defined as the ratio of revenue collection to local fiscal capacity. Proxies of local income or property value are used for capacity (Badu & Li, 1994; Benson et al., 1988; Johnson, Pelissero, Holian, & Maly, 1995; Kamer, 1983; D. R. Morgan & Mareschal, 1999; Mullins & Pagano, 2005; Pennsylvania Economy League, 2007; Warner, 2001). Tax effort’s popularity can be attributed in part to its use by the federal government and ACIR to measure state and local government health. Variations of tax effort include using expenditures rather than revenue (R. M. Stein, 1984); short
and long-term debt and interest payments rather than revenue (Aronson & King, 1978); and incorporating other municipalities in the state for a relative measure. Mullen's (1990) modified measure defines burden as the ratio of 1) the tax rate needed to get median state revenue minus the municipal class’ tax rate to get median state revenue to 2) the representative tax rate. Ladd and Yinger (1989) used a related measure of variation is standardized fiscal health that they define as the difference between a city’s revenue potential given the average tax rates across major cities and expenditure costs for an average level of public services. These measures of tax effort describe a city’s fiscal condition without distinguishing between states of health, stress, and crisis.

Tax effort provides an understanding of the long-term capacity of a city. Measures of a municipality’s operating finances, in contrast, capture a more short-term understanding of fiscal condition. These fiscal indicators include surplus or deficit, short and long-term debt, and cash or general reserve fund balance (Groves & Valente, 1994; Pagano, 1993). These measures also provide clearer markers for crisis. Indices can be quite complex, such as the ICMA’s “Financial Trend Monitoring System” that requires 36 indicators in areas of revenue, expenditures, debt, and operating position, or others that monitor trends in expenditures (Honadle et al., 2004).

Streamlined indices focus on key indicators as guides of municipal fiscal condition. Aronson and King (1978) adapt their tax effort variant for current fiscal realities by examining debt and interest totals as a share of revenue rather than personal income. In addition, they calculate a ratio of short-term debt to cash and securities. The authors label a city as being in crisis if any of these ratios equal one or more. Brown’s (1993) index for cities with populations below 100,000 creates ten factors from combinations of total, general, and own-source revenue; total and general expenditures; general fund balance, cash, and investments; and liabilities, debt service, and outstanding debt. For each factor, a municipality receives a score between -1 and 2 based on its
position relative to other cities of its scale. He considers cities with total scores of -5 and below to be in crisis. Unfortunately, this index requires ample data collected from cities that have been recognized for excellence in public accounting and therefore likely to be biased towards fiscal health.

Composite indices can also combine these financial indicators with underlying structural conditions to capture both short and long-term views of fiscal condition. For example, population change and socioeconomic attributes can be added to measures of deficits or debt (Benson et al., 1988; R. M. Stein, 1984). Hendricks (2004) combines the variables described above of tax effort, fund balance, debt source, and other forms of revenue and expenditure with measures of local spending needs. Parallel to tax effort, she examines the ratio of expenditures to service needs. She measures not only fiscal balance but also the slack available to respond flexibly in times of stress. This framework, however, fails to distinguish among healthy, stressed, and crisis cities.

Kloha et al (2005) create a index in which seven of ten points are scored based on standard metrics – a variation of tax effort with debt and expenditures rather than revenue, the fiscal indicators of deficits and negative fund balances over two years, and a ratio of the fund balance to revenue. In addition, the index includes decreases in population and taxable value.¹ The authors assign points through a combination of absolute and relative measures. Finally, the authors classify cities with a score of at least five as stressed and eight or more in fiscal emergency.

This dissertation is focused on fiscal crisis, which I define in accordance with the literature as the imminent threat of insolvency. I share the assumption of the literature that, with the exception of an occasional shock, severe stress highly correlates to crisis. Thus, the existing indices that measure stress help identify cases of crisis. Methodologically, I rely on the strain of literature focused on fiscal operating indicators such as deficit and debt rather than tax effort,

¹ See Appendix I for a detailed description of the index
because I am interested in the short-term risk of insolvency rather than long-term fiscal strength. I also employ absolute measures, because relative indicators could miss troubled municipalities during a wave of fiscal crisis. Finally, given the relationship between severe stress and fiscal crisis, I extend lessons from the literature on stress’ causes of and solutions to crisis.

Causes of Fiscal Crisis

Municipalities identified as experiencing severe stress or crisis can reach that status for many reasons. Understanding the path to their problems helps cities regain their long-term fiscal health, because preventing the recurrence of crisis requires resolving any underlying causes. The literature focuses primarily on interactions with the market system as causes of fiscal crisis. This category encompasses local socioeconomic attributes as well as regional or national economic shifts and tax structures intended to capture private resources. The municipal fiscal stress literature also recognizes the important assistance and problems introduced by federalism, highlighting the role of regional, state, and federal policies. Finally, scholars examine how characteristics of the local government itself can contribute to fiscal stress or crisis, but find these factors to be less significant to fiscal crisis. Research documents that city size influences the relative importance of each type of cause of fiscal crisis, with small cities being less influenced by local democratic failure.

Market Impact on Local Governments

The existing literature attributes fiscal crisis to a range of local socioeconomic factors that signify a community’s strength within a capitalist system (Honadle, 2003; Honadle et al., 2004). Common indicators of demographic strength include high rates of education, homeownership, and
median income. Conversely, high rates of elderly, children, female headed households, nonwhites, poverty and crime often correspond to greater reliance on public services. A survey of Pennsylvania cities finds that, in fact, residents in distressed cities are typically less educated and more likely to be in elderly or in poverty than those in healthy cities (Pennsylvania Economy League, 2007). High rates of poverty are particularly expensive: Poverty not only costs the city in terms of direct programs, which are largely compensated by state and federal aid, but also forces even greater indirect expenditures on non-redistributive spending that are mostly uncompensated (Joassart-Marcelli, Musso, & Wolch, 2005; Pack, 1998). In many cities, high crime rates combined with public fear in response to the riots of the 1960s have led to greater spending on public safety (Rubin, 1982).

Socioeconomic variation can be explained in part by population and business shifts since World War II. Migration to the suburbs and the Southwest have hurt central cities and the Rustbelt (Kamer, 1983; Oliver, 2001). Dye (1984) finds that revenue, spending, and their change over time are not affected by population decline itself but rather the related factors of city age and rates of poor, nonwhite, and homeowners. In addition, economic restructuring has hurt many of the same cities. For example, half of Ohio's municipalities in fiscal emergency cite plant closings a major cause of their problems (Beckett-Camarata, 2004). Deindustrialization has led to both job loss and greater need for social services, particularly in central cities (Bluestone & Harrison, 1982; Chernick & Reschovsky, 2001; Wu & Korman, 1987). Cities with less diverse economies are particularly prone to decline, because both the extent of job and revenue loss is greater and the city elites' ties to the dominant industry are likely to encourage obsolete strategies for economic return (Friedrichs, 1993).
Chapter 2

Older cities not only suffer from deindustrialization but also have higher operating costs. While they appear successful in containing spending growth below rates of growing cities, declining northern cities also must maintain crumbling infrastructure and fund a legacy of expenditures on municipal employees (Dye, 1984; Kamer, 1983; M. P. Smith, 1988; Wallin, 2005). Case studies of several Midwestern and Northeastern cities identify union contracts as the most expensive and intractable municipal cost (Inman, 1995; Rae, 2006; Rubin, 1982). In contrast, Clark and Ferguson (1983) argue that the strength of unions does not impact a city’s fiscal stress. The authors do find that a city’s spending level, as opposed to its economic base, determines fiscal stress. Thus, the longstanding costs of old cities damage their fiscal stability.

Tax structure impacts a municipality’s ability to raise revenue as its tax base changes. Cities have typically relied on property taxes for the bulk of their revenue. While tax revolts often focus on tax rates, property tax exemptions also significantly increase local tax burden (Mullen, 1990). Over time, an erosion of property taxes has led local governments to supplement revenues with income taxes. Diverse tax bases can protect a municipality from the shock of a reduction in any single tax base, thus reducing the variability in revenues from year to year (Misiolek & Elder, 1988). However, Edgerton et al (2004) assert that the shift to income taxes have made cities more vulnerable to downturns in the local and national economy. Their argument seems plausible for cities with stable property tax values but does not consider the many cities whose property values declining over the long-term. Finally, even when tax rates should provide sufficient revenue, increasing delinquency emanating from poor administration or residents’ financial troubles can hurt fiscal health (Rae, 2006).

Federalist Political Context

- 42 -
Scholars also examine how a local government’s relationship to its neighbors and larger scales of government impact fiscal stress, recognizing that policies imposed by other units of government impact the ability of a municipality to serve its residents. The stronger a municipality is relative to other jurisdictions, the better it should perform. Regionally, metropolitan areas with fewer general purpose governments perform better socioeconomically than fragmented ones. In turn, the lower service burden helps fiscal solvency (Kamer, 1983; Rusk, 2003). Several scholars argue directly that fragmentation and the externalities of neighboring cities reduce municipal control (Chernick & Reschovsky, 2001; Honadle et al., 2004; Johnson et al., 1995). The overall impact of jurisdictional fragmentation harms fiscal health less than local demographics (M. Schneider, 1986). Moreover, contemporaneous studies present conflicting results about the impact of municipal fragmentation (D. R. Morgan & Mareschal, 1999). Special districts, in contrast, help cities avoid the costs of services that can cause fiscal crisis (K. A. Foster, 1997; Fuchs, 1992). This benefit may be muted because the overlapping jurisdictions of cities, counties, and special districts rely on the same residents for revenue and are bounded by their total tax burden (Ladd & Yinger, 1989).

State and federal policies also influence fiscal crisis. Federal aid to cities dropped by almost half in the 1980s, and the remaining aid is increasing routed through states (Caraley, 1992). States’ rise in municipal aid has not neutralized the concurrent federal decrease and favors suburbs (Chernick & Reschovsky, 2001; D. C. Morgan, Jr., 1974; Wallin, 2005; Weir, 1996). Moreover, the aid is unreliable in times of stress because states resolve their budget gap by cutting aid to local governments, thereby increasing the revenue problems of already strapped municipalities (Kloha et al., 2005). States actually reduce local fiscal stress more through centralization, defined as the state’s share of total state and local expenditures, than direct aid (Warner, 2001). In contrast,
increased state revenue regulations, local service requirements, and unfunded mandates have strained local fiscal health (ACIR, 1983; Cigler, 1993; Honadle, 2003; Ladd & Yinger, 1989; R. M. Stein, 1984). The extent of states’ local legislation varies widely, with the most severe constraints in Ohio, Florida, and many Western states (ACIR 1993; Mullins & Pagano, 2005). Also, states increase fiscal stress with requirements for cities to provide the least common local functions including education (Gramlich, 1976; Kamer, 1983; Wallin, 2005).

Federal policies without local financial intent do have significant distributional and economic impact on municipalities. The nation’s evolving information infrastructure and post-9/11 security focus have increased local government costs and fiscal inequality (Honadle et al., 2004). As the second largest and most rapidly growing state and local expenditure, health care has weakened local fiscal health and made cities more vulnerable to fiscal shocks (Gramlich, 1991; Honadle et al., 2004). This should especially damage cities with broad service responsibilities because of their greater health care obligations. The combination of health, security, education, welfare, and trusts for pensions match the fiscal impact of joint population growth and inflation: Each has increased state spending by almost fifty percent (Krane, 2003).

As manifest by the pattern of fiscal crisis, national economic downturn damages local fiscal health (Honadle et al., 2004). Three major waves of local fiscal crisis occurred after the Civil War, during the Great Depression, and following the national recession of the late 1960s and early 1970s (Park, 2004). After returning to a $20 billion aggregate state and local budget deficit to a surplus, aggregate fiscal health increased in the 1980s (C. Clark & Walter, 1991). However, fiscal crisis has since remained an issue for many individual municipalities. Studies find that the number of large cities in crisis increased through the 1970s, and Pennsylvania cities face the same pervasive distress in 1970 and 2003 (Ladd & Yinger, 1989; Pennsylvania Economy League, 2007).
Pagano (1993) finds a continuing link between local fiscal problems and national recessions in 1992, when the share of cities spending substantially more than their revenue doubled to one in four. In the recession of the early 2000s, the aggregate state and local budgets slipped from a $32 billion surplus to a $55 billion deficit, and cities in 2002 experienced their worst fiscal condition in over twenty years (Edgerton et al., 2004; Honadle et al., 2004).

Local Democracy

Policy makers and scholars have also examined fiscal crisis as a product of attributes of local government institutions and elected officials. Progressive reformers argued that municipal structure matters, and fiscally responsible budgets occur when city managers are not political. In contrast, strong mayors may centralize accountability during an era of increasingly fragmented decision making (Fuchs, 1992; Honadle et al., 2004; Schragger, 2006). Empirical studies find either equivalent per capita expenditures between local government types or lower spending in strong mayor cities (French, 2004; D. R. Morgan & Kickham, 1999; D. R. Morgan & Watson, 1995; Sass, 1991). Case studies also record that the roles of city manager, mayor, and city council do not significantly determine spending levels as much as interest groups, unions, or historical trends (Inman, 1995; Rubin, 1982). Even studies that link political factors to municipal spending levels acknowledge socioeconomic characteristics as more important (C. Clark & Walter, 1991). Thus, the efficiency gains of depoliticizing governance are misplaced. Corruption or incompetence could also cause fiscal stress (Cahill & James, 1992). While such scandals attract attention, researchers argue that intergovernmental constraints far outweigh poor management in spurring fiscal crisis (Mullins & Pagano, 2005; Pennsylvania Economy League, 2007).
Budgets are shaped by not only political structure but also by the participation of the citizenry and their relationship to the local government. Shefter (1985) argues that an urban dialectic exists in which electoral demands for welfare cause fiscal crisis; bankruptcy forces the city into fiscal austerity; and then the demands return. This suggests that expanding the franchise to populations of felons and non-citizens, likely to demand social programs, increases crisis. However, other scholars argue that demand for social programs hurt fiscal health less than fiscal policy catered to businesses (Gramlich, 1976; Tabb, 1982). In addition, politicians who make unpopular decisions often fail to retain solvency because of larger structural problems (Wallin, 2005). Thus, expanding the vote should not change the occurrence of fiscal crisis.

Small municipalities

The literature on local fiscal crisis emphasizes socioeconomic shifts; regional fragmentation; and the role of the state in setting aid, revenue limitations, and service responsibilities. In contrast, local political structure, city leadership, and voter demand impact fiscal solvency less. Limited evidence indicates that this pattern is amplified among small municipalities. The crisis literature focuses on large cities and overlooks the frequency of crisis in small municipalities (Cahill et al., 1994). Yet, fiscal stress in non-metro areas exceeded that of metro areas between the late 1970s and 1980s, with the burden growing (Johnson et al., 1995). More recently, thirty percent of small cities experienced a significant deficit in the 1992 recession, compared to twenty percent of medium cities and ten percent of large cities (Pagano, 1993). Studying small municipalities independently of large cities, scholars identify the market and federalism as having the dominant impact on small city crisis. Local democracy failure, in contrast, plays a minor role.
Small cities face challenges beyond those of large cities, including the degree of importance of retail competition from neighboring municipalities and the added costs of providing services to a low-density population (Johnson et al., 1995; Rubin, 1982). Honadle et al (2004) both identify a wide variety of causes of small and medium-sized cities’ fiscal condition that are largely beyond local control and observe that small governments have less fiscal slack to absorb shocks. Finally, small municipalities suffer many of the same economic shifts as larger ones but are less likely to receive federal aid (Cahill & James, 1992; National League of National League of Cities, 2003). Because of their lack of votes relative to other municipalities, small municipalities are more vulnerable to majority tyranny by the state.

The primary internal cause of fiscal crisis that has been identified is that small city staffs could harm fiscal health through a lack of expertise. However, in a survey to city leaders that may understate problems because respondents are unlikely to implicate themselves, Mattson (1994) finds that these cities minimize the problem of professionalism with an on-staff planner or hired consultant. This research suggests that responses to fiscal crisis, particularly in small cities, should focus on socioeconomic and intergovernmental attributes rather than the internal local political structure.

**Solutions to Fiscal Crisis**

**Local Response**

Solutions to fiscal crisis must respond to the causes of crisis, whether federalist politics, the market economy, or internal failure. To emerge from fiscal crisis, a city can, most basically, cut or defer spending or increase revenue within the limits allowed by state law and market capacity. Poor fiscal health does, in fact, create an opening for fiscal reform such that cities with the highest
degree of fiscal stress adopt the most stringent austerity strategies (C. Clark & Walter, 1991; Levine, Rubin, & Wolohojian, 1981). Most often, cities cut general government functions through politically painless hiring freezes or more painful targeted service cuts (Wallin, 2005). Declining revenues in particular prompt personnel downsizing, borrowing, and new revenues (C. Clark & Walter, 1991). For example, over two-thirds of municipalities increased fees or taxes in the early 1990s, especially in large cities (Pagano, 1993). Opposite the literature, Stein (1984) argues that residents are more likely to propose referenda to limit local taxation during periods of fiscal stress, although stress does not increase their likelihood of passage.

**Federalist Context.** Scholars argue that the potential for municipalities to enact such reforms depends not only on local choice but also a local government's relationship to its neighbors and higher levels of government. Berry and Berry (1992) agree that fiscal stress creates a political opportunity for new taxes, but only when combined with distance from the next election and the absence of lower neighboring property tax rates. While property taxes are more likely to pass if nearby municipalities have higher rates, sales taxes pass without regard to the rates of other cities (Hendrick, Wu, & Jacob, 2007). Federalism impacts the solutions used not only through a city's relationship to its neighbors but also through the services required by state law. Though less significant than increased stress and lower revenues, Clark and Walter (1991) observe that new revenues are introduced in places greater functional responsibility.

**Relationship to the Market.** Market strength can also impact the particular solutions pursued. Borrowing is pursued by wealthier cities and personnel downsizing by cities with shrinking populations and greater shares of minorities (C. Clark & Walter, 1991). In addition, the expected duration of economic crisis affects local government response. Cities in the 1960s and 1970s were able to impose uniform cuts across all departments during the initial emergence of
fiscal stress. As resource decline became long-term, the process politicized to provide targeted cuts. In these cities, personnel costs increased while capital costs decreased as a share of total expenditures (Lewis, 1984). More recently, Honadle et al (2004) observe that cities in Florida expecting short-term crisis are more likely to cut services, expecting to restore them after the crisis passes. In contrast, the cities pursue revenue raising strategies as a more permanent solution to changes in state regulations.

Budget cuts are critical to crisis response because increasing revenue is not always sufficient. Inman (1992) determines that during Philadelphia’s fiscal crisis, its property and wage tax revenues were already maximized. Increasing the rates would reduce the tax base enough to negate revenue gains. The business tax rate could be increased, but the maximum revenue gain would only capture two-thirds of the city’s annual deficit while permanently hurting the city’s tax base. However, seeking to expand the tax base through economic development strategies can exacerbate periods of crisis, because this strategy is expensive in the short-term. Such development should instead be implemented during a period of slow decline (Honadle et al., 2004). Seeking immediate funds through borrowing can hurt a city as well, because a high debt burden increases interest rates (Capeci, 1994). Thus, cities cannot only pursue revenue enhancement to escape crisis.

Local Democracy. A city’s political structure – the attribute associated with local government failure – influences the form of local retrenchment strategies. In a case study of an anonymous medium-sized city, Rubin (1982) identifies a political self-correcting mechanism to fiscal crisis as long as the size of deficit is clear; external lenders are aware of the problem and ready to increase interest rates; and officials can be embarrassed by fiscal problems. Political considerations extend to city managers who employ political strategies for successful budget cuts
even when their governments are not highly politicized (Levine et al., 1981). Similarly, austere political cultures are more likely to promote a strategy of budget cuts than revenue increases. New revenues, in contrast, are correlated with Democratic leadership (C. Clark & Walter, 1991). These patterns suggest that local democracy failure causing fiscal crisis could change responses to that crisis or prevent an adequate solution. At the same time, internal political dynamics based on interest group pressures may not be significant. Contradicting the view that minorities force high levels of public services, service cuts occur in high minority cities with rising service demands and greater planning sophistication (C. Clark & Walter, 1991).

**Role of City Size.** Scale impacts both a city’s ability to overcome fiscal crisis and the form of its response. While small cities often begin with a fund balance cushion, large cities better rebound from revenue loss (Pagano, 1993; J. D. Ward, 2001). The strategies pursued differ by city size such that urban, large cities strongly favor new revenues over retrenchment, while rural governments slightly favor cutbacks (J. D. Ward, 2001). Larger cities also employ a wider range of retrenchment strategies — including freezing spending and firing employees — than small cities (Pagano, 1993). Because small towns have less budget flexibility, they are likely to defer capital projects or cut nonessential services (Mattson, 1994). Limited evidence suggests that they also may cut more essential services: Johnson et al (1995) hypothesize that high poverty small municipalities do not experience higher fiscal burden because those counties spend less in response. Finally, small cities are less likely to adopt management innovations (Honadle et al., 2004).

The fiscal crisis literature highlights a critical difference between large and small municipalities. Although large cities experience severe problems, their revenue sources are robust. Management solutions can help during poor economic cycles to identify new revenue, or cut costs,
and improve financial systems. In contrast, many small cities are becoming structurally obsolete. In these cases, improved management cannot resolve a city’s fundamental inability to raise the revenue for its governance obligations. Thus, responses to crisis recognize that larger cities tend to have a stronger market position and ability to influence the market than do small cities. Solutions, including control boards, that do not address underlying problems are less likely to help small cities than their large city counterparts.

State Assistance and Intervention

State oversight of local fiscal policy has expanded for over a century, but state responses to crisis remain highly variable. Almost half of states lack a definition of fiscal crisis, and fewer have a legal one. States also vary on whether to confront crisis with strategies of prediction, aversion, mitigation, or prevention of a recurrence. The thirteen states with fiscal crisis legislation become involved late because state action is less controversial during a clear emergency (Berman, 1995; Cahill et al., 1994; Honadle, 2003). State solutions include providing assistance, state regulation reform, taking over local obligations, and using control boards (Honadle, 2003). However, each of these incremental solutions mostly focuses on management rather than the structural causes of crisis. Moreover, none of the solutions addresses local governments that are not fiscally viable (Cahill & James, 1992; Honadle, 2005). This literature describes state crisis response without evaluating each style of intervention’s success.

Researchers recommend that state involvement in local finances empower municipalities to meet their current challenges. Technical assistance can help cities develop appropriate financial plans and investment opportunities, and would particularly aid small cities without full-time staff or sophisticated training (Berman, 2000). In addition, greater flexibility would allow many cities
to achieve their goals on their own (Levine et al., 1981). New, proactive strategies include capacity building through unrestricted grants, changes in tax and revenue options, and greater access to the bond market; inducements for inter-local cooperation; and institutional changes including the redistribution of service responsibilities, state-level local government agencies, and the annexation or elimination of some failing cities (Berman, 2000; Cigler, 1993; T. N. Clark & Ferguson, 1983; Honadle et al., 2004). These solutions prioritize the underlying strength of a municipality rather than its ability to manage its resources. While cities seek to raise revenue or cut spending, the state should focus on a different intergovernmental relationship. This approach to fiscal crisis seeks to minimize the harm of state imposed policies on local governments and instead maximize the power of federalism.

**Jurisdictional change**

The power of states over local governments is epitomized by their legal right to change the jurisdictions themselves. This response to financial crisis contrasts all other alternatives that assume that jurisdictions return to their pre-crisis form when the emergency ends. The most extreme response to financial crisis would be to dissolve a municipality lacking long-term viability. Municipalities in a variety of states, especially Kentucky, have unincorporated after fiscal crisis or an inability to provide local services and fill elected seats (Waits & Campbell, 2007). However, this solution is rarely considered an option (Cahill & James, 1992). McConnell and Picker (1993) seek to expand dissolution in conjunction with municipal bankruptcy, discussed below. They argue that upon declaring bankruptcy, jurisdictions should have the option to dissolve and re-form with a different boundary or governance structure.
States can not only eliminate jurisdictions but also create new ones. In fact, many states created special districts after the municipal crises of the 1870s (K. A. Foster, 1997). Such single-purpose districts' ability to improve fiscal solvency depends on their form. For example, the special districts coincident with Chicago increase the city's financial stability without significantly changing local service control. In contrast, New York City's special districts reduce city control without helping financially (Fuchs, 1992). Thus, the governance design of these districts determines their financial impact. Jurisdictional changes – whether new districts, different borders, or dissolution – are permanent reforms that should respond to not only temporary fiscal crisis but also long-term public needs and capacity. The creation or elimination of jurisdictions as fiscal policy highlight that state's role in fiscal outcomes.

Bankruptcy

The states can also temporarily alter local democratic institutions in coordination with a local government. Federal bankruptcy law provides a short-term option to insolvent cities that receive state consent. Created in the early twentieth century, Chapter 9 allowed many cities to renegotiate their debt in the 1930s and 1940s (Carpenter & Berger, 1935). Over the past several decades, legislative changes have limited use of the statute, but numerous special districts and 24 general purpose municipalities have filed for bankruptcy since 1994 (Hildreth & Zorn, 2005; Lexis-Nexis, 2007; McConnell & Picker, 1993). Chapter 9's narrow scope prevents creditors from forcing cities to file; does not require cities to sell their assets to pay their debts; and does not require the city to restructure its management or revenue sources (McConnell & Picker, 1993; Park, 2004). Thus, bankruptcy serves as a one-time solution to an immediate fiscal crisis rather than a permanent shift in a city's underlying governance structure. As such, Chapter 9 is most
appropriate for unexpected, short-term causes. The logic of this solution thus implies that temporary problems in the market outweigh underlying structural political failures of federalism or the local government.

Bankruptcy is reactive and lacks a mechanism to identify impending crisis or recurrence. In addition, local bankruptcy’s potential to hurt state credit creates an incentive for states to bar jurisdictions from filing. Park (2004) suggests that regular state audits prior to crisis could address many of these weaknesses. Potential reforms in the bankruptcy process include granting creditors more protection and access to city revenues; court appointed supervision of government management and policy; and state involvement for a broad local overhaul (McConnell & Picker, 1993; Mikesell, 2002). While each of these solutions can help overcome local democracy failure, they risk exacerbating problems of majority tyranny by the state.

Control Boards

Most municipal finance problems in the United States are the product of poor management, not economic collapse or bad luck. This makes the appointment of a receiver or trustee, a disinterested third party, to establish sound financial management a reasonable response. (Mikesell, 2002)

Contrary to the literature outlining the myriad causes of municipal fiscal crisis, the prevailing attitude remains that fiscal crisis is primarily a local government problem requiring a management solution. Control boards follow this logic as a response to fiscal crisis. Despite their long history, the fiscal crisis literature largely ignores control boards. Limited political analysis of individual control boards (Shefter, 1985; Tabb, 1982) and alternative models ("Missed Opportunity: Urban Fiscal Crises and Financial Control Boards," 1997) exists, but does not compare control boards to each other or other solutions. These boards should be evaluated in the context of the literature on the causes of and other solutions to fiscal stress. In terms of causes,
how do control boards address the shifting market and federalist constraints that hurt local fiscal health? In terms of solutions, when does a control board better address the crisis than other local and state solutions? Just as the literature on causes of fiscal crisis and local solutions incorporates city size, analysis of control boards should distinguish their relevance to large and small cities.

Large control board cities have become fiscally sound, and case studies, policy reports, and media coverage credit their recovery largely to the boards. However, control board cities are not the only large cities to emerge from fiscal crisis. Cincinnati, St. Louis, and Boston are among the large, non-control board cities described as being in fiscal crisis at some point since the 1970s (Badu & Li, 1994; Lewis, 1984). Yet, these cities have solved their problems on their own, matching the literature’s expectation of retrenchment in response to fiscal stress. Thus, the studies of control boards should also consider other large cities.

Small control board cities appear to have different outcomes than their large counterparts. Despite growing popularity, the limited research on small cities suggests that control boards do not resolve their fiscal crises. Two studies on fiscal crisis in Ohio and Pennsylvania find that crisis stems from causes beyond local democracy failure that remain unaddressed by boards. Beckett-Camarata’s (2004) survey of city leaders indicates that they believe control boards help. However, she finds that of 15 cities in Ohio in fiscal emergency and with control boards, only five regained permanent health; three were not helped at all; and only one other ever substantially improved. The limited success of control boards may result from a disconnect between their focus and the causes of fiscal crisis that the author identifies: the market problem of local plant closings and federalist problems of unfunded mandates and the loss of intergovernmental revenue. Similarly, the Pennsylvania Economy League (2007) asserts both that many cities in fiscal distress do not use
boards because their trouble is not with local government's management. Thus, state legislation must be overhauled to become relevant.

In conflict with these studies, Professor Miller of University of Pittsburgh expects that “a recovery plan coordinator has an easier time moving forward in a small town, but I don't think the procedure would work well in Pittsburgh,” because small municipalities can most benefit from an infusion of financial management expertise (Barnes, 2003). This statement assumes that fiscal crisis primary emerges from a particular type of local democracy failure rather than market or federalist constraints. The divergent expectations of Miller and other scholars and policy makers highlight the uncertainty that surrounds both causes of crisis and control board usage. He does, however, reinforce a distinction between small and large cities that prevents automatically extending lessons from one scale to the other.

**Conclusion**

As shocks become increasingly likely to cause short-term local insolvency (Hendrick, 2004), the need to understand the dynamics of fiscal deterioration grows. The existing literature on fiscal stress provides tools to identify cities in crisis, explanations for the cause of these problems, and local and state strategies for regaining fiscal stability. While many scholars analyze fiscal stress, this research focuses on responses to the extreme problem of fiscal crisis. Beyond the ability to provide a short-term recovery, reactions to short-term insolvency affect medium and long-term fiscal health. Thus, solutions to fiscal crisis should be evaluated from this broader perspective.

This study builds on the existing fiscal crisis literature to systematically evaluate control board usage. The remainder of this section compares large city control boards to each other and
non-control board cities. Using descriptive analysis to begin to evaluate the contribution of control boards to the fiscal stability of large cities that have experienced severe fiscal distress. In addition, regression analysis measures whether states successfully identify the small municipalities that need control board intervention and the fiscal impact of small-city control boards several years after implementation. Lessons from the literature suggest that the contribution of control boards to the stabilization of large cities in fiscal crisis may be overstated. Moreover, the dynamics of small city fiscal problems combined with the limited existing analysis of small city control boards indicate that this solution likely fails to fix these troubled communities.
CHAPTER 3

ASSESSING THE POPULAR TRIUMPH OF LARGE CITY CONTROL BOARDS
Control boards in large cities, beginning with New York’s in 1975, have attracted extensive local and national coverage. In addition to New York, Cleveland was assigned a board in the 1980s; Philadelphia, the District of Columbia, and Miami had boards in the 1990s; and Buffalo and Pittsburgh received control boards in the 2000s that are still ongoing. Despite their repeated usage and current relevance in the economic downturn, academic analysis of these boards remains limited. Existing research focuses on New York’s board complemented by two policy studies requested by Congress on the role of several control boards. Comparative analysis of control board cities to other large cities in fiscal crisis can help evaluate the impact of these boards.

This chapter introduces the responsibilities of control boards in each city; examines existing coverage of boards by newspapers and policymakers; and provides an exploratory comparison between control board cities and other large cities in fiscal crisis. In particular, this chapter begins to determine the fiscal impact of control boards in large cities by exploring two questions. First, are control boards assigned to the cities in need of fiscal intervention? Second, do control boards improve fiscal outcomes relative to cities lacking this solution? Although a deeper understanding of how control boards work requires the case study research provided in the next section, this analysis can serve as a first step in understanding both the degree to which and how this institutional intervention can add to the fiscal stability of a city. By connecting control board outcomes to a city’s market and federalist position, this analysis helps disaggregate
the causes of fiscal crisis and identify the degree to which local democracy failure has created fiscal instability in large cities.

**Control Board Functions**

Large city control boards share many fiscal functions, responsibilities, and structural attributes. However, they also vary in terms of powers and membership composition. The shared role of these boards is likely to result in similar fiscal impact, while variation in both institutional design and context could lead to divergent results. Most basically, these control boards are each created with requirements to help a city restore its financial accounting system; advise the city in developing a financial plan and budget; approve, amend, or reject a city’s budget, financial plan, contracts, and debt issuance; and recommend improvements in city operations and management. These boards often have called upon the expertise and assistance of their state or federal government to reform local fiscal management. Beyond these shared fiscal responsibilities, control boards vary in their power to address problems in the market, federalist, and local government institutions.

*Market Position.* Control boards recognize that cities rely on the municipal bond market to fund local services. While experiencing fiscal crisis, cities have been locked out of that market or have faced higher costs of borrowing. Control boards have varied in how to respond to this relationship to the private market. The control boards in New York, Buffalo, Cleveland, and Philadelphia could issue their own debt, thereby providing an alternative source of funding. The District was required to obtain control board approval for all local borrowing, which was intended to reduce the costs of borrowing by introducing new credibility. In contrast, no borrowing was permitted in Miami during its control period. Thus, it had to wait for a better
market position before issuing debt. New York and Buffalo’s control boards possessed the additional authority to impose a wage freeze on city employees. Buffalo’s control board can also set maximum spending limits for the city.

Federalist Context. The design of each city’s control board and additional state assistance reflects, in part, the city’s political relationship to the state. The appointment process and composition of control boards varied across these cities, both reflecting and reinforcing the presence of majoritarian tyranny imposed by the state on the city. Cleveland’s seven members had the most local representation. In addition to the mayor and council chair composing half of the ex officio members, three appointees were nominated by local officials to be approved by the Governor. New York’s control board similarly had two locals out of four ex officio members, but all three appointees were chosen exclusively by the Governor. Buffalo’s nine members include the mayor and county executive, but are otherwise exclusively appointees of the Governor. The remaining four cities had no direct local representation on their control boards. Philadelphia’s five and Pittsburgh’s six members were appointees of the Governor and House and Senate, majority and minority leaders (Actions Taken by Five Cities to Restore Their Financial Health, 1995). The five control board members for Miami and the District were appointed by the Governor and President, respectively. Greater local membership on control boards may give cities voice in conflicts between the city government and state majorities.

Two other aspects of control board design interacted with their federalist context. First, the enabling legislation determined the conditions under which a control board would be terminated. Unlike Philadelphia’s control board on which both Miami and the District’s Boards were modeled, the latter two boards were established with temporary terms in order to bound their interference with local democracy (DeSeve, 2008). Second, control board members across
cities had backgrounds in business, finance, and law. The choices of local and state membership and experience were intended to best protect city and state financial interests.

Several of these cities received assistance from larger governments beyond their control board. Ohio and selected city banks bought some Cleveland bonds until the city regained access to the market. New York state lent the city $800 million and assumed some previously city functions (Actions Taken by Five Cities to Restore Their Financial Health, 1995). Similarly, Congress passed legislation taking over the costs of several expensive District services and assuming a decades-old unfunded pension liability. Although control boards were featured as the solution to these cities fiscal crises, state responses actually included a variety of actions addressing market problems and federalist constraints in addition to the boards.

Local Democracy Failure. As institutions designed to improve cities’ fiscal circumstances through management solutions, control boards seek to reduce poor local leadership including corruption and misfeasance. Each large city control board has enjoyed enforcement mechanisms to strengthen their impact. In Cleveland, the failure to submit the city budget on-time would result in a spending cap of 85 percent of the previous year’s spending. Philadelphia, Pittsburgh, New York, and Buffalo boards could withhold state funds or bond proceeds if the city failed to cooperate. Cleveland, New York, and Miami could also use the threat of removing local officials from office if they did not meet legislative requirements (Actions Taken by Five Cities to Restore Their Financial Health, 1995; Noto & Rymarowicz, 1995). The District’s control board was empowered by a supportive Congress with ultimate authority over all city actions. While enforcement powers were created to ensure local cooperation, extensive powers could also be used to increase the power of higher levels of government over the control board city.
Coverage

When Congress began considering how to address fiscal crisis in Washington, DC, Representatives drew on images of past successes to gain support for a new control board. In addition to positive media coverage attributing the emergence of large cities from their financial emergencies to control board intervention, expert witnesses testified on Capitol Hill about the contributions of these institutions. Since those hearings, favorable reviews have continued about the fiscal impact of control boards in the major cities of DC, Miami, Buffalo, and Pittsburgh. Reports by newspapers and policymakers rarely analyze control boards within a nuanced framework of how the institution connects to causes of fiscal crisis. Rather, they acknowledge the importance of a strong economy but primarily accept the logic that cities in crisis need external intervention in the management of local government. Little of this coverage considers the form of recovery likely to have unfolded absent a control board.

New York City’s control board was the first modern one in a large city. Despite governance controversies, the board was widely hailed for bringing the city’s finances to order and regaining New York’s access to the credit market. In fact, “the control board and MAC were the officially acknowledged saviors of this city during the fiscal crisis” (J. Williams, 1981). A later mayor for the city, Giuliani, identified the control board’s major assistance as being the pressure it applied during negotiations with labor unions (Fiscal Control Boards, 1995). Publicity surrounding New York set the tone for control boards being the best response to fiscal crisis. At the same time, analysts acknowledged that the control board was not the only factor in the city’s rebound. Mayor Koch also led critical city reforms that may have even eliminated the need for a board (Shefter, 1985; Tabb, 1982). In addition, the state assumed city functions
including the Courts and the City University (*Actions Taken by Five Cities to Restore Their Financial Health, 1995*). However, the effect of this long-term structural solution has not been analyzed or described as distinct from the impact of the control board.

Cleveland received its control board several years later to similar reviews. Voinovich, mayor of Cleveland during its board and later Governor, praised the board as a rudder in stormy weather (*Fiscal Control Boards, 1995*). Ohio Congressman LaTourrette later recalled that “while the commission did not resolve every management and structural problem which faced the city, within a period of just 7 years they had eliminated Cleveland’s deficit, balanced the budget, and restored the city’s access to its credit markets. In fact, the commission did such a good job, it put itself out of a job” (*Actions Taken by Five Cities to Restore Their Financial Health, 1995*). This description both implicitly denies that Cleveland’s situation would have improved without the board and assigns all credit of turnaround to the control board. While the board was useful in providing the mayor leverage to accomplish useful changes such as tax increases that had been rejected in earlier referenda, the brief duration of the city’s emergency – one year – suggests that the board may not have been necessary (Noto & Rymarowicz, 1995). Thus, the control board was accepted as important without evidence of what would have happened in its absence.

The coverage of Philadelphia’s control board followed the pattern of those that came before it. Moody’s credited the board as a major factor in city’s improvement and David Cohen, Mayor Rendell’s chief of staff, argued that the board helped remove the city from crisis by providing political cover for difficult decisions (A. Foster, 1995; "Moody's Raises PICA's Special Tax Revenue Bond Rating To Baa1 From Baa," 1994). A General Accounting Office (GAO) report grouped the control board of Philadelphia with those of New York and Cleveland
as having made a “positive contribution” to their cities’ fiscal stability and being instrumental to the cities’ success (Actions Taken by Five Cities to Restore Their Financial Health, 1995). At the same time, the analysis also described serious fiscal problems in Boston and Chicago and found that all five established better accounting practices and restored fiscal health. Thus, the report once again hailed control board results without illustrating that a different outcome would have occurred absent a control board.

The control boards in the District and Miami operated concurrently and received similar fiscal praise. These improvement of these cities occurred not only during the boards’ control periods but also during a national economic resurgence for central cities. Control board members and critics; local, state, and federal officials; and reporters interviewed in both cities believed that the institution had helped the city and achieved its fiscal goals (Beatty, 2008; Brimmer, 1998; Brochin, 2008; Colvin, 2008; DeSeve, 2008; Frank, 2008; Marquez, 2008; Newman, 2008; Norton, 2008; Rivlin, 2007; Rose Barras, 2008). In Miami, a report by the Florida Legislature’s Joint Auditing Committee in 1999 attributed the city’s financial improvement to the assistance and political pressure of its control board (Royse, 1999). Even the interim city manager who discovered the crisis and initially opposed the creation of a control board now argues that the control board was the only possible solution (Stierheim, 2008). While DC’s control board also left a legacy of political controversy, its fiscal impact was remembered favorably. At the conclusion of the board, Congressman Davis stated that “It accomplished its mission... you have to admit the city is in much better shape than when the control board took over” (Chan, 2001).

Two large cities that currently have control boards have received praise for their impact despite that their continuing operation indicates that the cities’ fiscal problems persist.
Pennsylvania Governor Rendell attributes Pittsburgh’s switch from crisis and large deficits to three years of budget surpluses in part its board. ("Pennsylvania Governor Rendell Announces Resignation of DCED Secretary Dennis Yablonsky," 2008). Similarly, when Standard and Poor’s removed Buffalo from its watch list in 2003, the city’s largest newspaper proclaimed that the change was “confirmation that... the state-imposed control board... has had an almost immediate effect on the city's operations” ("A Glimpse of Good News/ City's Removal from Watch List Shows That Short-Term Progress Is Being Made," 2003). Two years after this quick praise, residents expressed hesitation about the board’s success as a fiscal watchdog. A survey by the same newspaper found that twenty percent of residents believed that the board was doing well, over a third thought it was fair, and almost a third felt it was performing poorly. Complaints, however, focused on communication more than the city’s fiscal status (Meyer, 2005). Neither the newspaper’s praise nor residents’ disenchantment provides means to evaluate the actual contribution of the board.

Many analysts, however, qualify the success assigned to control boards. They argue that short-term improvement brought by control boards could make a city fiscally vulnerable for the long term by constraining revenue or mandating specific spending ("Missed Opportunity: Urban Fiscal Crises and Financial Control Boards," 1997; Noto & Rymarowicz, 1995), thus increasing majoritarian tyranny. For example, New York’s immediate financial success dissipated by the early 1990s, and the control board no longer appeared to be an adequate long-term solution (Berman, 1995). Even Jonny Finch, testifying in support of control boards on behalf of the GAO, asserted that control boards cannot be credited with helping long-term recovery, and measuring their short-term contribution is difficult. He found that control board cities experienced similar problems as Boston and Chicago, and all five immediately obtained
additional revenue; sought assistance to credibly measure their finances; reduced the number of full-time employees; worked with businesses; and improved management and service efficiency (Actions Taken by Five Cities to Restore Their Financial Health, 1995). Thus, large cities in fiscal crisis may respond similarly regardless of control board intervention.

Descriptive Analysis

Although it seems obvious that control boards have the most potential to help if they are created for cities that most need their assistance, this is not the only factor determining where to use control boards. The choice of whether to assign boards can depend not only on the need to address local democracy failure but also both federalism concerns of state policy and intergovernmental politics and market factors. This analysis begins by determining whether control boards are assigned to the large cities that need them most. This quantitative analysis cannot measure whether cities have the leadership to overcome obstacles of unpopular policy. Thus, I do not attempt to answer whether local democracy failure necessitates a control board. Instead, I measure need by the extent of the existing fiscal crisis and attributes reflecting the market and federalist position of the city.

Finch of the GAO argues that cities unable to identify their problems quickly and experiencing the most severe crises were assigned control boards (Actions Taken by Five Cities to Restore Their Financial Health, 1995). This is illustrated by the extent of crisis in Cleveland: in 1978 the city was the first to default on general obligation bonds since the Depression. CAFRs reveal that control boards have been assigned to most large cities facing severe fiscal crisis, with the exact share depending upon the definition of crisis. Of the sample’s 58 large cities in up to five observation years, only seven have had a general fund balance equivalent to
less than five percent of general revenue and either current general expenditures or a decrease in
the general fund balance over the past five years equal to at least five percent of general revenue.
In addition to the five large cities that have had control boards since 1982 – Buffalo, Miami,
fit these requirements.

This analysis uses a broader definition of crisis to match the quantitative analysis for
small cities used in the next chapter. This definition of crisis accounts for trends over time
through a drop in revenue or persistent deficit\(^1\) and includes a gap between general expenditures
and revenues equal to at least two-thirds of general revenues. The additional cities meeting this
condition are Tucson and Tampa in 1987 and Phoenix in each year of observation between 1987
and 2002. A city is included as a control board city in the descriptive analysis if it is assigned a
control board in the five years subsequent to the COG observation year. Thus, descriptive
statistics illustrate the state of a city just prior to intervention.

Although all of the control board cities had a fiscal crisis, only Miami’s crisis was in the
COG year prior to control board implementation. Rather, Washington, DC, Buffalo, and
Pittsburgh appeared over five years earlier, suggesting that a control board was used after the city
began improving. Philadelphia did not appear as being in crisis until shortly after the creation of
the board, perhaps because improved fiscal administration revealed the extent of the city’s
problems. The high correlation with control boards does indicate that it is a useful metric for
identifying cities with severe fiscal problems. An additional caveat is that the non-response
cities include Oakland, New Orleans, Newark, and Detroit, which are likely candidates for fiscal
\(^1\) Expanding the definition of crisis only to account for trends over time includes cities with either 1) a general fund
balance equal to ten percent of revenue coupled with a gap between general expenditures and revenues or drop in
fund balance equal to one-eighth of general revenue or 2) a drop in general fund balance equivalent to one-eighth of
general revenue and a gap between general expenditures and revenues of at least five percent of revenues both
currently and five years prior. This adds Tucson and Tampa in 1987 to the crisis list.

- 69 -
Chapter 3

crisis. Finally, this analysis will miss cities with short-term crisis resolved quickly in non-COG years, because fiscal variables are only collected in COG years.

Market Conditions. The appearance of fiscal crisis and control board implementation reflect the problems that can be created by a dependence on the private market for public services. Crisis and control boards appear in conjunction with a troubled national economy and poor local position in the market system. The trend of fiscal crisis in large cities reflects the national economy, peaking with about ten percent of the population in the country's largest cities living in a crisis city during the national recession of the early 1990s. The population in crisis rose from 3.1 million in 1987 to 4.3 million in 1992 before declining to levels below the late 1980s - 2.3 million in 1997 and 1.3 million in 2002. Based on this pattern, the total population of large cities in fiscal crisis should increase with the current national recession. Since 1990, four million people have lived in a large city with a control board.

By definition, crisis cities exhibit fiscal attributes that are worse than large cities overall. Control board cities also possess fiscal problems relative to other large cities. In particular, control board cities have the smallest fund balances as a share of revenue (Table 3-1). Their mean fund balance is only 5 percent of revenue, compared to over 15 percent for crisis and other cities, and their median level of 2.4 percent is also the lowest of the three city types. However, control board cities also reveal a slight increase in fund balances over the previous five years, suggesting that they may already be returning from crisis on their own prior to control board intervention. Crisis cities have a median current general deficit that equal to 8.6 percent of general revenue, compared to a slight surplus in control board cities and the total universe. Their fund balances, while not as low as in control board cities, are below levels of other large cities.
### Table 3.1. Largest Cities: Fiscal Attributes

<table>
<thead>
<tr>
<th></th>
<th>Control board</th>
<th>Crisis</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Fund Balance as share of Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.050</td>
<td>0.189</td>
<td>0.153</td>
</tr>
<tr>
<td>Median</td>
<td>0.024</td>
<td>0.028</td>
<td>0.136</td>
</tr>
<tr>
<td><strong>General Fund Balance share change over previous 5 years</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.008</td>
<td>0.029</td>
<td>0.028</td>
</tr>
<tr>
<td>Median</td>
<td>0.005</td>
<td>-0.047</td>
<td>0.010</td>
</tr>
<tr>
<td><strong>General Deficit as share of revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>-0.062</td>
<td>0.549</td>
<td>-0.005</td>
</tr>
<tr>
<td>Median</td>
<td>-0.068</td>
<td>0.086</td>
<td>-0.047</td>
</tr>
<tr>
<td><strong>Total Fund Balance as share of Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.174</td>
<td>0.318</td>
<td>0.446</td>
</tr>
<tr>
<td>Median</td>
<td>0.204</td>
<td>0.250</td>
<td>0.416</td>
</tr>
<tr>
<td><strong>Total Fund Balance share change over previous 5 years</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>-0.058</td>
<td>0.052</td>
<td>0.041</td>
</tr>
<tr>
<td>Median</td>
<td>0.022</td>
<td>0.008</td>
<td>0.043</td>
</tr>
<tr>
<td><strong>Total Deficit as share of revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.050</td>
<td>0.083</td>
<td>0.110</td>
</tr>
<tr>
<td>Median</td>
<td>0.052</td>
<td>0.073</td>
<td>0.074</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>5</td>
<td>16</td>
<td>181</td>
</tr>
</tbody>
</table>

Note: The universe for all tables in this chapter is cities that were included among the nation’s 75 most populous cities in 1980 and 2000. Each observation is a city in a COG year (such that each city has 5 observations).

Evidence suggests that control board, crisis, and other large cities differ from each other socioeconomically (Table 3-2). Among large cities, crisis cities have a smaller mean but larger median population and share of the regional population than other large cities. Control board cities are smaller than either group, with mean and median populations over 100,000 people lower than in the total universe. Moreover, control boards are the only city type to have shrinking populations. Control board cities are demographically worse off – they have lower median household incomes, lower rates of homeownership, high school graduation, and employment, and higher rates of female headed households and poverty – than crisis cities,
<table>
<thead>
<tr>
<th></th>
<th>Control board</th>
<th>Crisis</th>
<th>All</th>
<th>Control board</th>
<th>Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>635647</td>
<td>688063</td>
<td>736583</td>
<td>0.231</td>
<td>0.195</td>
</tr>
<tr>
<td>Median</td>
<td>358548</td>
<td>504689</td>
<td>478403</td>
<td>0.204</td>
<td>0.198</td>
</tr>
<tr>
<td>Population Change over past 5 years$^1$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>-38635</td>
<td>60674</td>
<td>48946</td>
<td>0.658</td>
<td>0.659</td>
</tr>
<tr>
<td>Median</td>
<td>-35316</td>
<td>10088</td>
<td>28968</td>
<td>0.616</td>
<td>0.621</td>
</tr>
<tr>
<td>Percent white</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.421</td>
<td>0.528</td>
<td>0.531</td>
<td>0.172</td>
<td>0.174</td>
</tr>
<tr>
<td>Median</td>
<td>0.518</td>
<td>0.574</td>
<td>0.542</td>
<td>0.066</td>
<td>0.092</td>
</tr>
<tr>
<td>Percent &lt; 18 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.225</td>
<td>0.231</td>
<td>0.245</td>
<td>26.644</td>
<td>33.663</td>
</tr>
<tr>
<td>Median</td>
<td>0.230</td>
<td>0.230</td>
<td>0.247</td>
<td>16.740</td>
<td>26.345</td>
</tr>
<tr>
<td>Homeownership rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.459</td>
<td>0.495</td>
<td>0.510</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>0.435</td>
<td>0.523</td>
<td>0.530</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High School Graduation Rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.682</td>
<td>0.718</td>
<td>0.760</td>
<td>0.254</td>
<td>0.380</td>
</tr>
<tr>
<td>Median</td>
<td>0.731</td>
<td>0.749</td>
<td>0.771</td>
<td>0.250</td>
<td>0.308</td>
</tr>
<tr>
<td>Female Headed Household rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.440</td>
<td>0.340</td>
<td>0.334</td>
<td>0.875</td>
<td>0.740</td>
</tr>
<tr>
<td>Median</td>
<td>0.426</td>
<td>0.357</td>
<td>0.307</td>
<td>0.829</td>
<td>0.409</td>
</tr>
<tr>
<td>Median Household income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>29732</td>
<td>34635</td>
<td>36864</td>
<td>0.933</td>
<td>1.277</td>
</tr>
<tr>
<td>N</td>
<td>5</td>
<td>16</td>
<td></td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

$^1$ Population change is only for cities in 1987 and after
which are in turn worse off than other large cities along almost every measure. These findings support the literature that high rates of poverty, unemployment, minority population, and female headed households as well as low household income and education rates correspond to fiscal instability. The findings do not support the literature that high rates of children also correspond to greater crisis. To the extent that these problems make fiscal stability difficult and the control board cities exhibit more pronounced socioeconomic challenges than other crisis cities, they will have more barriers to recovery. The exception is that crisis cities face approximately the same, and control board cities fewer, felony voting restrictions than other large cities, either because of fewer legal restrictions on ex-felon voting or lower crime rates.

Federalist Context. While socioeconomic characteristics provide insight into the city's challenges in a market system, regional and state attributes illustrate a city's ability to counter majority tyranny. Regionally, crisis and control board cities are in states with the fewest special districts per 10,000 residents. In contrast, control board cities are in the most fragmented metropolitan areas in terms of general purpose municipalities. These findings match predictions in the literature that special purpose districts can help maintain fiscal health, while municipal fragmentation can destabilize local finances. This reinforces this dissertation's argument that municipalities in a weaker position in the federalist structure, in this case because they are only one among many cities, are more vulnerable to fiscal failure.

State policy can impact whether a city enters fiscal crisis, its chances for recovery, and the particular solution chosen. This analysis cannot tease out each of these roles, but can begin to establish a relationship between the fiscal status of cities and particular state actions. Crisis cities are in states with the greatest revenue and spending constraints. All of these cities have some form of TEL, in contrast to the 17 percent of large cities with no TELS (Table 3-3). These
cities have a wide range of restrictions, including almost half with an overall TEL, which is three times the large city rate. Control board cities exhibit highly focused constraints – all are in states with property tax rate restrictions but no other TELs. These cities are also most likely to be in states that audit and provide technical assistance to their municipalities, while crisis cities are slightly less likely to receive these services than other large cities. Taken together, these exploratory measures support the view that states taking a hands-on approach to local finances generally are also more likely to employ control board solutions. In addition, they suggest that tax and spending restrictions imposed by the state on local governments impede fiscal solvency. Each of these policies represents a willingness of the state to impose its majority will on a municipality.

Crisis cities are in states with the longest tenure of a Democratic Governor within the previous five years while control board cities have the shortest such tenure. In contrast, Washington, DC, Philadelphia, Buffalo, and Pittsburgh have all had Democratic mayors for the
Assessing the Popular Triumph of Large City Control Boards

<table>
<thead>
<tr>
<th>Control Board Cities</th>
<th>General Deficit as Share of Revenue</th>
<th>General Fund as Share of Revenue</th>
<th>After 5 years</th>
<th>After 10 Years</th>
<th>After 15 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philadelphia</td>
<td>1992</td>
<td>0.058</td>
<td>-0.036</td>
<td>0.093</td>
<td>0.214</td>
</tr>
<tr>
<td>Washington DC</td>
<td>1987</td>
<td>-0.038</td>
<td>-0.067</td>
<td>0.068</td>
<td>-0.007</td>
</tr>
<tr>
<td>Miami</td>
<td>1992</td>
<td>0.127</td>
<td>0.024</td>
<td>-0.016</td>
<td>0.415</td>
</tr>
<tr>
<td>Buffalo</td>
<td>1992</td>
<td>-0.111</td>
<td>-0.035</td>
<td>0.079</td>
<td>0.085</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>1987</td>
<td>-0.134</td>
<td>0.041</td>
<td>-0.061</td>
<td>0.101</td>
</tr>
</tbody>
</table>

| Other Crisis Cities  |                                    |                                  |               |               |               |
| Phoenix city         | 1987                                | 2.113                           | 0.385         | 0.053         | 0.420         | 1.009         |
| Portland             | 1987                                | -0.046                           | 0.032         | 0.149         | 0.189         | 0.103         |
| Tampa                | 1987                                | 0.254                            | 0.055         | 0.054         | 0.178         | 0.289         |
| Tucson               | 1987                                | 0.333                            | 0.071         | -0.024        | 0.157         | 0.148         |
| San Francisco        | 1992                                | -0.124                           | 0.003         | 0.100         | 0.191         |

Note: Numbers in bold indicate that values are for years after a control board has been created.

Table 3-4. Largest Cities: Recovery from Crisis

duration of the time period studied, while Miami has had mayors across the political spectrum.

The divergence between Democratic leadership at the city and state levels suggests that states are more likely to assign control boards to cities in which local leaders have a different political affiliation than the Governor. These findings suggest that control boards may be used as a form of majoritarian tyranny by the state.

Recovery from Crisis. Descriptive analysis provides a preliminary indication of the contribution of control boards to fiscal solvency. Using an increase in general fund balances as a measure of fiscal improvement, this study compares outcomes of cities both with and without control boards. Conclusions are very limited, because Pittsburgh and Buffalo’s control boards are too recent to offer data on outcomes, leaving only three control board cities. However, in the remaining cities, large cities with control boards become fiscally sound, reflecting coverage that credits cities’ recoveries in part to the control boards. In these three cities, the general fund balance grew dramatically after control board intervention (Table 3-4). This jump was most
pronounced in Miami, where the general fund balance as a share of revenue grew 43 percent between 1997 and 2002. In the District over the same period, the balance grew 31 percent. However, the city also improvement over its initial general fund balance in 1987 prior to control board intervention, with an increase in the fund balance of almost 7 percent. Similarly, the general fund balances in Buffalo and Pittsburgh improved 8.5 and 19 percent, respectively, prior to control board intervention. Thus, these cities appear to be able to improve without control board intervention, although at a slower pace.

Cities in large crisis that have not been assigned control boards also have become fiscally sound. Phoenix, which appears in crisis each COG year because of high deficits, has nonetheless managed to increase its fund balance from 38 percent to over 100 percent of revenue. Portland, Tampa, Tucson, and San Francisco have also each raised their general fund balances from below approximately five percent of revenue to an average of one-quarter of revenue. Although Tucson took over five years to begin its improvement and Portland slipped between 1997 and 2002, each of these cities ended the observation period with significant general fund balances. Thus, alternative solutions to control boards seem successful in large crisis cities. As with control board cities prior to the intervention, this improvement occurred at a slower rate than after a control board has intervened. Data for Detroit, New Orleans, and Oakland are likely to reveal chronic fiscal stress. Such a finding would both undermine the argument that control boards are properly assigned to the cities that most need them and bolster the argument that control board intervention improves fiscal outcomes.

These findings require several caveats. To the extent that control boards are properly assigned to cities that systematically differ based on fiscal need, selection bias hinders the ability to measure their fiscal impact. Moreover, control boards’ complex political context complicates
the task of isolating their impact on a city’s success or failure from other factors including state or court order constraints, additional state assistance, and local officials pursuing the same strategies (Noto & Rymarowicz, 1995). Finally, the small sample size constrains analysis. Thus, the findings of this chapter are descriptive and intended to enrich a comparative understanding of control board usage rather than explain causality.

**Conclusion**

Descriptive analysis illustrates that control boards are assigned to cities in need of intervention based on their market position and that they contribute to the short-term fiscal recovery of cities in crisis. The correlation between existing state-level constraints and the introduction of control boards suggests that the boards help, in part, because they counter the political constraints imposed upon cities by their state governments. The data do not provide a means to measuring the degree to which a city’s local democracy contribute to its fiscal crisis. However, the improvement of cities that receive control boards suggests that this is a problem in large cities in fiscal crisis, because control boards target their solutions to changes in the local government.

While control boards offer the benefit of a fast recovery, large cities appear to be resilient and improve their finances even when using alternatives to a control board. Thus, this advantage of boards’ speed should be weighed against potential governance concerns (Section 3). In addition, the data available for these control board cities only demonstrate their short-term fiscal recovery, with no data included beyond a decade after a control board is first created. Critics contend that control boards may not help in the long-term, and so the fiscal health of these control board cities should be monitored for another five to ten years.
This analysis could be complemented by in depth research on particular cities. Case study comparisons of large crisis cities with and without control boards may reveal which types of causes of crisis are best addressed by various policy solutions. For example, San Francisco and Portland could provide lessons on how to resolve severe fiscal crisis without a control board. The large city attributes identified here, although descriptive, match many small municipality patterns of fiscal crisis and characteristics of states and cities using control boards. However, the fiscal outcomes of cities assigned control boards differ dramatically between large and small cities, as discussed in the next chapter.
CHAPTER 4

Size Matters: Outcomes of Control Boards in Small Municipalities
Following the popular embrace of control boards in the nation’s largest cities, states began to create the institution for cities of all sizes facing fiscal crisis. Small-city control boards have been used in nine states and 64 municipalities – villages, boroughs, towns, and cities – since 1975. In fact, just over half of control boards have been implemented in municipalities with fewer than 25,000 residents. However, the causes of fiscal failure or economic trouble in large and small cities differ, and the path to recovery for one type of city is not necessarily best for the other. This chapter examines whether control boards help small municipalities as they seem to speed fiscal recovery in large cities. The chapter begins by comparing the nature of small city control boards to those of large cities, and then explores the mixed experiences of these cities through newspaper reports. The quantitative analysis first examines which small municipalities are assigned control boards and how their attributes correlate to the causes of fiscal crisis. Second, it measures the impact of control boards on the fiscal outcomes of these cities. Finally, the chapter concludes by jointly reviewing the quantitative analysis and experiences of small municipalities in fiscal crisis.

The landscape of small-city control boards are centered in the Midwest but reach across the country. Most recently, the Village of Portage, Ohio was assigned a control board on April 8, 2009. Ohio’s 45 control boards make up the majority of small city control boards, and Pennsylvania follows with the second most frequent usage of the institution. North Carolina has had three small town control boards since the late 1990s, and Louisiana has had one. These
states have not assigned the boards to larger cities. Michigan has created five small city control boards, although one of these was court appointed, and has just initiated one in the medium size city of Pontiac on March 23, 2009. Similarly, Sunflower, Mississippi was assigned a court appointed board. Connecticut, Rhode Island, and Florida have used one, one, and two small city boards, respectively, while all three states have also employed them in larger municipalities. In addition, Nevada has pursued boards in two rural counties, Illinois has assigned a board to a slightly larger city, Massachusetts has implemented them in eight medium sized cities, and New York has used the boards in several large cities and counties.

**Control Board Functions**

In addition to potential differences between small and large cities in the nature of their fiscal crises, variation across city scales in the institutional design of control boards could impact their fiscal success. Control boards in small municipalities can differ from those in large cities in whether they share enabling legislation; the design of and powers granted to the boards; the degree of local representation in their membership; and whether receiving a board is voluntary. Each of these institutional design choices highlights the significant influence of a federalist structure, while these variations in control board design do not focus on differences in the relative market strength of municipalities or their potential for local democracy failure.

Enabling legislation is the first opportunity for states to distinguish their relative dominance over large and small municipalities. Control board assistance begins with the process of identifying the municipalities that need state intervention. The process of initiating review for control board creation is not consistent across city scale, and could bias implementation towards larger cities. Ohio, Louisiana, Michigan, North Carolina, and Florida apply the same financial
emergency and control board legislation to municipalities of all scales. Thus, the control board created for the 194 person Village of West Elkton, Ohio has the same institutional design and authority as the one implemented in Cleveland. Pennsylvania’s Act 47 applies to all municipalities except Philadelphia, and the legislation is supplemented by an individual act for Pittsburgh. Rhode Island unusually combines general and individual law such that its statewide act has only been used in a single, medium-sized city, but individual legislation has been passed several times, including for the small city of Central Falls. Connecticut always requires individual enabling legislation, but the act for 3,349-person Jewett City was modeled after prior laws implemented in larger cities. Among states that have used control boards but not in small municipalities, Nevada and Illinois apply the same legislation to all municipalities. New York and Massachusetts, in contrast, pass individual enabling Acts for each board.

Control boards in small cities lean slightly more towards local choice than in large cities, because different actors begin the process of their creation. While control boards in the nation’s largest cities were initiated primarily at the state level, many small-city control boards are created at the request of the municipalities themselves. In fact, municipalities in Illinois must request the creation of a Financial Advisory Authority, although a city can only do so if it meets certain fiscal conditions. In Ohio, the initial review to determine whether a fiscal emergency exists can be initiated by the municipality, governor, or state auditor. 39 of the 45 control boards in Ohio cities with populations below 25,000 were requested by the local governments. In contrast, three of the four control boards in the state’s larger cities were assigned control boards after a state instigated audit. Pennsylvania and Michigan allow their review process to be initiated by a variety of actors including local and state officials, and Michigan’s also can be triggered by actions such as a default on debt or failure to pay municipal employees. The control
board process is always initiated by the state in North Carolina and Louisiana. This variation is significant, because the process of initiating a financial review of municipalities and subsequently assigning control boards can largely determine whether the cities most in need of control boards are the ones that are assigned them.

That state governments often rely on the requests of local officials to identify troubled small municipalities has conflicting impact on the ability to identify troubled municipalities and potential for majority tyranny. Decentralized identification opens the possibility of inconsistency in smaller cities but also reduces the possibility of the state requiring a local takeover against local interests. Similarly, states that require individual legislation for control boards are more likely to overlook the needs of the smallest municipalities, because may not garner that level of state attention.

The powers of small-city control boards, once enacted, closely resemble their large-city counterparts. Ohio’s and Florida’s control boards in small cities have identical powers to those described in the previous chapter for Cleveland and Miami, respectively. In Pennsylvania, the fiscal coordinator has a similar role as the Philadelphia board, but lacks the power to issue debt and can instead apply for interest-free loans from the state. This shifts dependence away from the private market and towards the state majority.

Control board powers range in states that lack large-city boards. Administrators in Louisiana have powers typical of large-city control boards. The weakest control board is that of Central Falls, Rhode Island. The enabling act was less stringent than the statewide version and emphasized local action. The board is only advisory in many areas, although it maintains the power to reject non-educational expenditures enabled by state educational funding, debt issuance, and a debt elimination plan. In contrast, other states imbue these institutions with more
power than the large city control boards discussed in Chapter 4. In addition to traditional control board budgetary, financial plan, debt issuance, and expenditure oversight, Michigan’s fiscal emergency managers can renegotiate labor contracts, sell city assets, and amend many new local laws. Jewett City’s receiver can similarly sell city assets, levy taxes, restructure city services, and even fire elected officials. North Carolina’s commission has expansive financial powers over municipalities in fiscal emergency that include levying taxes, spending, and adopting budgets. Even in fiscally stable municipalities, the commission oversees most financial actions and maintains the power to reject bond issuances. States that imbue control boards with more expansive powers have a greater ability to attend to state interests over local ones.

Local voice in small city control boards is complicated by a smaller need for a range of representatives on their control boards. A common design formulation for small-city fiscal emergency oversight is having a single manager report to a review board. Pennsylvania uses an appointed “coordinator;” Jewett City law created a receiver with similar financial powers to other Connecticut control boards; fiscal administrators from the state Legislative Auditor’s office in Louisiana report to a State Fiscal Review Board that comprises top state officials; and state-appointed Local Emergency Financial Assistance Loan Boards in Michigan oversee an appointed emergency financial manager. Assigning detailed control to an individual rather than a board recognizes that small municipalities require less day-to-day attention than large cities but also concentrates power in a state appointee without any local representation to protest majoritarian tyranny by the state. Ohio, Florida, Rhode Island, and North Carolina use boards even for their smallest cities, although North Carolina uses a single Local Government Commission to oversee all cities in fiscal emergency.
As in large-city control boards, the degree of local representation of small-city boards varies across states. Ohio provides for the most local representation on the board. As in Cleveland, the seven-person, small-city boards include two local members and three Governor appointees recommended by local officials. Rhode Island fosters local voice with the inclusion of two local officials on its seven person review board. The remaining states guarantee no local representation in the selection of fiscal administrators and control boards.

Local Democracy Failure. The primary institutional variation in how control boards are equipped to resolve local government failures is the extent of their enforcement powers. In this area, small city control boards mirror their large city counterparts. Small city boards maintain the enforcement mechanism of withholding state funds when the city is noncompliant. In addition, they retain the common enforcement mechanisms across states of the ability to remove noncompliant local officials and the support of the court.

The Mixed Experiences of Small Cities

Knowledge of the particular circumstances and processes of control board intervention in small municipalities should frame the interpretation of quantitative analysis. Thus, I use newspaper articles to qualitatively explore small-city fiscal crisis and control boards. Unlike with large cities, reports of small city control boards attempt to connect the causes of fiscal crisis to the choice of a control board response. Two patterns emerge from the coverage of these small municipalities. First, the fiscal impact of control board intervention appears mixed and their success rate seems to correspond to the cause of municipalities fall into crisis – socioeconomic decline or mismanagement and corruption by prior officials. Second, the process for identifying cities that need control boards is vulnerable to inconsistency. Cities in fiscal crisis as severe as
recipient cities can be excluded, while other cities proactively respond to crisis. In fact, cities on their own and using control boards often pursue similar avenues out of crisis. These experiences focus on Ohio and Pennsylvania, because they are the focus of the regression analysis, but similar patterns are found in other states.

**Market Weakness.** Cities that enter fiscal crisis because of underlying socioeconomic and population decline, often greatly exacerbated by the closing of a manufacturing plant, progress much differently than those seeking to overcome management problems. Media coverage reveals a limited ability for these small control board cities to emerge from distress. Professor Miller suggests that “it is very difficult for communities on the lower end to turn around. There is nothing that a management plan can do in 100 years that is going to solve [their] problems” (Cohan, 2004). Restoring fiscal stability after massive job loss, plant closings, and retail abandonment requires changes beyond improving the budget process.

If the legislation includes the proper provisions, control boards can also help reduce personnel costs by changing the terms of new collective labor negotiations. In particular, Act 47 Control boards reduce union leverage by requiring that new agreements comply the city’s recovery plan (Barnes, 2003). However, union costs were only cited as a cause of crisis in one Michigan and one Connecticut city ("Relief From State Helps Calm A Community's Fiscal Nerves," 1993; Wisniewski, 2000). Moreover, unions in Eastlake, Ohio and Newcastle, Pennsylvania offered concessions prior to a control board being in place (Bucsko, 2006; Gillispie, 2004c). Other cities reduced personnel costs by layoffs, eliminating departments, cutting employees through attrition with renegotiating labor contracts. Thus, overly generous collective bargaining does not appear to be a major driver of crisis in small municipalities or an avenue for control board solutions.
Overcoming structural deficits requires either increasing tax rates or expanding the tax base. In Ohio, control board cities Coalton and Eastlake passed referenda for a tax levy, and Harveysburg created a motor vehicle fee (Budd, 2007a; Gillispie, 2004a; M. B. Lane, 2006). Such tax increases must be approved by residents and cannot be forced by control boards. Thus, some control municipalities may fail in these efforts while cities without a control board may pass tax levies. A distress designation in Pennsylvania allows cities to implement taxes such as nonresident taxes that are not available to other cities. However, because they must end before their control board oversight ends, these taxes are not a long-term solution.

"There are no easy answers unless you're able to replace a major city employer," according to Tom Tulip, the state designated fiscal coordinator for Farrell, Pennsylvania (Yates, 2004). Newspaper articles the state focus on local redevelopment efforts as the path out of crisis (Blazina, 2007; "Despite massive development, Homestead remains distressed," 2004; Gaskill, 1998; Nephin, 2004; Stuart, 1995; Yates, 2004). As with managerial improvements, not all market gains or redevelopment projects in control board cities can be attributed to the new institution. For example, such efforts in Homestead began with federal funding in the 1980s ("Braddock's Defeat," 1997). Some distressed cities reject Act 47 assistance and pursue their own economic development strategies (Vertullo, 2007; P. R. Ward, 2004). For example, Butler pursued several solutions on its own: the city increased fees and its mill tax, sought payments from tax-exempt property owners, cut a variety of services and personnel, and pursued redevelopment projects (Welsh, 2004). Similar patterns are found in Michigan, the other state that assigned control boards to cities in crisis from underlying tax base problems. Control board cities Highland Park and Hamtramk sought major economic redevelopment projects, yet Highland Park’s projects began before their state intervention (Ankeny, 2006; "State to takeover
Highland Park finances," 2000). Thus, economic development can be a worthwhile control board pursuit but is not limited to control board municipalities. This solution also has limited reach in troubled regions, because redevelopment opportunities are not plentiful enough to help all municipalities (Cohan, 2004).

A final element of ambiguity about the impact of control boards emerges after their long-term operation. Farell, Pennsylvania attempted to merge with its neighboring municipalities after seventeen years under a control board (P. R. Ward, 2004), and a number of Ohio municipalities similarly considered dissolving. When their control boards ended, North Braddock and Wilkinsburg, Pennsylvania fought to keep their distress designation, arguing that they still battled crisis because of devastated tax bases (Block, 1999; Nephin, 2004). These communities recognize the immediate benefits of Act 47, while also finding that the intervention has not resolved their structural problems. In these cases, control boards appear to be a way to temporarily avoid harmful policies imposed by the state, without permanently resolving the state’s majoritarian tyranny or the city’s market weakness.

Local Democracy Failure. Control boards attempt to resolve fiscal problems that stem from numerous causes. While poor recordkeeping and fiscal leadership are not measured as part of the regression analysis, newspaper coverage provides insight into whether the management intervention of a control board is more successful when these problems of local democracy failure rather than market weakness are the major driver the emergency. Local and state officials as well as emergency financial managers cited poor fiscal management as a major contributor to crisis in eight cities in Ohio and Pennsylvania (Gillispie, 2004b; Guidry, 1999, 2000; M. B.
Lane, 2006; Lecker, 2005; Place, 1997: Rouse, 1999, 2001, 2002; Woods, 1993). The manifestations of this problem included corruption, inexperience, bad one-time decisions, and lack of adequate recordkeeping. Each case except Galion, OH has emerged from its control board status. In contrast, approximately two-thirds of Ohio's control boards have been terminated and only six of the 14 small-city fiscal emergency declarations in Pennsylvania prior to 2000 have ended. Thus, control boards appear more successful in municipalities that need fiscal management assistance. These causes match those of the small-city control boards in North Carolina, Louisiana, and Connecticut, suggesting that these states target cities that they are most likely to be able to help through this form of intervention ("East Spencer in trouble for finances," 2001; "East Spencer may regain control of finances this week," 2003; Gunn, 2006; "Relief From State Helps Calm A Community's Fiscal Nerves," 1993; Zagier, 1996). The causes of crisis in Michigan's control board cities are more varied.

Local Response to Crisis. Articles about small cities that were assigned control boards highlight the variation in circumstances that lead troubled cities to initiating the control board process. Professor David Miller of the University of Pittsburgh identifies 25 equivalently distressed cities in a single Pennsylvania region, but finds that only nine of them sought control boards (Cohan, 2004). Rather than the existence of a problem, the particular choices and strategies of local leadership determine whether a solution – and a control board in particular – is sought. While most requests for state intervention are made by local officials, proactive individuals can also begin the process. Residents in several Pennsylvania and Connecticut cities petitioned the state for intervention after their local officials were unwilling to begin the process (Bucsko, 2006; Haynes, 1995; "Relief From State Helps Calm A Community's Fiscal Nerves,"

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1 The contribution of a fired city administrator to Nanticoke, PA's 2006 designation is unclear relative to other causes including a stagnant tax base and aging population (Buffer, 2006a, 2006b). However, the city's designation is too recent to determine the success of state intervention.
1993). Thus, many small municipalities in fiscal crisis may be overlooked by state control boards, and their assignment is not entirely predictable.

Control boards in cases of local democracy failure help by replacing the existing, poorly functioning administration. However, new city officials replacing faulty leadership also have the opportunity to correct pre-existing problems without outside intervention. Thus, the benefit of control boards should be measured relative to what would have happened in their absence. For example, rather than filing for Act 47, a new mayor in McKeesport, PA successfully eliminated the city’s $1.2 million deficit to create a $2 million fund balance through three years of business development (Vertullo, 2007). Unfortunately, because the introduction of the control board is what usually calls attention to the circumstance outside of the municipality, I could not compile a list of places with equivalent problems and new leadership but that did ask for state assistance. Thus, many communities could be equally proactive and as successful in the long-term as ones with control boards.

Newspaper coverage does indicate that many local officials began to address their budget crises before control boards were ultimately created. For example, Eastlake, Ohio’s mayor implemented a number of changes prior to fiscal emergency including layoffs, concessions from unions, and trash collection fees (Gillispie, 2004c). Several other cities in Ohio and Michigan acted similarly proactively (Budd, 2007b; Dreitzler, 1992; "State to takeover Highland Park finances," 2000; Woods, 1993). In Pennsylvania, the officials of Homestead made such deep cuts to the city budget prior to the fiscal coordinator’s arrival that he could not identify many more opportunities for budget reductions (C. Parker, 1993). The political cost of fiscal failure was high outside the Midwest as well. The mayors and city councils of East Spencer, NC and Glenmora, LA experienced complete turnover at the realization of fiscal crisis and prior to state
intervention ("East Spencer may regain control of finances this week," 2003; Gunn, 2007). This degree of local action and electoral accountability suggests that even when control board cities improve, not all of the success can be attributed to the state intervention.

Causes of Small City Crisis

The stories of individual small cities in fiscal crisis provide a framework for a quantitative analysis of control board usage. In particular, the patterns of these municipalities focus on two issues: 1) whether control boards are assigned to cities that can most benefit from their intervention and 2) whether they help restore the cities’ fiscal stability. Control boards are designed to help municipalities experiencing fiscal emergencies. Moreover, they help alleviate long-term financial trouble to the extent that they can address the underlying causes of crisis. Thus, this quantitative analysis begins by determining the extent and causes of fiscal emergencies in small municipalities.

This dataset reveals that fiscal crisis is a significant problem in small cities, with crisis cities account for fifteen percent of all small municipalities nationwide. The pattern matches large cities in that the rate of crisis tracks the national economy. As with the large city analysis, this dataset misses cities with a short-term crisis in a non-COG year. Fiscal crisis is usually short-term: six in ten crisis cities appear troubled only once in the COG data, and a quarter only twice. However, over half of small cities have been in fiscal crisis at some point since 1977. In Ohio and Pennsylvania, the states with the most standardized processes for assigning boards and most cases of them, 41 percent of control board cities are in fiscal crisis (Table 4-1). Although the rate is far above average, control board cities are not universally in crisis. Nationally, cities that file for bankruptcy, greatly increase their intergovernmental aid as a share of revenue, or
Table 4-1. Rates of crisis by type of solution for cities with a population <= 25,000

dissolve also have above average rates of fiscal crisis. Thus, board usage and crisis response seems to respond not only to fiscal problems but also other factors.

To examine causes of crisis, I use logit analysis with the dependent variable being the crisis variable and independent variables for the fiscal position of the city five years earlier, market strength represented by socioeconomic characteristics; federalist attributes of regional fragmentation, state policies, and local service responsibilities; and dummies for each year (Table 4-2). The independent variables reflect the literature, and the significance of almost all variables reinforces existing views of the causes of crisis. A second regression that excludes prior fiscal variables, because the other factors may have contributed to the earlier fiscal state, has similar results.

As expected, the likelihood of crisis corresponds to a city’s earlier fiscal position. A higher prior deficit level slightly increases crisis rates, and having been in crisis increases that chance by four percentage points. Descriptively, the median crisis city has a lower debt level than non-crisis cities, at three and 29 percent of revenue, respectively. Although insignificant in the regression, the pattern may indicate debt helps avoid immediate crisis without reducing long-term strain. Oddly, a higher prior cash fund corresponds to a greater crisis.
### Table 4.2. Probit regression of fiscal crisis

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crisis. Five years earlier</td>
<td>0.356 (.025) ***</td>
<td>Not in an MSA</td>
<td>-0.056 (.026) **</td>
</tr>
<tr>
<td>Cash holdings as a percent of Revenues, Five years earlier</td>
<td>0.020 (.005) ***</td>
<td>Special districts per 10,000 state residents</td>
<td>-0.008 (.004) *</td>
</tr>
<tr>
<td>Deficit as a percent of Revenues, Five years earlier</td>
<td>0.022 (.007) ***</td>
<td>Years of last five with a Democratic Governor</td>
<td>-0.040 (.006) ***</td>
</tr>
<tr>
<td>Debt as a percent of Revenues, Five years earlier</td>
<td>0.000 (0.001)</td>
<td>State audits local governments</td>
<td>-0.096 (.013) ***</td>
</tr>
<tr>
<td>Share of expenditures on most common functions</td>
<td>0.492 (.045) ***</td>
<td>State provides technical assistance</td>
<td>0.148 (.015) ***</td>
</tr>
<tr>
<td>Share of expenditures on least common functions</td>
<td>0.563 (.121) ***</td>
<td>TEL: General property tax rate limit</td>
<td>0.429 (.035) ***</td>
</tr>
<tr>
<td>Population (1000s)</td>
<td>-0.192 (.009) ***</td>
<td>TEL: Specific property tax rate limit</td>
<td>0.289 (.034) ***</td>
</tr>
<tr>
<td>Population change over ten years</td>
<td>0.021 (.012) *</td>
<td>TEL: Tax levy limitation</td>
<td>0.141 (.029) ***</td>
</tr>
<tr>
<td>Population squared</td>
<td>0.007 (.000) ***</td>
<td>TEL: Overall tax or expenditure limit</td>
<td>0.839 (.044) ***</td>
</tr>
<tr>
<td>Flag for missing earlier population</td>
<td>0.116 (.128)</td>
<td>TEL: No TELs</td>
<td>0.634 (.051) ***</td>
</tr>
<tr>
<td>Share of population that is black</td>
<td>-0.010 (.093)</td>
<td>Share of population that is foreign</td>
<td>-0.397 (.337)</td>
</tr>
<tr>
<td>Share of population that is Hispanic</td>
<td>-0.302 (.137) **</td>
<td>Voting restrictions for ex-felons</td>
<td>0.001 (.000) **</td>
</tr>
<tr>
<td>Share of population that is below 18</td>
<td>0.479 (.252) *</td>
<td>Flag for missing crime rate data</td>
<td>0.397 (.034) ***</td>
</tr>
<tr>
<td>Share of population without High School degree</td>
<td>0.554 (.117) ***</td>
<td>Northeast</td>
<td>0.058 (.051)</td>
</tr>
<tr>
<td>Employment rate</td>
<td>-0.507 (.114) ***</td>
<td>Midwest</td>
<td>0.187 (.035) ***</td>
</tr>
<tr>
<td>Poverty Rate</td>
<td>0.571 (.150) ***</td>
<td>West</td>
<td>0.058 (.047)</td>
</tr>
<tr>
<td>Median household income ($1000s)</td>
<td>-0.003 (.001) ***</td>
<td>Year: 1982</td>
<td>-0.119 (.130)</td>
</tr>
<tr>
<td>Share of population that is 65+</td>
<td>-1.738 (.228) ***</td>
<td>Year: 1987</td>
<td>-0.585 (.033) ***</td>
</tr>
<tr>
<td>Share of female headed households</td>
<td>-0.506 (.151) ***</td>
<td>Year: 1997</td>
<td>0.148 (.048) ***</td>
</tr>
<tr>
<td>Homeownership rate</td>
<td>0.419 (.117) ***</td>
<td>Year: 2002</td>
<td>-0.520 (.054) ***</td>
</tr>
</tbody>
</table>

* indicates p<0.10, ** p<0.05, ***p<0.01

**Market Weakness.** The results suggest that a poor market positions contributes to fiscal crisis. The demographic variables support poverty, low household income, low employment, low educational attainment, and high youth population as causes of crisis. While the finding that higher share of senior citizens reduces crisis contradicts much of the literature, it matches findings for rural areas (Johnson et al., 1995). Cities were also less likely to be in crisis during strong national economies, while being in the Midwest increases crises, supporting the role regional and national economy in local crisis. The findings that cities with greater shares of Hispanics and single-female headed households are less likely to enter crisis are outside existing research. The crisis literature has not studied the role of scale within small cities. This regression indicates that smaller but growing municipalities have greater chances of fiscal crisis. These
findings are consistent with the descriptive finding that the population of the median crisis city, 588, is roughly half the median population for the universe.

**Federalist Political Context.** In terms of state impact, cities in states with more special districts; audits of local governments; and a long tenure of a Democratic governor have lower likelihoods of fiscal crisis. In contrast, states that provide technical assistance; have any of the TELs – most significantly an overall TEL that increases crisis rates by 11.8 percentage points – or are lacking any form of tax limitations are more likely to enter fiscal crisis. Rural municipalities are 0.6 percentage points less likely to experience fiscal crisis than those in a metropolitan area. However, because these cities are either not in MSAs or are a small share of the region, general purpose fragmentation in the region is not measured. Without testing for state impact on local finances through unfunded mandates, these findings support the literature’s emphasis of state contributions to crisis. The findings do echo the literature’s perceived burden of state determined local spending on least common functions as defined by Kamer (1983). Cities spending ten percent more on least common functions are 0.6 percentage points more likely to be in crisis. Cities spending more on most common functions have approximately the same increase in crisis, which may reflect focusing limited resources on basic functions.

**Local Democracy Failure.** A regression testing the role of municipal political structure is inconclusive. The fact that the data was collected only for three years in cities with at least 2,500 residents greatly limits the sample size. Thus, no political variables are statistically significant and many previously significant variables become insignificant. State technical assistance and most TELs remain highly significant, indicating that these actions are particularly important to fiscal outcomes. Insignificant political variables could affirm the literature that political structure

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2 Kamer defines most common spending as for highways, police and fire, sanitation, parks and recreation, and financial administration. Least common spending is for education, health and hospitals, and public welfare.
does not shape fiscal outcomes, but the insignificance of demographics suggests this is a data limitation. A regression including only political variables provides limited evidence that cities with a mayor or mayoral budget prepared are more likely to enter fiscal crisis. The descriptive analysis similarly supports the contention that political structure minimally impacts the occurrence of crisis, because the political structure of crisis cities does not differ from other cities. Crisis cities also do not differ from the total universe in voting eligibility or voting rates in local elections.

The crisis regressions reaffirm the existing literature in emphasizing poor markets and socioeconomic attributes as well as unwanted state policies as major causes of fiscal crisis. This consistency provides reassurance that this dataset appropriately measures the information it compiles. These regressions are run on municipalities in Ohio and Pennsylvania only and exclude state variables, because the universe only spans two states. The small sample size again reduces the number of significant variables, but those that remain significant follow the patterns of the national regression. The similarity between these two states and nationally affirms the validity of restricting the control board analysis to these states.

**Control Board Implementation**

Understanding the causes of fiscal crisis allows policy makers to not only resolve the existing fiscal crisis but also prevent a future recurrence. Thus, this section examines whether the attributes that lead to fiscal crisis also lead control board creation. These regressions are restricted to Ohio and Pennsylvania, where most control boards occur. Because only 46 cities in the sample were assigned boards, I use King and Zeng's (2001) rare events logit regression. To avoid insignificance due to small sample size and too many degrees of freedom, an initial series
of regressions groups independent variables into fiscal, demographic, municipal political, and regional categories. As the primary expected cause of control board assignment, a crisis variable is placed in each regression. Next, the statistically significant variables are combined into a single regression.

The results indicate that control boards exhibit a distinct fiscal pattern (Table 4-3A). Descriptively, cities just before control board usage have cash fund levels and deficit and deficit change between crisis cities and municipalities overall. They have the highest median debt level but also the greatest five year drop in debt. These patterns may indicate that although control board cities are better than crisis cities along most measures, they have reached their limits in the bond market. This highlights the local problems created by a dependence on the market for resources. The fiscal narrative of these cities is sharpened by the variables contributing to control board usage in preliminary regressions. Fiscal crisis; low levels of cash funds; high prior levels of least common spending; and high deficit ratios but also deficit and debt ratios that have decreased correspond positively to control board usage. While these factors link control boards to fiscal problems, municipalities already improving are more likely to get boards than stagnant cities. Thus, control boards are not matched to cities that lack an ability to improve on their own.

Unlike findings from the largest cities in the country, control board cities in this universe are not smaller than their peers. Rather, larger population increases the likelihood of getting a board, consistent with a median control board city population of 4,156 that is almost four times the median population of 1,100 nationally and a mean population twice that of the overall population. Given that smaller municipalities are more likely to enter crisis, the number of residents inversely impact the likelihood of entering crisis and control board usage. Limited evidence from the preliminary regressions also suggests that cities losing population are more
### A) Attributes of local governments

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City in crisis</td>
<td>0.659 (0.427)</td>
</tr>
<tr>
<td>Cash holdings as a percent of Revenues</td>
<td>-1.065 (0.608) *</td>
</tr>
<tr>
<td>Deficit as a percent of Revenues</td>
<td>1.004 (0.150) ***</td>
</tr>
<tr>
<td>Deficit Change over past 5 years</td>
<td>-0.259 (0.111) **</td>
</tr>
<tr>
<td>Debt Change over past 5 years</td>
<td>-0.235 (0.029) ***</td>
</tr>
<tr>
<td>Share of expenditures on least common functions, 5 years earlier</td>
<td>10.717 (2.137) ***</td>
</tr>
<tr>
<td>Population (1000s)</td>
<td>0.308 (0.109) ***</td>
</tr>
<tr>
<td>Population change over ten years</td>
<td>0.040 (0.006)</td>
</tr>
<tr>
<td>Population squared</td>
<td>-0.010 (0.146) *</td>
</tr>
<tr>
<td>Flag for missing earlier population</td>
<td>0.031 (0.472)</td>
</tr>
<tr>
<td>Share of population that is below 18</td>
<td>-2.638 (3.007)</td>
</tr>
<tr>
<td>Share of female headed households</td>
<td>8.498 (1.891) ***</td>
</tr>
<tr>
<td>Homeownership rate</td>
<td>5.843 (1.751) ***</td>
</tr>
<tr>
<td>Share of population without High School degree</td>
<td>6.436 (1.311) ***</td>
</tr>
<tr>
<td>Poverty Rate</td>
<td>5.971 (1.925) ***</td>
</tr>
<tr>
<td>Council members affiliated with political parties</td>
<td>0.150 (0.720)</td>
</tr>
<tr>
<td>Flag: Municipal political variables</td>
<td>0.123 (0.712)</td>
</tr>
<tr>
<td>Share of population that is foreign</td>
<td>16.737 (3.963) ***</td>
</tr>
</tbody>
</table>

N 8924

* indicates p<0.10, ** p<0.05, ***p<0.01

### B) Policies of states using control boards

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City in crisis</td>
<td>0.910 (0.313) ***</td>
</tr>
<tr>
<td>Special districts per 10,000 state residents</td>
<td>-0.889 (0.166) ***</td>
</tr>
<tr>
<td>Years of last five with a Democratic Governor</td>
<td>-0.195 (0.076) ***</td>
</tr>
<tr>
<td>State audits local governments</td>
<td>0.319 (0.078) ***</td>
</tr>
<tr>
<td>State provides technical assistance</td>
<td>0.347 (0.218)</td>
</tr>
<tr>
<td>TEL: General property tax rate limit</td>
<td>0.610 (0.249) **</td>
</tr>
<tr>
<td>TEL: Specific property tax rate limit</td>
<td>-0.942 (0.238) ***</td>
</tr>
<tr>
<td>TEL: Tax levy limitation</td>
<td>-0.059 (0.264)</td>
</tr>
<tr>
<td>TEL: No TELs</td>
<td>-2.585 (1.057) **</td>
</tr>
</tbody>
</table>

N 86231

indicates p<0.10, ** p<0.05, ***p<0.01

Table 4-3. Rare events logit regression of control board implementation
likely to get control boards. These population patterns contradict crisis patterns. Thus, this intervention overlooks a class of cities in need of fiscal help: small but growing municipalities. These findings match the expectations from the qualitative exploration of small control boards.

Market Weakness. The regressions suggest that control boards are not assigned to cities that need assistance based on demographic attributes correlated to crisis. High poverty rates, low high school graduation rates, and a high homeownership rate are common to fiscal crisis and control board usage. However, the share of female headed households increases the likelihood of control board usage, matching findings for large cities but with the opposite effect as for entering crisis. These results echo the demographic attributes of large control board cities. The inconsistent findings for homeownership and female headed households combined with the scale of control board cities to suggest that control board assignment does not identify the underlying causes of crisis.

Federalist Political Context. The decision to use a control board depends on not only the characteristics of the municipality but also federalist politics. A rare events logit with a universe of all states tests how a state’s use of control boards relates to other policies. This regression includes the independent variables of municipal fiscal crisis and state attributes (Table 4-3B). The results for small municipalities match large city findings for state attributes with the exception of the impact of a Democratic Governor. The regression indicates that states with fewer special districts, a shorter tenure of Democratic governors, and audits of local governments correlate to increased use of control boards. Individual TELs have a mixed relationship with board usage, but states with no TELs are less likely to use one. Not surprisingly, states with hands-on fiscal policy for local governments also turn to control boards more often.
Local Democracy Failure. Municipal political factors play a different role in control board usage than the development of crisis. Descriptively, control board cities exhibit the lowest rates of mayoral leadership and budgets; are least likely to have a chief accounting officer; have the lowest measure of direct democracy; and the highest share of city council party affiliation. Of these factors, only: party affiliation on the city council is significant in the regressions, increasing board usage. Evidence from 1987 also indicates that a greater share of registered voters and the lower share of the foreign born population decrease the likelihood of a board, while a greater share of residents who actually votes increases board creation. Politicians may prefer boards in cities with high voter turnout because they can provide political cover for unpopular policies addressing the crisis. The significance of the politics of the city council and municipal voting patterns highlights that a control board has political implications. Politics, not only fiscal crisis, can impact the decision to use a board. These findings of political influence and tenuous demographic considerations call into question the process through which cities are selected for control board intervention.

Success of Control Boards

Control boards are implemented with the goal of improving the fiscal situation of cities. Although they may be created during a short-term crisis, their ultimate impact should be measured in the long-term. Moreover, cities that have had control boards should be measured against non-control board cities in similar fiscal circumstances. This paper evaluates the success of control boards with regressions that use long-term fiscal changes as the dependent variables.

Descriptively, crisis cities improve their long-term finances more than other cities, while control board cities improve only slightly if at all. Although crisis cities continue to have low
cash levels, they increase it by almost 17 percentage points while levels in non-crisis municipalities remain constant. Crisis cities even outperform non-crisis cities in median deficit and debt levels five years later. In contrast, control board cities in Ohio and Pennsylvania do not improve cash funds and slightly increase their already high debt. Control board cities have greater surpluses five years later than crisis or overall cities, but their deficit improvement lies between crisis and non-crisis cities. Overall, the stagnant fiscal outcomes of control board cities make the solution appear less successful than efforts of most crisis cities. However, these statistics fail to account for the different attributes and challenges facing each type of city.

The regressions measuring the long-term fiscal impact of having a control board use the fiscal outcomes of changes in the cash, deficit, and debt levels of a municipality over a ten year period that may have had a control board created in the first five years. The first independent variable is a dummy for control board creation. In addition, the probability of receiving a board teases out the impact of the intervention from the outcomes of similar cities. The function estimated by the rare events logit is applied to the cities in all states to determine the probability that a control board is assigned. The median control board city has a five percent probability of receiving a board, close to the 90th percentile of other cities. The 94 percent likelihood at the 95th percentile of control board cities compares to an 18 percent chance among other cities. Thus, this variable seems to capture the different attributes across control and non-control board cities. State policy variables control for differences across states that choose to apply or not apply control boards.

---

3 Data constraints make it impossible to measure an exact number of years after the control board because financial information is only available for every five years. Thus, if a specification has a dependent variable of change in deficit levels between 1992 and 2002, the regression would test for the impact of a control board created between 1993 and 1997.
### A) Cash and Security Level Change

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had a control board</td>
<td>-0.201 (.470)</td>
<td>TEL: General property tax rate limit</td>
<td>-0.170 (.040) ***</td>
</tr>
<tr>
<td>Probability of having gotten a control board</td>
<td>-0.144 (.089)</td>
<td>TEL: Specific property tax rate limit</td>
<td>-0.038 (.037) ***</td>
</tr>
<tr>
<td>City had been in crisis</td>
<td>-0.086 (.033) ***</td>
<td>TEL: Tax levy limitation</td>
<td>-0.096 (.033)</td>
</tr>
<tr>
<td>Cash holdings as % Revenues</td>
<td>-0.995 (.001) ***</td>
<td>TEL: Overall tax or expenditure limit</td>
<td>-0.265 (.053) ***</td>
</tr>
<tr>
<td>Deficit as % of Revenues</td>
<td>-0.015 (.010)</td>
<td>TEL: No TELs</td>
<td>-0.117 (.056)</td>
</tr>
<tr>
<td>Debt as % Revenues</td>
<td>0.004 (.001) ***</td>
<td>Northeast</td>
<td>-0.306 (.053) ***</td>
</tr>
<tr>
<td>Special districts per 10,000 state residents</td>
<td>0.020 (.005) ***</td>
<td>Midwest</td>
<td>-0.048 (.037) ***</td>
</tr>
<tr>
<td>Years of last five with a Democratic Governor</td>
<td>-0.015 (.007) **</td>
<td>West</td>
<td>0.074 (.049) **</td>
</tr>
<tr>
<td>State audits local governments</td>
<td>0.061 (.015) ***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State provides technical assistance</td>
<td>0.008 (.18)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* N 53191

$R^2$ 0.89

### B) Deficit Change

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had a control board</td>
<td>-0.011 (.156)</td>
<td>TEL: General property tax rate limit</td>
<td>-0.009 (.013)</td>
</tr>
<tr>
<td>Probability of having gotten a control board</td>
<td>0.184 (.030) ***</td>
<td>TEL: Specific property tax rate limit</td>
<td>0.026 (.012) **</td>
</tr>
<tr>
<td>City had been in crisis</td>
<td>-0.007 (.011) ***</td>
<td>TEL: Tax levy limitation</td>
<td>-0.040 (.011) ***</td>
</tr>
<tr>
<td>Cash holdings as % Revenues</td>
<td>0.000 (.000)</td>
<td>TEL: Overall tax or expenditure limit</td>
<td>-0.028 (.018)</td>
</tr>
<tr>
<td>Deficit as % of Revenues</td>
<td>-1.000 (.003) ***</td>
<td>TEL: No TELs</td>
<td>0.018 (.019)</td>
</tr>
<tr>
<td>Debt as % Revenues</td>
<td>0.000 (.000)</td>
<td>Northeast</td>
<td>0.025 (.018)</td>
</tr>
<tr>
<td>Special districts per 10,000 state residents</td>
<td>-0.002 (.002)</td>
<td>Midwest</td>
<td>0.025 (.012) **</td>
</tr>
<tr>
<td>Years of last five with a Democratic Governor</td>
<td>0.001 (.002)</td>
<td>West</td>
<td>0.055 (.016) ***</td>
</tr>
<tr>
<td>State audits local governments</td>
<td>0.002 (.005)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| State provides technical assistance                        | 0.017 (.006) ***      |                                                          |                       | $R^2$ 0.69

* N 53193

### C) Debt Change

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had a control board</td>
<td>-0.177 (1.596)</td>
<td>TEL: General property tax rate limit</td>
<td>-0.168 (1.34)</td>
</tr>
<tr>
<td>Probability of having gotten a control board</td>
<td>1.484 (.303) ***</td>
<td>TEL: Specific property tax rate limit</td>
<td>0.022 (.125)</td>
</tr>
<tr>
<td>City had been in crisis</td>
<td>0.103 (.113)</td>
<td>TEL: Tax levy limitation</td>
<td>-0.133 (.113)</td>
</tr>
<tr>
<td>Cash holdings as % Revenues</td>
<td>0.000 (.005)</td>
<td>TEL: Overall tax or expenditure limit</td>
<td>-0.043 (.179)</td>
</tr>
<tr>
<td>Deficit as % of Revenues</td>
<td>-0.014 (.033)</td>
<td>TEL: No TELs</td>
<td>-0.068 (.191)</td>
</tr>
<tr>
<td>Debt as % Revenues</td>
<td>-0.993 (.005) ***</td>
<td>Northeast</td>
<td>-0.395 (.180) **</td>
</tr>
<tr>
<td>Special districts per 10,000 state residents</td>
<td>-0.012 (.016)</td>
<td>Midwest</td>
<td>-0.002 (.125)</td>
</tr>
<tr>
<td>Years of last five with a Democratic Governor</td>
<td>0.011 (.022)</td>
<td>West</td>
<td>0.103 (.168)</td>
</tr>
<tr>
<td>State audits local governments</td>
<td>0.003 (.050)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| State provides technical assistance                        | 0.103 (.060) *        |                                                          |                       | $R^2$ 0.51

* indicates p<0.10, ** p<0.05, ***p<0.01

Table 4-4. Regression analysis of control board impact on fiscal health
Chapter 4

Control boards do not significantly impact any fiscal outcomes (Table 4-4). In fact, the only variable significant for all three outcomes is the probability of receiving a board, which hinders improvement. This indicates that control boards have at least a limited success in identifying municipalities that face serious fiscal challenges. However, as discussed above, this selection process is flawed. Earlier fiscal problems also impact changes in a municipality’s fiscal health. Cities in crisis have more trouble improving cash levels, with a change 8.6 percentage points worse than other cities, while higher cash holdings and lower debt actually lead to decreases in cash levels. In terms of deficit or debt levels, municipalities beginning in a worse position improve that fiscal indicator at an increase of almost one-to-one. The pattern of fiscal changes mirrors findings that a certain class of cities is more likely to face fiscal pressures, but that high levels of deficit and debt are not sustained over the long term.

The importance of democratic governance in higher levels of government is highlighted by these long-term results. States that audit their local governments, use fewer special districts, and have a shorter tenure of a Democratic governor see better fiscal changes in their municipalities. In contrast, states providing technical assistance impedes their cities’ ability improve their deficit and debt levels. Finally, several TELs hurt, with an overall TEL decreasing cash levels by 26 percentage points and deficit reduction almost three percentage points. Just as TELs increase the likelihood of entering crisis, they make emerging from crisis more difficult.

Regressions evaluate changes in the share of local expenditures on types of functions. Once again, control board implementation does not affect outcomes (Table 4-5). A ten percent increase in the probability of control board assignment increases a city’s spending on least common functions by almost one percentage point and decreases the most common types of municipal spending by over a half percentage point. Higher deficit levels and cities in crisis
### A) Least Common Expenditures Change

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had a control board</td>
<td>-0.008 (.012)</td>
<td>TEL: General property tax rate limit</td>
<td>0.000 (.001)</td>
</tr>
<tr>
<td>Probability of having gotten a control board</td>
<td>0.089 (.002) ***</td>
<td>TEL: Specific property tax rate limit</td>
<td>-4.07E-03 (.001) ***</td>
</tr>
<tr>
<td>City had been in crisis</td>
<td>-0.002 (.001) ***</td>
<td>TEL: Tax levy limitation</td>
<td>-0.004 (.001) ***</td>
</tr>
<tr>
<td>Cash holdings as % Revenues</td>
<td>0.000 (.000)</td>
<td>TEL: Overall tax or expenditure limit</td>
<td>0.007 (.001) ***</td>
</tr>
<tr>
<td>Deficit as % of Revenues</td>
<td>-0.001 (.000) ***</td>
<td>TEL: No TELs</td>
<td>0.000 (.001)</td>
</tr>
<tr>
<td>Debt as % Revenues</td>
<td>0.000 (.000) *</td>
<td>Northeast 6.14E-03 (.001) ***</td>
<td></td>
</tr>
<tr>
<td>Share of expenditures on most common functions</td>
<td>-0.013 (.001) ***</td>
<td>Midwest 0.005 (.001) ***</td>
<td></td>
</tr>
<tr>
<td>Share of expenditures on least common functions</td>
<td>-0.546 (.004) ***</td>
<td>West 0.005 (.001) ***</td>
<td></td>
</tr>
<tr>
<td>Special districts per 10,000 state residents</td>
<td>0.000 (.000) ***</td>
<td>R^2 0.31</td>
<td></td>
</tr>
<tr>
<td>Years of last five with a Democratic Governor</td>
<td>0.000 (.000)</td>
<td>N 53026</td>
<td></td>
</tr>
<tr>
<td>State audits local governments</td>
<td>-0.002 (.000) ***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State provides technical assistance</td>
<td>0.000 (.000)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B) Most Common Expenditures Change

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
<th>Independent Variable</th>
<th>Coefficient (Std Err)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had a control board</td>
<td>0.044 (.034)</td>
<td>TEL: General property tax rate limit</td>
<td>0.038 (.003) ***</td>
</tr>
<tr>
<td>Probability of having gotten a control board</td>
<td>-0.059 (.007) ***</td>
<td>TEL: Specific property tax rate limit</td>
<td>0.031 (.003) ***</td>
</tr>
<tr>
<td>City had been in crisis</td>
<td>-0.002 (.002) ***</td>
<td>TEL: Tax levy limitation</td>
<td>0.010 (.002) ***</td>
</tr>
<tr>
<td>Cash holdings as % Revenues</td>
<td>0.000 (.000)</td>
<td>TEL: Overall tax or expenditure limit</td>
<td>-0.021 (.004) ***</td>
</tr>
<tr>
<td>Deficit as % of Revenues</td>
<td>-0.001 (.001)</td>
<td>TEL: No TELs</td>
<td>0.045 (.004) ***</td>
</tr>
<tr>
<td>Debt as % Revenues</td>
<td>0.000 (.000)</td>
<td>Northeast 0.004 (.004)</td>
<td></td>
</tr>
<tr>
<td>Share of expenditures on most common functions</td>
<td>-0.487 (.004) ***</td>
<td>Midwest -0.009 (.003) ***</td>
<td></td>
</tr>
<tr>
<td>Share of expenditures on least common functions</td>
<td>-0.051 (.010) ***</td>
<td>West -0.004 (.004)</td>
<td></td>
</tr>
<tr>
<td>Special districts per 10,000 state residents</td>
<td>0.001 (.000)</td>
<td>Years of last five with a Democratic Governor 0.001 (.000) *</td>
<td></td>
</tr>
<tr>
<td>Years of last five with a Democratic Governor</td>
<td>0.001 (.000)</td>
<td>R^2 53026</td>
<td></td>
</tr>
<tr>
<td>State audits local governments</td>
<td>0.001 (.001)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State provides technical assistance</td>
<td>-0.001 (.001)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* indicates p<0.10, ** p<0.05, ***p<0.01

Table 4-5. Regression analysis of control board impact on expenditures

Decrease spending on least common expenditures, perhaps because remaining funding must be directed at more common or mandated programs. This may also be feedback from the initial effect of higher levels of least common spending causing fiscal crisis, as seen in Table 4-2.

In terms of state policy, states with more special districts increase their most and least common spending, and states that audit their local governments observe a decrease in least common spending. TELs have a mixed impact on expenditure patterns. An overall TEL slightly
increases the share of least common spending, while other TELs slightly reduce this form of expenditures. Conversely, an overall TEL slightly reduces the share of spending on most common expenditures and other TELs increase that share. While these impacts are not the same, they show that restricting funds available to a city also impacts funds for particular services. The significance of state level variables suggests that state preferences partially dictate local spending both by requiring spending on specific responsibilities and constraining the total amount of revenue for all functions. These regressions unfortunately do not control for state mandates.

To check for regional variation, regressions for fiscal outcomes are run on the Ohio and Pennsylvania sample. Again, the control board is never significant, and the initial fiscal situation impacts the likelihood of change with a worse initial fiscal level corresponding to greater improvement. The probability of getting a board significantly correlates to additional spending, as it does nationally. Thus, patterns in these two states reiterate the national findings. The regressions are checked for robustness by using the linear prediction for control boards rather than probability as a control variable. The cash fund regression differs but the deficit and debt changes remain similar. The regressions for most and least common spending are quite similar to the initial runs, with only a few variables changing significance but with no sign changes. The Ohio and Pennsylvania results are also the same as the initial runs.

These regressions suggest that control boards do not achieve their goal of restoring fiscal solvency to cities. In addition, the findings match the pattern that cities are only briefly in crisis. The likelihood of a board matters, indicating both that control boards have at least limited success in identifying troubled cities. These findings also match Beckett-Camarata’s (2004) observation that control board cities do not increase their cash funds over time. These results are also consistent with the many Ohio and Pennsylvania control boards that last many years without
meeting fiscal goals rather than being temporary interventions. A significant factor impacting outcomes is the overall TEL, which makes it difficult for a municipality to emerge from crisis. A variety of TELs also impact how a budget is distributed across functions. This suggests that majoritarian tyranny outweighs local democracy failure as a threat to local fiscal solvency.

**Conclusion**

Analysis of small municipalities nationwide reinforces the existing literature on the causes of local fiscal crisis. These results show that crisis is not the experience of a few poorly managed municipalities but rather structural deficiencies stemming from the market and federalist problems of demographics, region, jurisdictional design, and state policies. Moreover, control boards have been touted as solutions for fiscal crisis but have failed to improve the fiscal outcomes of small local governments. The control board strategy does not successfully identify cities that need help: Over half of control board cities have not reached fiscal crisis, while many cities in the midst of crisis are passed over, perhaps too small to attract state concern. These regression findings match expectations from the design of the process to trigger control boards and coverage of individual municipalities. Also in line with newspaper articles, the quantitative analysis reveals that control board cities with severe fiscal problems are often already improving prior to board creation, and unlike in large cities, small municipalities that are assigned boards are no more likely to improve than other cities. Finally, state policy and the use of TELs are the most important factors in entering crisis, the decision to intervene, and outcomes. State restrictions can significantly impede a municipality’s ability to maintain fiscal solvency.

Control boards’ failure to improve fiscal outcomes relative to other cities in fiscal crisis calls their use into question. Management strategies to resolving crisis do not help small
municipalities. A more successful state approach would be to prevent crisis through audits and more flexible tax and expenditure policies. Pennsylvania recognizes this potential advantage and currently exempts its control board cities from some TELs. However, the temporary designation means that the TELs long-term constraints remain. Without eliminating all TELs, ending property tax and overall limits that particularly hurt local finances could provide many local governments the resources to retain fiscal health. The debt levels of control board cities also suggest that another strategy to help these cities would be assistance with debt or access to credit markets.

Even with fiscal assistance from the state, many municipalities are unequipped to resolve their fundamental socioeconomic problems. States should reexamine whether existing cities and counties have the correct jurisdictional boundaries to address the challenges faced by the local political system. New political borders and a redefinition of intergovernmental relationships may be necessary to address the shifting socioeconomic structure of these small municipalities. If so, control boards will remain an ineffective tool to confront growing fiscal crises. This analysis suggests that policymakers have conflated market, federalist, and local democracy failures. Rather than imposing a solution intended to solve the third and least significant source of fiscal crisis in small municipalities, states should seek to improve the municipalities’ relationship to the market and federalist structures.
SECTION III.

GOVERNANCE IMPACT
Analogous to medicine, control boards seek to resolve the illness of fiscal crisis. The previous section reveals that the symptom of insolvency does not always have the same cause, and a control board can address some causes better than others. City scale corresponds to causes of fiscal crisis such that control boards work better in larger cities than small ones. However, even fiscal improvement is not enough to recommend control boards for use in those large cities with relevant causes of crisis. Rather, this control board medicine must also be tested for side effects, and it should only be used if its benefits outweigh other the introduction of other negative symptoms. This section considers governance implications as critical side effects of control boards.

This section examines control boards for their political consequences and interaction with local democracy. Existing discussions of control boards neither provide a structure for predicting the behavior of this type of institution nor detail how control board actions are likely to impact local governance. The literature on IMF stabilization agreements outlines the advantages and disadvantages of similarly structured institutions. The following chapters analyze control boards politically by connecting the lessons of the IMF to the broader context of political tyranny, market weakness, and local democracy failure.
Chapter 5

Governance Lessons from the IMF
Control boards have not only fiscal but also governance implications for the cities in which they are implemented, yet existing discussions of control boards rarely touch on this aspect of their influence. While the technocratic literature considers the influence on democratic structures of appointed leaders who are viewed as apolitical, it fails to account for a number of critical aspects of control board design. Control boards are temporary; appointed by an external political actor with which the municipality has a pre-existing power dynamic; assigned a predominantly fiscal role, although that role varies across boards; and created in a moment of crisis. Understanding the implications of control boards on local governance requires incorporating these aspects of their institutional structure.

An analogy between control boards and the International Monetary Fund (IMF) can serve as a guide for understanding financial control boards in municipalities. Urban studies has long looked to international politics to enrich local theory, because the international literature is more developed than the literature on supralocal institutions connecting governments within a US region, but the two areas address many of the same concerns and dynamics. Recently, scholars have gleaned regionalism lessons from analysis of the European Union (EU) for insight into supragovernmental institutions’ impact on local governance. Similarly, the institutional advantages and disadvantages of control boards can be examined through the lens of theory developed about the IMF, because they share many critical structural elements.
The observations about the institutional dynamics of IMF stabilization agreements provide insight into how well equipped control boards are to handle fiscal crisis caused by federalist political pressures; a weak position in the private market; and local democracy failure. While nations are not subject to the threats of majoritarian tyranny in federalism, per se, the international political system does create an structure in which powerful countries can manipulate or exploit weaker nations. In particular, the IMF literature suggests that these institutions do not anticipate problems created by a weak political position and in fact might exacerbate such problems. The institutions are designed primarily to address market and local governance problems. However, they run the risk of hurting a government’s power relative to the market in trying to attract new investment. In addition, while these institutions seek to correct bad local leadership and management, they rely on local buy-in for long-term success.

**Looking to International Politics**

The international political science literature developing around the new forms of institutions that have arisen to manage cross-national politics recognizes that political jurisdictions exist within a context of both multiple scales of government and spillovers across jurisdictions (Held, 2006). In its shift away from national democracy, the political science literature has broadened its scale while decreasingly addressing sub-national governments. However, urban studies can benefit from applying an understanding of international democratic institutions to related dynamics in local governance.

The urban studies literature has long drawn on international politics to understand local political structures. Holden (1964), later echoed by Berman (2000), links metropolitan governance to international politics by arguing that both primarily depend on diplomacy and
shared goals. Foster (2007) and Frug (2002) analyze metropolitan governance through the lens of the EU, a supranational government. Foster argues that state and local governments should promote regional governance by mimicking the EU’s incentives for local participation and varied degree of centralization based on policy area. Frug admires that system’s two-tier structure allows collective decision making while maintaining the independence of local governments. He also favors several of the institution’s electoral elements as models for metropolitan government.

Metropolitan governments gain insight from the EU because they share a structure of independent local governments joining together in a stable institution to set regional policy agendas. Similarly, a control board can learn from other institutions that with a structure of a local government temporarily shifting its financial policy to an external, appointed body. In the international literature, IMF stabilization agreements offer this parallel. The link between nations and cities in fiscal crisis further tracks because they tend to be similarly weak relative to external governments and a much larger private market. These power relationships are critical to two of three potential causes of failure manifest in their jurisdiction.

The Logic of IMF Stabilization Agreements

This section develops the parallels between international financing system of the IMF and control boards. In this comparison, the IMF matches the permanent, stable organization of the state, while the IMF mission and stabilization package correspond to the temporary control board. IMF packages are analogous to control boards because of their structural similarity: IMF missions comprise appointed leadership and professional support staff that lend money to national governments experiencing fiscal crisis – usually a devaluation of currency or high debt and low cash reserves – with conditions attached related to macroeconomic, fiscal policy, and
government reform. Their local involvement simultaneously helps and challenges nationally elected officials. While the degree of power bestowed by states on their appointed fiscal control boards varies, their design and local involvement is quite similar to the IMF arrangements. Thus, the IMF offers both positive and negative lessons for municipal governments in fiscal crisis.

A key difference between these two institutions is the composition of the members of each temporary team. The IMF mission comprises staff from its own, permanent organization and national officials. While controls boards sometimes follow this model, as in New York and Philadelphia, often they are composed of third party nominees not part of either structure. These control boards do rely on staff drawn from state governments and report to the state, somewhat muting the impact of this difference. However, the contrast in make-up of the visible leadership could impact these temporary institutions relationships with the permanent organizations, external actors, and local residents or alter the role of pre-existing power dynamics. Thus, this caveat highlights the importance of political causes of failure and should be considered when applying lessons of IMF stabilization agreements to local control boards.

_Evolving Role of the IMF_

The role of the IMF and nature of its stabilization agreements have evolved dramatically since its creation in 1944. The IMF was founded as an apolitical, technocratic organization that facilitates the international monetary system, stabilizes exchange rates, and maintains a proper cross-national balance of payments. The organization initially pursued these goals through surveillance and short-term loans that were extended with limited macroeconomic conditions to both developed and developing countries. The institution assumed that temporary fiscal problems were caused not by local government failure or the relative political power of nations
but rather a nation’s dependence on a shifting market. The solution of stabilization agreements was designed specifically for one type of failure. Since the IMF’s inception, the membership in the organization has vastly expanded, the exchange rate regime has changed, extensive private capital has become available to more nations, and capital account crises have emerged (Bordo & James, 2000). The global financial changes are among the factors contributing to shifts in IMF policy, their international role, and the assumed causes of crisis that inform their activity.

Several changes in the IMF’s actions and international role have impacted the structural advantages and disadvantages that their stabilization packages offer countries. First, developing countries have been the sole recipients of IMF loans since the 1980s, while developed countries maintain the vast majority of governance power in the organization. This has weakened the position of recipient countries in the international political system, making them more susceptible to the interests of external political actors. However, this may shift once again if the current global fiscal crisis pushes developed countries to seek IMF assistance. Second, the IMF has an increasing crisis response role rather than prevention. Third, IMF stabilization agreements are increasingly valued not for their direct resources but as a signal to private lenders that they should also lend. This has reduced the IMF’s role as an alternative to a market that may have caused failure and instead places additional focus on the private market as a solution to crisis. Finally, the IMF has expanded their traditional 12 to 18 month stand-by agreements to longer facilities that are increasingly coupled with not only macroeconomic but also structural conditions that require countries to adjust growth and policy alleviation strategies as well as reform their fiscal policy and governance structure to access loans (Bordo & James, 2000; De Gregorio, 1999; International Monetary Fund., 2006; Polak, 1991; Riesenhuber, 2001; Truman, 2006). These changes emphasize the contributions of local democracy failure to crisis in a way
not initially assumed in the creation of the IMF. These changes have revealed strengths and controversies in the institutional design of IMF stabilization agreements that provide lessons about the implications of using local control boards.

Institutional Advantages of the IMF

The IMF helps national governments escape fiscal crisis in a number of financial and political ways. The primary advantages that emerge in the literature about IMF stabilization packages are that they bring technical expertise to ill-equipped national governments; provide a scapegoat to local officials for unpopular but critical policies; and offer credibility to governments that need access to external resources. The first two of these advantages assume that the causes of crisis lie in government failure, while the third seeks to improve the nation’s relationship to the market. Each of these benefits is similarly described in less formal discussions of local control boards. None of this literature discusses the potential contribution of conditions set by the international political systems to localized fiscal crisis.

Local Government Failure

Technical Assistance. IMF agreements are designed to resolve problems of local government failure stemming from incompetence and poor management within a struggling country. The IMF markets itself as – and is often assumed to be – a highly technocratic, apolitical organization (IMF, 2006). The macroeconomic skills from a highly trained staff provide the basis for the advanced expertise that IMF missions offer to national governments lacking such experience. Stiglitz and Heertje (1989) argue that, as with market failure, political failure emerges from informational problems, and the technocratic structure of institutions such
as the IMF helps overcome such problems. The advantages of a technocracy also provide part of Edwards and Santaella's (1993) explanation for IMF involvement, along with the size of the crisis and extent of local reserves. They expect that because local governments with less technical knowledge benefit more from external expertise, they are more likely to seek partnerships with the IMF. An alternative explanation for this relationship is that if those countries had greater technical knowledge, they might not need the IMF funding.

Technical knowledge may be not simply an advantage but also the crux of the survival of these institutions. Keohane and Nye (2003) locate the legitimacy of international financial institutions in their technical nature and procedure. They argue that this provides valuable accountability that is outside of electoral accountability, the focus of most democratic literature. Instead, nations also need hierarchical, legal, reputational, and market accountability, and the technical process of the IMF offers the hierarchical version. Without such legitimacy, the IMF could not survive. However, the authors suggest these variants of electoral accountability without explaining why these variations are equally important.

The IMF has bolstered its focus on technical assistance over time. The organization began offering such help in the 1960s, and greatly expanded the service in the 1990s so that it now requires twenty percent of the institution's administrative budget (Bordo & James, 2000; IMF, 2006). The IMF has traditionally offered assistance with macroeconomic policy, even to countries not engaged in stabilization agreements. As IMF conditionality has expanded to structural and governance reforms, the organization has shifted its technical assistance to these areas (Polak, 1991). However, the IMF does not have the same degree of expertise outside of macroeconomics. Critics argue that attempting to expand into these areas is not useful and the IMF should refocus its technical assistance to its core competencies or defer technical assistance.
altogether to alternative institutions such as the World Bank (De Gregorio, 1999; Selowsky, 2005; Truman, 2006).

The range of technocratic skill of governments seems as large locally as nationally. Small governments are less likely to have highly skilled professional government staff than big cities, and are thus more likely to need the type of technical assistance available through an external arrangement such as an IMF stabilization agreement. This may help explain the relatively large number of townships that seek control boards in Ohio and Pennsylvania. In fact, the mayor of the small town East Spencer in North Carolina welcomed their control board for that reason. Fox noted, “I feel a lot better with the state coming in... so we can bring in the professional help that we need” ("State takes over finances of Rowan County town," 2001). One advantage of the state-local relationship in the US is that state governments can supply technical assistance without creating control boards. Many states maintain agencies within their budget departments that assist municipalities without specific policy conditions (Berman, 2000). Control board design should consider what expertise the institution can offer within its core competency and unavailable from other state programs.

*Political Scapegoat.* In additional to providing local governments with information, stabilization agreements benefit the local governments through their structure of conditional lending that offers local politicians an alternative target of blame for unpopular but necessary policy decisions. Because the IMF attaches specific policies to its money, the agreement is an easy scapegoat for those changes disliked by the electorate (De Gregorio, 1999). However, these decisions may be privately supported by government officials who recognize their importance. The need for such assistance implies that the local government structure provides insufficient powers to the leadership needed to both retain office and supply public services, but that political
leaders want to choose beneficial policies. According to this explanation, failure lies not in poor leadership but poor institutions.

The theory that IMF packages enable difficult policies supported by local officials emanates from Putnam's (1988) model of two-level diplomacy and coalitions. The model assumes that a local government is fragmented and internal differences can require some players to seek outside support. The external entity then helps make a policy palatable that otherwise would be too politically costly. Thus, politicians can use interaction with the external organization to implement local policies that would have been impossible without the partnership. Putnam illustrates this model with agreements developed between the IMF and Italy in the mid-1970s. Similarly, Harberger (1983) argues that the Chilean officials in 1960s asked the IMF mission "to demand what we were demanding of them so that they would have the clout to be able to sell these good ideas to a bunch of other people who wanted to do all sorts of dumb things."

Putnam's argument has been incorporated into subsequent analysis of IMF agreements. Theorists argue that when these external organizations require fiscal constraint, they provide political cover for elected officials who probably already favor those policies (Bird & Rowlands, 2006; Dixit, 1996; Przeworski & Vreeland, 2000). Keohane and Nye (2003), while recognizing this relationship, question whether it is positive or politicians should instead share the burden of such policy decisions. The need for political cover interacts with democratic accountability to shape which countries are likely to establish IMF agreements: Abouharb and Cingranelli (2006) find considerable evidence that the national governments seeking the IMF are those that need electoral restructuring but would risk losing office by making such changes. Edwards and
Santaella (1993) extend this logic by asserting that dictators and other officials with less need for political cover are less likely to support IMF packages.

Smith and Vreeland (2006) fine tune predictions of which leaders most benefit from these packages by distinguishing discretionary and need-based loans. While need-based agreements occur in high debt countries, leaders most frequently enter discretionary agreements shortly after regime change, a finding supported by Remmer (1986). This timing signals failure of past rather than current leadership and reinforces the role of the IMF as a scapegoat for the policy conditions of their loan. Moreover, the authors find that discretionary IMF loans hurt survival of leaders of small coalitions, or those who require the support of only a few to remain in office, but significantly help the survival of large coalition leaders. This suggests that democratic leaders have more to gain from the IMF agreements, because they often require support of broad coalitions. Case study research of Tanzania in the 1980s illustrates these local-IMF dynamics (H. Stein, 1992). Despite President Nyerere’s private support the IMF and help in establishing policies to enable an IMF agreement, he was publicly antagonistic to the organization. The country was unable to enter into agreements with the IMF until the beginning of new leadership.

The role of the IMF as a target for unpopular but useful policy offers two important lessons for control boards. First, this analysis suggests control boards can offer the same benefit to municipal officials. Several cities illustrate this advantage: Guiliani (1995) and Bailey (1984) highlight the importance of this role in their discussions of the New York City control board, and Berman (1995) mentions the same positive role for Philadelphia’s Pennsylvania Intergovernmental Cooperation Authority (PICA). Politicians have even made this benefit explicit. Navish, a borough manager in East Pittsburgh discussed their control board in these terms: “Politically, it’s easier - especially if you’re going to cut staff and you’re an elected
official – it’s easier to have an outside appointed group come in and say, “Thou shalt cut staff”’” (Nephin, 2004).

In addition, an assumption embedded in Putnam’s model qualifies his argument. He assumes that both parties have somewhat equal control, but this is not always true with control boards. When states dominate and local governments have little power, they still can blame unpopular policies on the external board but may not actually believe the policies help their community. For example, officials in Bridgeport, CT did not tacitly endorse control board policies. Instead, they filed for bankruptcy in federal court to escape policies required by the board (Berman, 1995). Thus, the pre-existing power relationships must taken into account when considering the likelihood of political benefits or policy dangers of such an intervention.

Market Weakness

Credibility. Stabilization agreements are not intended to improve the private market but rather a nation’s relationship to it. By addressing the government failures perceived by the market, IMF packages can improve a nation’s standing in the global capitalist system. They are able to lend international credibility to partnering nations in part because of the perception of their technical expertise and objectivity. Dixit (1996) finds that external institutions can offer credibility that has been lost by local governments, thus lowering the transaction costs embedded in lending money to troubled governments. The importance of credibility is straightforward: for nations to obtain outside resources, they must be trustworthy. However, in times of fiscal crisis or political problems, they cannot easily prove their reliability. The agreements not only provide IMF resources to these countries but also help them leverage additional assistance. The debt crisis of the 1980s solidified the IMF’s role of providing the “seal of approval” needed for access
Governance Lessons from the IMF

to resources. The IMF sees this as one of its major roles (IMF, 2006); the organization was able to position itself in this role because of its historical surveillance responsibilities; and creditors now often require members states to enter into IMF agreements as an assurance of credibility before lending to them (Bordo & James, 2000; Collier & Gunning, 1999; Riesenhuber, 2001). In fact, some countries not in crisis enter arrangements with the IMF not for loans but for increased credibility (Ghosh, 2005).

Defining and pursuing credibility through IMF stabilization agreements is not without controversy. Edwards and Santaella (1993) find that the IMF can offer credibility to a local government, while arguing that other international institutions such as the United Nations could serve the same role. Thus, IMF agreements should not be viewed as uniquely able to help governments access resources. Moreover, past IMF packages reveal the risks of seeking to impact a nation’s reputation beyond its macroeconomic stability. For example, the IMF mission justified governance reforms in Indonesia with the logic that credibility could only be restored with a significant break from past governance. However, this failed effort and lack of local ownership only distracted from the banking sector and reduced credibility (IMF, 2003). As the IMF continues to define its shifting place in the global financial infrastructure, political economists debate whether it should continue to increase its focus on being a source of credibility and whether that focus should be strictly macroeconomic or also structural (S. Fischer, 1997).

An explicit goal of control boards is to help cities regain credibility in the municipal market. Credit rating agency Fitch analyst Claire Cohen argues that state intervention such as a control board is “certainly a very positive factor in local government ratings... There’s something being done to solve the problem” (Carvlin, 2002). Similarly, the spokesperson for the state
Treasury Secretary of Michigan, a state that uses control boards, notes that “local fiscal oversight is one of the strengths we mentioned when we met with rating agencies” (Wisniewski, 2000). In fact, this role is particularly important under certain conditions. New York City’s fiscal crisis immediately followed the bankruptcy of a state agency, and so New York State could only offer limited additional credibility to the city. The new institution of the control board had to be responsible for reestablishing the city’s spot in the market. The control board was able to do this because of who was on the board and their policy influence (Bailey, 1984). Thus, even though control boards are appointed by the state, they can offer their own additional credibility.

**Institutional Disadvantages of the IMF**

Countries that enter into stabilization agreements with the IMF are generally desperate for assistance and willing to provide concessions in exchange for much needed help. However, the institutional design of these agreements can not only help nations as discussed above but also threaten positive aspects of existing public structures. Problems detailed by critics include favorable concessions directed towards the private market; power granted to external political actors; and the diminished strength of national democracies. The first problem suggests that IMF efforts to resolve problems introduced by a dependence on the market, described as an advantage above, can go too far in assisting the market. The latter two disadvantages emanate from the reality – unrecognized by the design of IMF stabilization agreements – that national problems can emerge from the interests of external political actors being forced on a local government. This analysis assumes that imbalance of global political power creates a potential for powerful nations to impose their preferences on weak nations, similar to the threat that emerges within federalism.
Market Weakness

Concessions to private actors. While conditional lending can usefully require policies to help a community emerge from crisis, it also creates opportunity to require terms advantageous to lenders. To the extent that IMF agreements include terms not to improve a country's monetary and fiscal stability but rather to meet the demands of creditors who would lend even without these additional benefits, stabilization packages hurt countries with excessive concessions to private organizations. Critics argue that IMF packages increase the role and control of the private market, because they are more directly linked to business corporations than voters (Lindblom, 2001). Thus, the combination of stable relationships between the IMF and banks and the external, appointed, and temporary structure of IMF missions can hurt nations as they extract resources from private creditors.

When the IMF first offered stabilization agreements, the organization was a dominant provider of resources to many countries with temporary balance of payment problems. However, as private lenders began to offer significant loans to countries worldwide, the IMF began to facilitate more resources through private loans than it provided directly. Moreover, private banks were empowered in the 1980s by capital account crises that required their substantial assistance. In this environment, the IMF began to implement term agreements with financial assurances to private creditors. Polak (1991) argues that the IMF recognized that private banks were abusing the assistance by blocking funds to countries unless they received favorable terms, and so the organization ended this strategy with the 1989 Brady Plan. Gould (2006) counters, finding that bank friendly terms have grown since the 1980s, and creditors continue to extract more lender-friendly conditions when their threat to withhold loans is more
creditable. Similarly, Stiles (1991) finds that creditors have a greater role in the initial IMF mission negotiations when the recipient country has higher debt levels.

Control boards must also balance the need to help municipalities access the financial resources of private creditors while in budgetary crisis against the higher costs of borrowing that these lenders can attempt to extract. Some states temper this threat by prohibiting the issuance of municipal bonds during control board oversight. In contrast, private lenders influence control boards is manifest elsewhere in the common practice of giving bank leaders spots on the board itself. Bankers not only participated in but actually led efforts in the New York financial crisis. Analysts of the New York City case warn of the danger of giving bankers the authority and legitimacy of the state without electoral accountability (Bailey, 1984; Shefter, 1985). Shefter does note, however, that unions tempered banker influence as another powerful interest group.

*International Political Weakness*

*Power to external political actors.* IMF stabilization agreements can shift power away from recipient countries to external political and private actors because of the IMF’s governance structure and institutional relationships. The institution is financed primarily by the United States and Western European countries who select the president of the World Bank and IMF, respectively. Moreover, the US enjoys exclusive veto power for many major IMF decisions. When the IMF was founded, these nations were not only the primary lenders and organizational leaders but also the recipients of almost half of stabilization funds. However, by the late 1980s developed countries had almost no outstanding loans to the IMF while emerging market countries accounted for three-quarters of IMF funds and poor countries for the remaining loans (Truman, 2006). While a shift is underway that is moving more money and influence to China,
India, and several other countries, the formal governance structure has failed to evolve. Thus, the developing countries that exclusively receive IMF loans lack a strong electoral voice within the IMF (De Gregorio, 1999). While some argue that promoting goals through an international organization such as the IMF is better than one or two G-7 countries directly exercising their global influence, others find that IMF agreements reinforce the international power structure (M. Goldstein, 2000).

Critics argue that this dynamic causes IMF packages to favor the political goals of the US and several other developed countries. Volcker (Volcker & Gyohten, 1992), the former chairman of the US Federal Reserve, has remarked that “when the Fund consults with a poor and weak country, the country gets in line. When it consults with a big and strong country, the Fund gets in line.” Limited evidence suggests that foreign policies of these supporting countries guide the policies of these organizations (Thacker, 2006). Moreover, no direct electoral accountability exists for the decisions of these powerful countries because the leadership positions of the IMF and mission staff are appointed rather than elected. Calls for reforming the governance structure of the IMF have gathered momentum in the last fifteen years, with calls to increase transparency, adjust voting shares, and change the roles of the Executive Board and Interim Committee (De Gregorio, 1999; Truman, 2006).

Power may also shift from the local community to outside political forces in the case of control boards. When states create control boards, statewide preferences shape the local budget process. For example, the Flint, Michigan city council appealed the state takeover in court, citing party-driven political, not economic, reasons for state intervention ("Appeals court upholds state takeover," 2002). When Massachusetts’ governor changed from the Republican Romney to the Democratic Patrick, the governor’s three appointees on the Springfield control board were
Chapter 5

replaced (Levenson, 2007). This regime change was at the state not local level but has only local consequences. Thus, analysis of control board impact should consider intergovernmental relationships and the relative power balance of the state and municipality.

National governance. When the IMF was founded, Harry White, the US delegate to Bretton Woods asserted that “I don’t think the Fund should butt into every country’s business and say ‘We don’t like this or that’” (Dell, 1981). The IMF continues to attempt to respect national sovereignty by avoiding an international contract with recipient countries and instead drafting a national letter of intent and an IMF stand-by agreement, neither of which is legally binding (Riesenhuber, 2001). However, the organization in its current form is critiqued for the broad concern that it undermines local governments. Specifically, critics argue that expansive conditional lending removes policy control from government officials. While this problem is caused by international political relationships, reducing a government’s ability to govern could also change internal governance dynamics and cause government failure.

Political scientists assert that this problem results not only from the need for their financial resources but also as the downside of the technical assistance discussed above. Kahler and Lake (2003) argue that the need for international legitimacy can decrease the role of democratic institutions, and Keynes (as qtd in Kahler & Lake, 2003) describes the creation of the IMF as a triumph of technocracy over democracy. The IMF’s control over national governments amplified because the technical proficiency of the elite within these organizations is not matched by national officials (Lindblom, 2001). Thus, an IMF mission can convince officials that they alone know how to address complex financial problems. Stiles’ (1991) analysis of IMF stabilization agreement negotiations in seven countries finds that the severity of conditions imposed depend upon the timing of the crisis; national debt levels; the relative strength of
government officials and the IMF missions; and whether the full institutional force of IMF managing director involvement is invoked. Thus, the intervention in national governance depends on power relationships prior to entering stabilization agreements.

The risk of interfering with local sovereignty has been exacerbated by both the changing type of stabilization agreements and the characteristics of recipient countries. IMF analysts (Schadler et al., 1993) have found that weak civil sectors hinder the success of stabilization packages. Thus, the agreements have become more invasive and blurred political and economic strategies in accordance with the view that governance is critical to economic success. However, this has risked the IMF’s apolitical reputation since the 1980s (Bordo & James, 2000; De Gregorio, 1999; Riesenhuber, 2001). Of the IMF’s packages, the Enhanced Structural Adjustment Facility (ESAF) – requiring extensive structural reforms in exchange for long-term assistance in poor countries – has created the most controversy for inequitably undermining local policy control (M. Goldstein, 2000). Collier and Gunning (1999) argue that as IMF agreements have shifted to broader conditionality in poor countries during moments of crisis, the IMF has begun to challenge national sovereignty to an unprecedented degree. Moreover, as governments push back against such strict conditions, they will undermine their own credibility for reform, the success of their stabilization package, and the value of the IMF. The belief that the IMF disturbs the democratic process has caught on in some popular circles and is prevalent among IMF protestors (Weissman, 2001).

The requirement that a nation draft a letter of intent and agree to an IMF package mutes some concerns in the IMF literature surrounding conditionality and the need for national ownership. Putnam’s (1988) model assumes mutual control and requires a reexamination of these dynamics when the relationship is not discretionary, and Smith and Vreeland (2006) find
different outcomes and interaction with external institutions when the relationship is imposed or discretionary. In contrast to IMF agreements, not all control boards are established with an intergovernmental agreement or local consent. Thus, these communities are more vulnerable to the potential harm of control board intervention damaging local sovereignty.

Local residents of cities voice the same distrust of control boards’ relationship to local government as demonstrators direct to the IMF. Mayor Faison of Camden hoped for a less drastic solution to the city’s financial problems than administrative control, stating the city “want[s] a partnership, not a dictatorship” (Mcalpin, 2001). In fact, these challenges are sometimes framed as eliminating all local democracy for the duration of the control board (Tabb, 1982). One resident of West Warwick, RI even told the control board members of his city that “if democracy came and kicked you all in the butt you wouldn't know what it was” (Rosenbaum, 2002). The local extent of crisis, pre-existing power relationships that provide local leverage in negotiations, and control board design vary, and so this issue may be most relevant to particular cities. The IMF literature also implies that as the role of a control board extends beyond fiscal policy into social policy and governance reform, challenges to local sovereignty intensifies.

**Chances of Success**

The IMF literature also examines the extent to which stabilization agreements help nations achieve the IMF’s primary balance of payments and economic growth objectives as well as secondary goals of structural reform and poverty alleviation. In addition, case studies reveal that critical factors for success are national buy-in, whether packages are short or long term, and the policy scope of conditions. The need for national buy-in reflect that power to external actors can be harmful to a local government and must be mediated. The distinction between short and
long term packages as well as their policy scope recognizes that each type of failure has its own set of causes. Thus, a solution that is structured to resolve a particular mix of political tyranny, market weakness, and government problems cannot adequately resolve problems emerging from alternative mixes of conditions.

National buy-in

Although national governments must sign a letter of intent supporting the policies of an IMF stabilization agreement, the country’s leadership does not always commit to implementing its conditions. The potential for low levels of national support emerges because an agreement can impose conditions desired externally when a nation is too weak to formally resist. While this issue stems from a nation’s weakness in the international political system, its implications also relate to local government failure: Government officials supported by fragile coalition have less flexibility to pursue policies that are in the best interest of the country but conflict with popular sentiment or external pressure. This analysis only addresses whether the IMF stabilization agreements can amplify existing problems of political imbalance and not whether the agreement can help overcome these issues as underlying causes of fiscal crisis.

To the extent that policies established in IMF agreements are only carried out if they enjoy national support, the threat of external political manipulation through the agreements is reduced. Research on structural adjustments find that conditional lending can only help a country over the long-term to the extent they are compatible with the government’s structural policies (Dollar & Svensson, 2000; Drazen, 2006). Even beyond the rare cases in which nations develop full ownership of IMF packages, success increases with the presence of local reformers that promote the terms of the package (S. Fischer, 1997). IMF analysis has found that symbolic
measures of national buy-in to conditions are not sufficient for the success of IMF missions, and
so the organization is attempting to introduce greater collaboration and national ownership of the
terms of stabilization agreements (IMF, 2006; 2003).

Critics argue that IMF missions have difficulty implementing policies lacking local
support, and conversely, the policies endorsed by the local government may have happened even
without an IMF package (Boughton, 2006). Thus, successful agreements reflect not the
resolution of local government failure but the absence of such failure. In addition, the
agreements might actually harm countries if imposing conditions creates an adversarial
relationship that impedes policy progress or experts at the IMF overlook the value of local
knowledge that would contextualize the crisis. Case studies highlight the costs of failing to gain
national support. In 1997, an IMF stabilization agreement in Indonesia was hindered by a lack of
commitment to the agreement's terms by elected officials. When the nation's president declared
a "guerilla war" against the IMF, the package lost credibility and the crisis deepened (IMF,
2003). Korea and Thailand were similarly initially unable to gain international credibility and
help the countries out of crisis because of national political leaders, while not abandoning the
agreement, would not commit their support (T. D. Lane, 1999). These countries may have been
harmed by IMF involvement because the disputes accentuated the nations' unwillingness to
implement certain structural reforms. In these cases, a weak position in the market may have
been the initial cause of crisis, but after intervention, local government failure also had to be
resolved to overcome the crisis. In contrast, countries that enter negotiations with IMF missions
prior to crisis, such as India in 1981, are more likely to achieve their preferred terms, take
ownership of the agreement, and benefit from IMF missions (Stiles, 1991).
Governance Lessons from the IMF

The need for buy-in offsets concerns of a trade-off between national sovereignty and IMF involvement. The potential to undermine sovereignty extends into a fear of displacing democracy in those countries with a democratic system. Despite critics’ argument that conditional lending undermines national leadership, empirical studies of both which countries seek IMF agreements and the outcomes of those initiatives indicate that strong institutions of national democracies do not conflict with the power of financial organizations. In terms of entering partnerships, Abouharb and Cingranelli (2006) find no evidence that the degree of democracy factors into the IMF country selection. Neither does the presence of a democratic regime reduce the likelihood of entering an IMF agreement or subsequently implementing its policies. In fact, having a strong local democracy does not impede the short term economic change led by the IMF and helps with long-term success (Dollar & Svensson, 2000; Edwards & Santaella, 1993; Remmer, 1986).

Smith and Vreeland’s (2006) analysis of discretionary loans highlights that democratic leaders are often the most helped by the IMF because they are large coalition leaders. Even if such a partnership temporarily overrides democracy, they offer democratic leaders a solution that does not change the country’s long-term electoral structure. Moreover, recently elected leadership is more likely to support structural adjustment and achieve program success, because new regimes may seek to distinguish themselves from those who led the country into crisis. For example, a new president in Indonesia signaled support for the initially failing IMF package and was able to make it more successful (Dollar & Svensson, 2000; IMF, 2003). Thus, democratic leaders working in coordination with an IMF mission have the most potential to achieve the goals of their stabilization agreement, overcome past problems of local government failure, and bring their country out of crisis.
Control board implementation can benefit from understanding the necessity of local support for achieving control board goals. The degree to which the institutional design of these boards attempts to garner local support varies across cases, and could help explain control board success. Berman (1995) assigns the success of the control board takeovers largely to the friendly or hostile tone of organizational partnerships, and he argues that the state defines the nature of local-board relations. Bridgeport, CT’s court case, discussed above, illustrates the policy impasse that can develop in hostile situations.

Analysis of IMF mission support also highlights the interaction between support from local leadership and the strength of the community’s democracy. The degree of democracy within an American municipality is not generally questioned, because the US’s democracy is assumed to be strong. However, democratic structures and civic engagement do vary across local governments and should be considered. The evidence from the IMF literature suggests a hypothesis that control boards would not be more likely to enter cities with already weak democracies and may have more long-term success in cities with thriving local democratic institutions, although this would need to be tested. Perhaps this is why control boards are more popular in the East, while western states put many more restrictions on the fiscal decision making of local governments (Mullins & Pagano, 2005). This question, while not addressed in this dissertation’s case studies, is worth further consideration.

Short and long term packages

Political scientists distinguish short and long term problems as requiring different institutional solutions. Critics are skeptical that the IMF agreements are the most effective long-term solution to financial crisis. Several political theorists dispute that conditional lending
improves national economies (Boughton, 2006; Coate & Morris, 2006; Drazen, 2006). Przeworski and Vreeland's (2000) regression analysis of 135 countries over forty years indicates that IMF packages actually reduce the national growth rate regardless of the country’s reasons for entering the agreement. Willett (2006) identifies the long-term weakness of IMF missions that they lack the legitimacy needed to impose larger policy. Instead, he argues that locally elected leaders must shape long term solutions.

Critics of extended stabilization agreements argue that attempts to pursue long-term improvements are not only ineffective but also undermine the ability for IMF missions to achieve their short-term goals. As IMF stabilization agreements have evolved, they have shifted from short-term loans under two years to programs that last five years or more. Alongside longer involvement, the IMF missions have pursued long-term conditions such as governmental and structural reform. For example, Russian, Brazilian, and Korean IMF missions each required long-term improvements that would not help resolve immediate fiscal crisis. These terms were hard to enact, quickly failed and were abandoned, and thus reduced the credibility that the IMF needed to improve the nations’ short-term crises (De Gregorio, 1999). While the IMF may be needed to bring a country out of an immediate crisis, stabilization packages should defer to national governments to better lead long-term structural change.

Discussion of control boards focuses on the resolution of short-term crisis and rarely questions their long-term effectiveness. Evidence challenging the lasting impact of IMF intervention should provide a warning to policy makers studying fiscal crisis. Cahill, James et al. (1994) observe that states fail to implement solutions to resolve structural failure because they treat fiscal distress as a short-term problem. The design of control boards for a limited duration to meet short-term benchmarks obscures a broader perspective. Berman (1995) identifies this
problem for both local government and school takeovers, so he prefers that local officials confront larger structural problems. The author of Missed Opportunities ("Missed Opportunity: Urban Fiscal Crises and Financial Control Boards," 1997) focuses this concern when he echoes Willett’s (2006) analysis of institutional legitimacy. He values control boards’ quick emergency intervention for the short term, but poses an alternative institution for longer term restructuring should that uses a democratic system to maintain local accountability.

Policy Scope of Conditions

While the primary objectives of IMF agreements are to restore a balance of payments and promote economic growth, the scope of conditions has expanded to governance reform, structural adjustments, and poverty alleviation. These new areas focus on underlying government failure rather than simply adjusting a nation’s relationship to the private market. The IMF’s recent foray into broader conditionality has not been met with great success. The failure of IMF stabilization agreements to resolve these other problems could reflect the relative unimportance of government failure to the creation of fiscal crisis. Alternatively, the agreements may have the wrong institutional design to address this type of failure. Despite lessons of the significance of support from democratic leaders, Remmer’s (1986) study of nine Latin American countries cautions that successful implementation of IMF policies is rare regardless of regime type. Focusing on the nature of stabilization agreement successes, IMF studies find that macroeconomic improvements exceed advances in domestic conditions, even in countries with the agreements requiring the most concessions (Schadler et al., 1993).

While research within the IMF finds that structural reforms are consistent with the primary goals of the organization (Ghosh, 2005), many external scholars assert that IMF
agreements should narrow their scope and focus. Spraos (1986) argues that the failure rate of up to 80 percent in meeting the terms of stabilization packages occurs because conditions are too broad and cannot always be controlled by the government. Mosley (2006) raises concern that the IMF has shifted beyond macroeconomic policy towards goals of developing social protections, but it lacks both the institutional innovation and political partners needed to achieve policy success. Moreover, social costs hard to quantify and therefore often undervalued in these efforts (Dell, 1981). Without relevant expertise, the IMF is not equipped to deal with poverty alleviation and should not act like a development bank (Truman, 2006). These scholars highlight a critical reality that institutions can best resolve those problems that they are designed to address. Thus, IMF agreements are best suited to responding to a nation’s market position. Other causes of crisis may be best addressed by other institutions.

Critics argue that IMF missions that require structural adjustment not only fail but also undermine their ability to achieve macroeconomic success. For example, the focus of Korea’s stabilization package on dismantling the nationally owned chaebols hurt its success by both failing in its structural reforms and distracting from its primary objectives (IMF, 2003). Moreover, such expansive conditions reduce national buy-in for IMF agreements and discourage countries from establishing IMF packages, so the IMF loses the opportunity to help with macroeconomic concerns. Instead, in contrast to the ESAFs stringent conditional lending, poor countries seeking poverty reduction aid should have few terms for assistance (Collier & Gunning, 1999; M. Goldstein, 2000). Thus, as the IMF continues to shape its role in an evolving international fiscal structure, the organization should consider refocus on its competitive advantage and primary mission of economic stabilization rather than social change.
Chapter 5

The narrow scope of potential policy success for the IMF serves as a lesson to control boards. Control boards, like IMF stabilization agreements, exist in places with not only financial but also social problems. Despite the relationship between financial policy and public services, control boards should avoid the policy areas with which its members have little expertise. In addition, the lack of domestic policy improvement in IMF recipient countries should serve as a warning that even limited economic intervention does not help all residents equally. Thus, analysis of control board intervention should evaluate who has been helped and hurt. At a local level, the perceived financial burden of social welfare policies exacerbates the likelihood of failure in this realm. For example, bankers gained leverage to reduce welfare when it shouldered much of the blame for the New York City fiscal crisis. However, the control board continued to offer more expensive tax incentives to attract and retain the wealthy (Tabb, 1982). Policy makers seeking to resolve local fiscal crises in municipalities with extensive social problems should consider independent institutional solutions to these parallel challenges.

Institutional Context

Beginning with the identification and definition of crisis, this IMF literature analyzes the advantages and disadvantages of stabilization agreements not in isolation but rather within a field of alternative institutions. Eichengreen’s (2003) examination of the hedge fund crisis in 1997 and 1998 reveals that in that moment, different organizations actually identified different problems and developed divergent courses of action specific to their perceived problems. Thus, institutional choice translates into particular types of solutions. At the same time, countries should not seek an IMF package for a particular advantage when other organizations may provide the same benefit. The stabilization agreements, for example, are praised as an external
target for blame regarding unpopular policies. However, Putnam's (1988) development of the two-tiered game includes this dynamic in all multi-level negotiations so that supranational structures such as the EU can fulfill this role. Thus, IMF agreements should not be viewed as the exclusive path to crisis resolution.

Supranational governments and IMF packages offer alternative visions – using the state and market, respectively – of how to coordinate national policies in an era of global trade and political interdependence. The lessons from supranational governments such as the EU are critical when comparing control boards to their alternatives or developing new institutions such as metropolitan governments. Neither the EU nor IMF framework implies a certain policy scope: The EU affects not only issues of citizenship such as voting or migration rights but also economic policy including the conversion to the Euro. IMF agreements often extend beyond macroeconomic policy to broader structural reform as a condition of lending. Thus, international and supralocal institutions should be understood as different models to the interconnected demands of multiple national or local governments.

Institutions geared to fiscal management, such as control boards, will not identify the same problems or implement the same actions in response to crisis as ones such as regional legislatures that are focused on federalist power relationships and public services. Thus, although this dissertation focuses on the institutional design of control boards exclusively, the choice to implement control boards should be considered in the context of the particular causes of crisis and what each institution offers relative to others in addressing those causes. IMF stabilization agreements are particularly poorly suited to resolving issues of majoritarian tyranny or an imbalance of political power, because they do not recognize such problems as contributors to local crisis. In fact, their design can intensify this cause of failure.
Conclusion

The literature of IMF stabilization agreements highlights their primary benefits of technical assistance, absorbing blame for unpopular but useful policy, and credibility for accessing additional resources. In contrast, the packages risk hurting countries by shifting power to external private and political actors as well as undermining local sovereignty. These advantages and disadvantages reveal that the logic identified in IMF agreements is that local government problems and market weakness cause critical failures, while downplaying the significance of external political influence in creating local failures. The success of these agreements is primarily short-term and macroeconomic, and it requires national buy-in. To some extent, the characteristics that provide advantages lead to disadvantages. Establishing credibility requires conditionality that could undermine national governance, diminish buy-in, and discourage national participation. Conversely, not getting adequate local support could reduce credibility, and the IMF role as a scapegoat could be at odds with asserting sovereignty.

The shifting role of the IMF and nature of its stabilization agreements has revealed critical factors of their success and risks of certain types of intervention. The advantages of the IMF are present in a narrow vision of the institution as facilitating a response to a macroeconomic crisis brought on by a temporary shift in the market or weak national position in the private market. In contrast, the areas of potential harm caused by the IMF have been amplified by its increasingly broad role. The mission creep of the IMF towards long-term agreements and structural reform has led the institution away from its expertise and historically established credibility; created sovereignty concerns and controversy; reduces national buy-in; and diminishes the likelihood of success. Thus, national governments or alternative
supranational institutions are better equipped to manage many types of policy and failure caused by either imbalances in political power or local government failure. These outcomes indicate that control boards should also have a narrow mission.

The IMF literature offers a variety of governance lessons for control boards created during municipal fiscal crisis. This chapter extends the analogy of stabilization agreements to control boards primarily through newspaper coverage and the limited analysis of the first major modern control board in New York City. The remainder of this section explores how control boards bring these institutional advantages and disadvantages to local fiscal crisis through two in-depth case studies of control boards imbued with divergent levels of power. These case studies provide insight into whether the mix of causes of fiscal crisis affects the likelihood of control board success. In addition, the analysis examines the extent to which control boards overcome problems of majoritarian tyranny, weakness in the market, and local democracy failure. The research particularly focuses on the impact of control boards on local democracy, because of the dissertation’s broader goal of exploring local democracy failure.
FROM CHAOS TO CONTROL: MIAMI'S OVERSIGHT BOARD

CHAPTER 6
Rather than highlighting a local history of international culture and the transformation of a small tourist outpost into a prominent city, the culmination of Miami’s centennial year marked a low moment in its civic infrastructure. In September 1996, federal agents arrested several local political leaders and the resulting turmoil led to a discovery of a deeply flawed local government with a major fiscal crisis. Florida and Miami turned to a solution employed in major cities and small towns: a state appointed board to supervise the city’s financial decisions. The case of Miami’s Oversight Board from 1996 to 2001 illustrates how fiscal crisis and the institutional change of a financial control board interact with local democracy and grassroots reform movements. Concurrent with the Board, residents led efforts to dissolve Miami and to have single-member districts for the city commissioners. The institutional advantages and disadvantages of implementing a control board, including the Oversight Board’s attempts at community accountability and need for local buy-in, must be evaluated according to their ability to address any problems of majoritarian tyranny, market weakness, and local democracy failure that led to Miami’s fiscal crisis.

Discovering Fiscal Failure

In September 1996, the FBI’s Operation Greenpalm culminated in federal indictments of Miami city employees on charges including fraud and bribery and the resignation of city manager Cesar Odio, finance manager Manohar Surano, and city commissioner Miller Dawkins.
Within weeks, interim city manager Merrett Stierheim identified major fiscal problems in the city (see Table 6-1 for timeline, Table 6-2 for budget table).

The mayor said “Merritt, we have approved the budget on first reading,” the annual budget, which would take effect October 1. This was September 13, and they were coming up on final hearing... I asked for the last audited financial statement, the financial report, the budget, last year’s budget, the year’s before budget... I went home, because I was doing all this work I was in the guest room with books spread all around. And by 11:30 Saturday night, after maybe 2 or 3 hours of studying this thing, I said you know, there is something really wrong with this budget... I said “Where the hell is that money? Where’s the revenue? I don’t see it.” (Stierheim, 2008)

By November, he had discovered that gimmicks and misused bonds disguised a $22 million general fund balance deficit; a projected shortfall for the upcoming year of $68 million, one quarter of the city’s budget; and a cash shortage that would soon prevent the city from meeting payroll (City of Miami, 1996; Lester, 1996b; Stierheim, 2008). The state’s Auditor General reported simultaneously that the city had unreserved fund balance-retained earning deficits for two years (Emergency Financial Oversight Board, 1997a).

**Causes of Fiscal Failure**

Miami’s fiscal crisis was discovered suddenly after a federal investigation but developed slowly from demographic and economic conditions combined with a lack of fiscal oversight and professionalism throughout the local government. The corruption itself was not a major cause in the city’s budgetary imbalance (Baker, 1997; Stierheim, 1996b; Wisckol, 1996). The primary causes of fiscal failure can be grouped into the two basic categories of market problems and local government failure. The city’s difficulties in a capitalist system emerge in its socioeconomic shifts and the aftermath of Hurricane Andrew. Miami’s local government failed in its
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1996</td>
<td>FBI sting Operation Greenpalm leads to city employee arrests and resignations, including city manager Cesar Odio, finance director Manohar Surano, and city commissioner Miller Dawkins. Interim city manager Merrett Stierheim hired by Mayor Carollo and the city commission, and he identifies the presence of major fiscal problems.</td>
</tr>
<tr>
<td>November 1996</td>
<td>Stierheim report details Miami’s $68 million deficit and fiscal crisis and proposes a series of local solutions. Unions begin to agree to significant, temporary concessions. City hires Ed Marquez as its new city manager. Special election in which Humberto Hernandez defeats Reverend Richard Dunn for city commissioner, leaving the city commission without any black representatives for the first time in thirty years.</td>
</tr>
<tr>
<td>December 1996</td>
<td>The local and state governments declare Miami to be in financial emergency. Governor Chiles appoints a Financial Emergency Oversight Board, and the city accepts the Board in an intergovernmental agreement. Lt. Governor MacKay chairs the Board for about five months as it is established, and the remaining members are local to Miami-Dade.</td>
</tr>
<tr>
<td>April 1997</td>
<td>Mayor Carollo creates a Blue Ribbon Task Force to recommend management improvements and best practices throughout the government.</td>
</tr>
<tr>
<td>September 1997</td>
<td>Special election in which residents vote not to abolish Miami and vote in favor of switching to single-member districts for the commission and having a strong mayor.</td>
</tr>
<tr>
<td>November 1997</td>
<td>Former mayor Suarez defeats Mayor Carollo in mayoral election.</td>
</tr>
<tr>
<td>March 1998</td>
<td>Suarez is removed from office because of voter fraud, and Carollo returns to office. In the meantime, Suarez has gone through five city managers and Carollo appoints a new manager early in his return.</td>
</tr>
<tr>
<td>November 1999</td>
<td>Special election in which residents vote to strengthen the roll of the mayor, eliminate the city manager, and establish mayoral term limits.</td>
</tr>
<tr>
<td>December 2001</td>
<td>Oversight Board disbands having met their term of three years after two consecutive years of balanced revenues and expenditures.</td>
</tr>
</tbody>
</table>

Table 6-1. Miami Timeline of Fiscal Crisis
Revenues

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Special Revenue Fund</th>
<th>Debt Service Fund</th>
<th>Capital Projects</th>
<th>Total Reporting Entity (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>101,964</td>
<td>53,030</td>
<td>22,349</td>
<td>-</td>
<td>198,235</td>
</tr>
<tr>
<td>Other Taxes¹</td>
<td>13,249</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,249</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>5,407</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,407</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>33,761</td>
<td>33,911</td>
<td>4,376</td>
<td>3,623</td>
<td>77,397</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>39,045</td>
<td>3,467</td>
<td>-</td>
<td>-</td>
<td>42,512</td>
</tr>
<tr>
<td>Interest</td>
<td>3,047</td>
<td>568</td>
<td>479</td>
<td>1,943</td>
<td>7,313</td>
</tr>
<tr>
<td>Other</td>
<td>9,924</td>
<td>4,194</td>
<td>4,492</td>
<td>842</td>
<td>20,285</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>206,397</strong></td>
<td><strong>95,170</strong></td>
<td><strong>31,696</strong></td>
<td><strong>6,408</strong></td>
<td><strong>351,149</strong></td>
</tr>
</tbody>
</table>

Expenditures

<table>
<thead>
<tr>
<th></th>
<th>General Government</th>
<th>Public Safety</th>
<th>Public Improvement</th>
<th>Public Facilities</th>
<th>Culture and Recreation</th>
<th>Solid Waste</th>
<th>Grants and Related Expenditures</th>
<th>Other</th>
<th>Debt Service</th>
<th>Principal Retirement</th>
<th>Interest and Fiscal Charges</th>
<th>Bond Issue Costs</th>
<th>Capital Outlay</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td>69,542</td>
<td>113,050</td>
<td>9,893</td>
<td>7,507</td>
<td>12,583</td>
<td>16,334</td>
<td>-</td>
<td>52,564</td>
<td>47,983</td>
<td>47,983</td>
<td>6,975</td>
<td>52,564</td>
<td>351,149</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>136,431</strong></td>
<td><strong>262,926</strong></td>
<td><strong>51,374</strong></td>
<td><strong>34,817</strong></td>
<td><strong>39,016</strong></td>
<td><strong>16,334</strong></td>
<td><strong>31,086</strong></td>
<td><strong>75,138</strong></td>
<td><strong>85,227</strong></td>
<td><strong>95,266</strong></td>
<td><strong>9,838</strong></td>
<td><strong>52,564</strong></td>
<td><strong>472,069</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Excess of Revenues over Expenditures**

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Special Revenue Fund</th>
<th>Debt Service Fund</th>
<th>Capital Projects</th>
<th>Total Reporting Entity (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(130,034)</strong></td>
<td><strong>32,244</strong></td>
<td><strong>28</strong></td>
<td><strong>26,000</strong></td>
<td><strong>(120,921)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total other Financing Sources</strong></td>
<td><strong>119,825</strong></td>
<td><strong>31,024</strong></td>
<td><strong>1,580</strong></td>
<td><strong>34,260</strong></td>
<td><strong>124,641</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Fund Balance at Beginning of Year</th>
<th>Fund Balance at End of Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>26,659</strong></td>
<td><strong>1,220</strong></td>
<td><strong>1,552</strong></td>
</tr>
<tr>
<td><strong>8,260</strong></td>
<td><strong>5,5083</strong></td>
<td><strong>72,450</strong></td>
</tr>
</tbody>
</table>


¹ Other Taxes only distinguished from property taxes for the General Fund (amounts in $1,000s)

**Table 6-2. Budget Summary for Miami, Florida at the Discovery of Fiscal Crisis**

**Fiscal Year ended September 30, 1996**
institutional design, internal oversight, and competence among leadership and workers.

**Market Weakness**

*Demographic and economic shift.* After Castro’s rise and immigration reform in 1965, Miami welcomed Cubans and then other Latin American and Caribbean immigrants. The immigrants were initially wealthy, but this shifted by 1990 when 125,000 largely poor and poorly educated Cubans entered the city as part of the six-month Mariel boatlift (Portes & Stepick, 1993; U.S. Bureau of the Census, 2001). The city’s nickname as the “Capital of Latin America” reflects the influence of that part of the world. By the early 1990s, the foreign-born share of the city grew to sixty percent while the white share dropped by half to eleven percent and the black share fell one-fifth to twenty percent (Census, 1980; 1990; 2000). The decrease in black residents resulted from declining migration among both southern blacks domestically and Bahamians who had provided labor for Miami since its incorporation. Dluhy and Frank (2002; 2003) argue that the new wave of immigrants hurt local governance because the oppressive regimes they fled created low governance expectations. However, Miami’s governance problems far predate its influx of immigrants (Wisckol, 1996). “When the city was incorporated in 1896, 312 residents showed up to vote. Total number of votes cast: 344” (Stierheim as qtd in Staletovich, 1998).

Increasingly disadvantaged immigrants combined with flight in a pattern common to many poor central cities in which firms and middle-class residents relocate to the suburbs, no longer contributing to the city’s finances. Although Miami has been among the most populace fifty municipalities in the country since 1940, the city is a small part of its surrounding metropolitan region. The Miami-Fort Lauderdale region has more than doubled since 1980,
while the city has decreased as a share of the regional population from just above 20 percent to just below 10 percent. The shifting population led to a thirty percent poverty rate in Miami that was the fourth highest in the country by 1996 (Dluhy & Frank, 1997; Census, 1990; 2000; 2001). Simultaneously, Miami’s revenue per capita was only three-quarters that of other Florida cities and severely constrained by its heavy dependence on property taxes in place of the user fees popular in surrounding cities. By the fiscal crisis, the city had experienced years of stagnant property tax collection, and its millage rate of 9.5995 was close to Florida’s legal limit (City of Miami, 1996; Dluhy & Frank, 1997; Haggerty, 1996; McEntee, 1997d).

_Hurricane Andrew._ Hurricane Andrew tore through south Florida on August 24, 1992 and devastated the region. The storm killed fifteen people, required the evacuation of a half million people, destroyed 25,000 homes, damaged an additional 100,000, and caused $25 billion in damages (Rappaport, 1993). Although most destruction was outside Miami, the hurricane sped Miami’s middle class flight to Broward County. Moreover, the resulting spike in South Florida home insurance premiums further hurt the city’s property tax revenue by increasing real estate prices in an already suffering market (Bradley, 2008; Bridges, 1997; Dluhy & Frank, 1999). “Saint Andrew” also brought an influx of FEMA and a state relief funds for repairs and infrastructure not connected to the storm; may have temporarily bailed out the city; and created an expectation of additional revenue (Bryson, 2008; Colvin, 2008; MacKay, 2008; Marquez, 2008; Stearns, 2008; Stierheim, 2008).

_Local Democracy Failure_

_Government Structure._ The scandal of Operation Greenpalm surprised Miami but was part of the city’s history of corruption that may have stemmed from low commissioner salaries
and a small-town government inadequate for a complex city (Adams, 1996; Cohen, 1996; Wisckol, 1996). At the time of the crisis, Miami had a council-manager government structure with five at-large city commissioners, including a weak mayor. The city commissioners were paid as part-time employees with a salary of $5,000 per year from 1949 through the time of the fiscal crisis. The low compensation might have created incentives for the elected officials to seek financial gains illicitly (Haggerty, 1996). Mayor Carollo “mainly got voted out [of office ten years earlier] because he was very paranoid and people got tired of him accusing everyone else of being crooks. Well, it turns out most of them were” (MacKay, 2008). The city eventually acknowledged this problem and changed their salaries to almost $60,000 in 2003 ("Resolution 03-918," 2003). The commission appointed the full-time city manager, who in turn selected the budget and finance directors to oversee the city’s finances. The city manager held executive authority and oversight of the city’s operations, although he was ultimately serving at the discretion of the commission.

Lack of Oversight. Interim city manager Stierheim attributed the city’s financial crisis primarily to poor fiscal management ("State & Local Finance; Miami Fiscal Emergency Declared," 1996). Odio consolidated almost all budget and financial functions under Surano; the two excluded other high level employees from preparing the budget; and they were secretive about their accounting processes. This structure eliminated oversight within the city government (Bryson, 2008; Dluhy & Frank, 2002, 2003; Securities and Exchange Commission, 2003; Stierheim, 2008). Perhaps out of desire to continue funding popular programs, the city commission found it useful to fail to publicly recognize Surano’s improper financial gimmicks and emerging signs of crisis; privately attempt to resolve problems; and later claim ignorance. The city’s failure to notify investors of Miami’s financial decline during bond issuances in 1995
even led the Securities and Exchange Commission to eventually find Miami guilty of security fraud laws (Associated Press, 1996; Bryson, 2008; Colvin, 2008; Deloitte & Touche LLP, 1995; Dluhy & Frank, 2003; Securities and Exchange Commission, 2003; Sigo, 2003, 2004b; Sittig, 2008; Stierheim, 2008).

Internal and external auditors failed to warn of fiscal problems. Internal mechanisms were ineffective, because the auditor did not examine the finance department and the city manager did not monitor the problems that were identified (Stierheim, 2008). Externally, the city’s its auditor Deloitte & Touche eventually settled with Miami for its failure to identify problems leading to the crisis (Associated Press, 1996; "Miami threatens to sue auditors," 1997; Sigo, 2004b; Stierheim, 2008). In addition, the city’s two bond rating agencies did not lower Miami’s rating before the crisis (Dluhy & Frank, 1997; Marquez, 2008; McEntee, 1997d). Finally, Miami was awarded by the Government Finance Officer’s Association (GFOA) for its financial reporting throughout the early 1990s (City of Miami, 1991, 1992, 1993, 1994; Dluhy & Frank, 1997).

Lack of knowledge. Miami’s government also lacked professional knowledge. The city cut five hundred mid- and upper-level managers in 1995 because of budget concerns; those remaining lacked relevant backgrounds; and the city manager even lacked a college degree (Dluhy & Frank, 2002, 2003; Lester, 1996c). The city’s pattern of internal promotion rather than hiring trained employees contributed to a finance department with little expertise, and the problem was exacerbated by the lack of a system to train staff (KPMG, 1997; Marquez, 2008; Sittig, 2008). By the fiscal crisis, widespread failures included no coherent property management, an inability to monitor the city’s cash position, and bank statements not reconciled for almost a year (MacKay, 2008; Sittig, 2008; Stierheim, 2008).
Local Government Response

The mayor quickly labeled the fiscal crisis as “the worst that this City of Miami has faced in its 100 years of existence” (Miami City Commission, 1996h). The local government responded to the crisis through the overlapping methods of narrowing the deficit through union concessions; a Blue Ribbon Task Force to recommend best practices for agencies; and pursuing state assistance. Each of these local efforts focused not on the city’s position in the market but rather on Miami’s local government failures. The Stierheim report (Figure 6-1), issued in November and a baseline throughout the crisis, recommended restructuring management and accounting; combining one-time and recurring revenues and spending cuts for the next fiscal
year; and then relying on recurring changes (Oversight Board, 1996; Miami City Commission, 1996b, 1996e, 1996g, 1998a; Stierheim, 1996a, 1996b).

**Role of the Mayor.** Mayor Carollo was critical to improvements because he was the only elected official to fully accept the crisis while others were in denial and to support necessary changes despite their potential political cost (Bryson, 2008; Marquez, 2008; Miami City Commission, 1996h, 1997b). The mayor selected Stierheim despite the commissioners' hesitation to hire him as an outsider, and then Carollo sought state help before even the interim manager supported the idea (Miami City Commission, 1996k; Stierheim, 2008). Carollo's efforts echoed IMF partnerships with new leaders who take credit for recovery but not blame for the crisis: “Although this crisis is not my fault, the buck stops here to fix it” (Carollo as qtd in Knight-Ridder, 1996; Miami City Commission, 1997k; Navarro, 1997b; Remmer, 1986; Alastair Smith & Vreeland, 2006). However, he had been a commissioner prior to being mayor and residents who linked him to the city's past eventually replaced him with a mayor without a political background (Leitsinger, 2001; Navarro, 1997b). Carollo's efforts to help the city also hurt him politically because although residents wanted better governance, they often opposed the changes made to resolve the fiscal crisis (Miami City Commission, 1996h, 1997b).

**Unions.** Stierheim reduced city expenses through a hiring freeze and administrative cuts, but his most significant savings were from unions, because their costs were a particularly large share of Miami's budget and had been made larger by the city's tendency to bend quickly to union demands (Schoffstall, 2008; Sittig, 2008; Stierheim, 1996b, 2008). Shorty Bryson, the president of the firefighters union, had followed the city's budgets, pension bond issuance, and tax anticipation note issuance for the several years and concluded that the city was a quarter behind its budget prior to Operation Greenpalm. He shared his anticipation of the crisis with the
police and AFSCME unions, but did not reveal this knowledge to the city government until the crisis became public. These unions wanted the city to remain solvent to protect union jobs, but they analyzed Miami’s finances to ensure the city would contribute to the solution (Bryson, 2008; Miami City Commission, 1996g, 1996h, 1996i, 1996j; Sittig, 2008; Stierheim, 2008).

Soon after the crisis was discovered – in the firefighter union’s case, even before the Oversight Board had been established – the city and its four unions agreed to temporary concessions of a postponement of pay increases; reductions in supplemental and workers’ compensation as well as incentive pay; fewer positions with extra shifts; and a small reduction in funded positions (International Association of Firefighters Local 587 & Marquez, 1996; "Move to abolish Miami moves ahead," 1996). The unions linked their $26 million of concessions to new recurring city revenue by stipulating that if the city failed in its revenue obligations, the unions could retract their concessions (AFSCME Local 1907, IAFF Local 587, & LIUNA Local 800, 1996; Bryson, 2008; Chardy, 1996; Firefighters Local 587, 1996; Miami City Commission, 1996b; Stierheim, 1996b, 2008). Although the unions negotiated new contracts and agreed to more cuts later in the crisis, this first agreement was their major contribution to the city (Emergency Financial Oversight Board, 1997b).

*Blue Ribbon Task Force.* In early 1997, city manager Marquez fired fifteen assistant city managers and department directors and restructured many government agencies (Oversight Board, 1997a). The mayor expanded this organizational reform with a Blue Ribbon Task Force of over fifty local academic and business leaders who examined best practices, interviewed city employees, and recommended detailed procedural improvements throughout the city. The group’s November 1997 report echoed parts of the Stierheim report, with even greater detail for recommended procedures in areas including strategic planning, capital asset and debt
management, workforce and leadership development, human resources, and information technology. The Task Force emphasized the need to restore the confidence of the business community while questioning the political will of elected officials to make proper improvements (Blue Ribbon Task Force on City Administration, 1997; Emergency Financial Oversight Board, 1997j; Frank, 2008; Miami City Commission, 1997d). The city manager and mayor embraced their report, tracking approximately suggested 500 initiatives of all scales. However, changes stalled when Mayor Suarez was elected and pursued the city’s former practices (City of Miami, 1998; Dluhy & Frank, 1999; Marquez, 2008).

Although Task Force members were highly respected, their selection by the mayor and co-chairs of the Task Force was not public; the group did not attract media attention; meetings were not subject to Florida’s transparency laws; and Task Force volunteers did not detect public interest in the group (Oversight Board, 1997k; Frank, 2008; Marquez, 2008). The Task Force acted as a pro-bono consultant that developed best practices proactively in coordination with the Oversight Board’s analytical review (Oversight Board, 1997a; Marquez, 2008).

**Oversight board**

When Mayor Carollo publicly approached Governor Lawton Chiles for assistance, Chiles recognized Miami’s regional importance and international prominence and appointed a five member Financial Emergency Oversight Board to manage Miami’s finances beginning in December 1996 (Bradley, 2008; Oversight Board, 1997a; Fernandez & Elmore, 1996; Lester, 1996a; MacKay, 2008; Marquez, 2008; L. Morgan & Norton, 1996; Wisckol, 1996). The “Local Governmental Entity Financial Emergencies Act” of 1979 granted the Governor broad authority over local governments meeting any of several conditions including failure to meet payroll or a
deficit in the total fund balance. Although the statute existed for almost twenty years, municipalities rarely met conditions for fiscal emergency and the legislation had never been used to create an Oversight Board (Navarro, 1996a; Rosetti, 2007; State of Florida, 1979; Wisckol, 1996). The state’s strong Home Rule powers raised constitutionality concerns that the state sidestepped with an intergovernmental agreement modeled on Philadelphia’s in which local officials willingly submitted to the Board and a potential takeover (Colvin, 2008; Knight-Ridder, 1996; MacKay, 2008; Shoffstall, 2008; Sittig, 2008).

Governor Chiles appointed all the Board members, who were locally respected leaders of major private corporations including NationsBank, Bell South, and two accounting firms, as well as a university vice president with economic development experience. This selection reflects the Governor’s assumption that the private market was critical to Miami’s recovery. The Governor also appointed Lt. Governor MacKay to chair the Board while it was launching. After about five months when the Board was settled, MacKay resigned and was replaced by a local member (Oversight Board, 1997a; McEntee, 1996a). State employees from a variety of agencies composed the Board’s staff and the state retained legal counsel for the Board.

The Oversight Board was charged with establishing Miami’s fiscal solvency through the review, approval, or rejection of the city’s annual budget, five year plan, and contracts above $4,500. The Board could implement its own budget or five year plan if the city failed to present or follow an approved plan. The Board’s term was until three years after two consecutive years without deficits, and Board disbanded in December 2001. The state also used the Oversight Board as a trusted, organizational tool to identify and resolve the complex causes of the crisis (Bradley, 2008; Colvin, 2008). Despite the legislative authority that remained with the commission, Control Board members and employees viewed the role of the Board being to "take
the city into its temporary custody [to perform its] executive function[s]” and “stand in the stead of the political leadership of the city” while restoring Miami’s fiscal health (Beatty, 2008; Brochin, 2008). In addition, the Board sought to change the local government to ensure long-term fiscal responsibility (Sittig, 2008).

**Actions.** The Board rejected the city’s initial budget and five year plan proposals in 1997, 1998, and 1999 citing concerns of questionable revenue forecasts; the level of the reserve fund; and the need for fee increases (Garcia, 1997a; McEntee, 1997b, 1997c; Miami City Commission, 1997a, 1997b, 1997c; Molis, 1998). Each time, the Board threatened intervention until the commission complied (Bridges, 1999d; Oversight Board, 1997f; 1998b; Garcia, 1998; McEntee, 1997c; Miami City Commission, 1997f, 1997k, 1998a; Royse, 1999; Weaver, 1998). Negotiations were particularly tense during Suarez’s brief tenure as mayor. In 1998, the Board not only rejected the city’s proposal for one-time revenue and spending reductions but also threatened to implement a hiring freeze in the city until the budget was approved (Emergency Financial Oversight Board, 1998b; Garcia, 1998; Weaver, 1998).

Many of the Board’s actions focused on changing the city’s relationship to the private market. In particular, most of the debate between the city and Board centered on the creation of a fire assessment fee and increase in the garbage collection fee. Because Florida prohibits municipalities from imposing income taxes and had strict limits on property tax rates, cities rely heavily on revenue from user charges. Surrounding municipalities had established fees as major revenue sources, with rates twice that of Miami. Miami instead maintained fees so low that the general fund subsidized fire and garbage activities. Stierheim identified these fees as a potential source of $10 million in recurring revenue, a major step towards a balanced budget (Miami City Commission, 1996h). The Commission first passed the fire fee in a five year plan because
reserve fund and an on-time proposal, but then attempted to avoid implementation in the following budget. Through its veto power, the Board steered a reluctant commission to create a $24 residential fire assessment fee that rose to $70 in 1998 paired with a higher commercial fire assessment fee and to increase garbage fees from $160 to $188 in 1998. Moreover, the fees have continued to rise since then (Miami City Commission, 1996h; "Ordinance 11631," 1998; "Resolution 01-818," 2001; "Resolution 98-419," 1998). As part of these negotiations, the commissioners also agreed in 1998 to restructure the city’s accounts by transferring funds from the capital improvement account and an account for training and hiring mid-level employees to the general fund (Miami City Commission, 1998a).

The Board monitored the city’s routine operations through its Sufficiency Advisory Committee, Estimating Conference, approval of budget deviations, and contract review. The importance and extent of the Board’s contract review responsibilities were unanticipated at the formation of the Board, but in practice required the bulk of Oversight Board member Robert Beatty’s time. The Board also addressed the internal functioning of the city’s executive role by working with city staff and implementing departmental peer reviews (Oversight Board, Beatty, 2008; 1997a; Legal Affairs Management Committee of Local Government Law Section of the Florida Bar, 1998; Schoffstall, 2008). These actions were designed to address the local democracy failures that led to fiscal crisis. Thus, the Board provided macro-management regarding the city’s interaction with the market and detailed oversight of the local democracy.

*Long-Term Impact.* Leadership involved with the Board argue that it allowed the city to resolve its financial and structural issues more quickly; broke Miami’s unhealthy governance cycle; and had a positive long-term fiscal impact (Beatty, 2008; Brochin, 2008; Colvin, 2008; Marquez, 2008; Stierheim, 2008). The city has not retracted the management advancements
made during the Oversight Board's tenure or returned to improper fiscal practices and budget gimmicks or reverted to its prior complicated web of funds that helped disguise the initial crisis. In addition, the years after the fiscal emergency were generally good for local finances across the country, and Miami's continuing fiscal health has stemmed partly from an economy that almost doubled its property tax revenue. The city has had similar rates of growth in its other major local revenue sources of franchise fees and other taxes, licenses and permits, and service charges (Berman, 2000; City of Miami, 1998, 2006; Stearns, 2008; Stierheim, 2008). Thus, market weakness and local democracy failure in Miami have been reduced beyond the control board's temporary presence.

By the dissolution of the Board, the city had balanced its budget for five years and turned its general fund balance from a slight deficit to reserve funds of $141.5 million (Table 6-3). The city then continued to build its general and total governmental reserves, which grew dramatically to $477.5 million (City of Miami, 1997a, 1998, 1999, 2000, 2001, 2002, 2003, 2004). The city's robust reserves reflect the city's greater fiscal discipline and professionalism, as manifest in new staff, better training, and more standardized protocol (Bradley, 2008; Bryson, 2008). The bond rating agencies upgraded Miami's rating prior to the Board's termination and repeatedly since, and Miami has issued bonds again since 2002 ("Fitch Rates Miami, Florida's $80MM Special Obligation Bonds 'A-',' 2007; Sigo, 2001, 2002, 2004a; Vasquez, 2006).

Governance and fiscal problems are beginning to re-emerge in Miami (Ortiz & Polansky, 2008; Shoffstall, 2008). After several years of minor concerns, Miami's external auditor reported significant problems in 2006 with the finance department's accounting procedures including failure to thoroughly review, reconcile, and update accounts, and inadequate training.
Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>General Fund</th>
<th>Special Revenue Fund</th>
<th>Debt Service Fund</th>
<th>Capital Projects</th>
<th>Total Reporting Entity (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>119,684</td>
<td>1,198</td>
<td>17,164</td>
<td>-</td>
<td>139,854</td>
</tr>
<tr>
<td>Francise Fees and Other Taxes</td>
<td>19,081</td>
<td>49,369</td>
<td>415</td>
<td>-</td>
<td>76,125</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>20,334</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20,334</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>33,688</td>
<td>60,777</td>
<td>912</td>
<td>5,486</td>
<td>102,440</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>84,334</td>
<td>13,588</td>
<td>-</td>
<td>-</td>
<td>99,539</td>
</tr>
<tr>
<td>Interest</td>
<td>15,909</td>
<td>1,908</td>
<td>389</td>
<td>2,904</td>
<td>21,785</td>
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<tr>
<td>Other</td>
<td>10,325</td>
<td>9,901</td>
<td>-</td>
<td>417</td>
<td>23,746</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>303,355</strong></td>
<td><strong>136,742</strong></td>
<td><strong>18,881</strong></td>
<td><strong>11,203</strong></td>
<td><strong>483,822</strong></td>
</tr>
</tbody>
</table>

Expenditures

<table>
<thead>
<tr>
<th>Description</th>
<th>General Government / Organizational Support</th>
<th>Public Safety</th>
<th>Public Improvement</th>
<th>Public Facilities</th>
<th>Culture and Recreation</th>
<th>Risk Management</th>
<th>Pensions</th>
<th>Other</th>
<th>Debt Service</th>
<th>Capital Outlay</th>
<th>Total Outlay</th>
<th>Total Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>47,742</td>
<td>132,845</td>
<td>40,975</td>
<td>4,547</td>
<td>9,358</td>
<td>33,306</td>
<td>18,653</td>
<td>13,479</td>
<td>-</td>
<td>-</td>
<td>300,905</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>15,344</td>
<td>238</td>
<td>2,549</td>
<td>1,410</td>
<td>-</td>
<td>-</td>
<td>56,103</td>
<td>-</td>
<td>39,540</td>
<td>80,090</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>3,940</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>31,296</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47,742</strong></td>
<td><strong>132,845</strong></td>
<td><strong>40,975</strong></td>
<td><strong>4,547</strong></td>
<td><strong>9,358</strong></td>
<td><strong>33,306</strong></td>
<td><strong>18,653</strong></td>
<td><strong>13,479</strong></td>
<td><strong>-</strong></td>
<td><strong>39,540</strong></td>
<td><strong>303,355</strong></td>
<td></td>
</tr>
</tbody>
</table>

Excess of Revenues over Expenditures: **2,450**
Total other Financing Sources: **9,263**
Fund Balance at Beginning of Year: **75,466**
Fund Balance at End of Year: **87,165**

(amounts in $1,000s)


Table 6-3. Budget Summary for Miami, Florida at the Conclusion of the Oversight Board Fiscal Year ended September 30, 2001
However, the auditor attributes most errors to a new financial system (KPMG, 2003; Rachlin, 2004, 2005, 2006). Miami also began to reduce its fund balances despite a growing tax base, and it now faces shrinking property tax revenues because 1) the city’s property tax rate, its lowest in decades, will soon have to be reduced again for a revenue loss of approximately $12 million to meet a new state maximum from which it is temporarily exempt; and 2) the city has one of the highest foreclosure rates in the country during the current national mortgage crisis (Bryson, 2008; CBS News, 2008; City of Miami, 2005, 2006; Dluhy & Frank, 2003; Rabin & Caputo, 2007; RealtyTrac, 2006; "Report: Fort Lauderdale, Miami high in foreclosures per household," 2007; Sigo, 2001; Vasquez, 2006, 2007; Veiga, 2008). In addition, Miami’s middle class flight and persistently high poverty rate continue to challenge the city’s fiscal health (Dluhy & Frank, 2002; Frank, 2008).

**Oversight Board: Structural Advantages**

The interactions between the Oversight Board and local community were determined, in part, by the institutional design of the Board. Thus, the benefits and drawbacks of the Board to Miami both impacted the strength of the local democratic structure and framed residents’ responses to the Board. The Oversight Board provided technical assistance, served as a scapegoat for unpopular but useful policies, and offered credibility to outside investors – as anticipated in the literature about IMF stabilization agreements. In overcoming local governance problems, the Board was also able to improve the city’s standing in the municipal bond market.

**Local Democracy Failure**
Technical assistance. Responding to the contribution of local government failure to the creation of the city’s fiscal crisis, the Oversight Board provided a formal channel of expertise for critical technical assistance in Miami (Beatty, 2008; Colvin, 2008; Lester, 1996c). “There were very few things that were working... The purchasing process was broken, the hiring process was broken, the investment process was broken” (Sittig, 2008). In February 1997, even with an infusion of assistance from the state, the shortage of skilled staff within the finance department made budget and forecasting analysis difficult (McEntee, 1997a).

Recognizing the city’s lack of expertise and managerial capacity, the mayor and city manager sought the state’s expertise in its intervention (Cohen, 1996; Marquez, 2008; Miami City Commission, 1996a, 1996c). In its first year, the Board coordinated up to forty-five individuals at a time from the city, state, regional agencies, and private sector (Oversight Board, 1997e; 1997m). The state leant about twenty-five employees from various departments to improve city processes including finance and accounting, procurement and contracting, communications, and auditing. In public finance, the two CPAs from the state outnumbered the CPAs in the entire city staff (Colvin, 2008; Dluhy & Frank, 1997). The state contracted outside organizations upgrade property and risk management, parks and recreation, human resources and labor relations, legal services, revenue collections, and information technology (Oversight Board, 1997a; 1997h; 1997n). These contributions complemented efforts by the mayor’s Blue Ribbon Task Force.

The Board’s institutional stability of technical oversight and expertise was particularly important because of the government leadership’s instability surrounding Miami’s fiscal crisis. Xavier Suarez won the 1997 mayoral election and worked through five city managers in his five months before leaving office because of voter fraud in his election (Colvin, 2008; Oversight

“When you lack continuity, that adds almost as much to the problem as the problem itself” (Sittig, 2008). Not only do corrupt politicians focus on self-gain rather than the city’s complex challenges, but also efforts to resolve corruption, run special elections, and establish new leadership distract from routine government operations. The Board brought consistent diligence to city practices, particularly the budget and contracts, despite the turmoil of Miami’s elected leadership (Marquez, 2008). The Board and its staff also built an institutional knowledge in its five year term that replaced local knowledge lost in the city’s high turnover (Sittig, 2008).

Political scapegoat. The Oversight Board also served as a scapegoat for unpopular policies necessary to restore fiscal balance. Both supporters and critics of the Board’s creation asserted that it was only necessary because elected officials lacked the political will to implement policy changes (Brochin, 2008; Navarro, 1996a; Portuondo, 1997; Sittig, 2008; Stierheim, 2008). Thus, the Board’s ability to absorb the “political lightening” that “immobilized” the city commission was key to restoring the city’s fiscal health (Brochin, 2008; Fernandez & Elmore, 1996; McEntee, 1997d; Navarro, 1996a). This role extended beyond passing legislation: After the city approved its major revenue measures, the Board saw a continuing need to ensure the “political will” to implement the plan’s provisions (Royse, 1999). In addition to pushing
legislation, the Board worked with city staff to update contract procedures in ways the employees endorsed but had been blocked by political pressure (Beatty, 2008).

The city commission publicly opposed the Board’s unpopular measures and attempted to pass more popular bills in order to shift blame to the Board (Miami City Commission, 1997b). “The commission knew they [the Oversight Board] were going to say no but they wanted to be able to say ‘we have to do this because that big bad Oversight Board is making us do it’” (Colvin, 2008). Commissioner Plummer also contrasted the Board’s call for political will with his need to listen to constituents (Morales & Garcia, 1998). This scapegoat dynamic was apparent in 1999 when the commission used an initial Board rejection and threat of intervention to approve a budget with an increased garbage fee, and then the mayor vetoed the budget before passing one with the unpopular fees (Bridges, 1999d). While elected officials repeatedly used the Board for this role, Professor Frank (2008) argues that local politicians could have exploited the Board as a scapegoat further to legislate change more quickly.

**Market Weakness**

**Credibility.** The Control Board did not provide solutions to the underlying socioeconomic causes of Miami’s poor market position. Rather, the institution was created to change the city’s relationship to the market by fixing its poor image. When Florida Governor Chiles created a control board for Miami, one of his reasons was that “we have been told that this is the step that will help - that will give some more assurance to bond houses and others that there is going to be action taken” (Fernandez & Elmore, 1996). The Board’s advantage of credibility to external investors was more beneficial to the state than Miami. In fact, the bond rating agencies did even not appear in Miami, but instead privately pushed the state government for a solution. Florida
sought to retain investor confidence in the state pool by actively intervening through the Board (Colvin, 2008; MacKay, 2008; McEntee, 1997c; J. B. I. Watkins, 1997).

The local officials, also concerned with access to credit, hired the legal counsel held by Yonkers, New York City, and Cleveland during their crises (Miami City Commission, 1996d). Board members talked with representatives from both rating agencies about their concerns, which centered on the city’s political will, to assure them of improvements despite the unstable political environment (Oversight Board, 1997d; 1997h; McEntee, 1996b, 1997e; McKenna, 1997). However, the city did not access the credit market for the duration of the Board. Instead, they received some expected state funds early and covered the rest of the deficit through local changes. Moreover, while the Board initially reassured investors that action was being taken to resolve the fiscal crisis, its continued presence sent a different message after several years. The bond rating agencies seemed to use the Board as an indicator of continuing crisis, because they waited to upgrade Miami’s ratings until the Board disbanded despite several years of balanced operations (Sigo, 2001).

Community leader Reverend Dunn (2008) summarized the Board as: “Comfort. Confidence. Credibility.” Miami’s image was tarnished by national coverage of its crisis, and the Board signaled that the city had a solution that transcended political factions and corruption. The state used the Board believing that it uniquely offered legitimacy to a path out of crisis that retained an image of local control while reassuring local elites that the state could intervene when necessary (Bradley, 2008). At the same time, the label of financial emergency and state intervention was an “indignity” that drew attention to the city’s failings (Kinner, 1996; McKinnon, 1996; Vasquez, 2006).
Oversight Board: Structural Disadvantages

Externally appointed boards could hurt the local community by unnecessarily favoring the private market and shifting political power towards external actors, two of the three potential sources of local crisis. To the extent that a control board introduces or increases these sources of failure, the institution hurts rather than helps efforts to escape fiscal crisis.

Concessions to the private market. An institution that relies on the private market diminishes a local government’s power relative to the market when it insists on overly favorable terms to private investors. For example, IMF stabilization packages in Mexico in 1982 and Turkey in 1978 included terms such as set asides for repayment that the private lenders requested (Gould, 2006). To the extent that the Control Board helped private actors without improving the city’s position relative to the market, the Board could further damage the city’s fiscal viability. In Miami, the state attempted to appease bond rating agencies; the Board discussed protective mechanisms for bondholders; and the Board remained apprised of bond rating agencies’ perspectives on governance issues (Oversight Board, 1997d; 1997f; 1997h; 1997i; 1998a). However, Miami’s emergency designation legally prevented the city from issuing debt and so there was less potential for investments with terms favoring bondholders (McEntee, 1996b). Moreover, the Board chose not to intervene in a referendum to restructure the local government despite objections from bond rating agencies, because the Board decided that the measure’s political import outweighed its fiscal costs (Bridges, 1999c).

Power to external political actors. If control shifted away from local officials increases state power, a Board risks that the majority interests of the state could harm the city. The Oversight Board allowed the state to help Miami without accepting the risk of guaranteeing new bond issuances. Florida was particularly anxious to avoid these costs because it was raising its
own bond rating, containing its pension system, and building up its previously low reserves (Bradley, 2008). The only expenses to the state in Miami's case were hiring technical experts and advancing revenue sharing funds ahead of schedule (Colvin, 2008). In contrast, bailing out Miami would add immediate costs and potential future costs if other municipalities behaved irresponsibly expecting state rescue (Sittig, 2008). Despite minimal funding, the Board enjoyed the strength and backing of the state (Beatty, 2008). In addition, the relationship between the state delegates from Miami-Dade and the rest of the state was strained, echoing the political dynamic present in many states and their major cities. The Governor avoided a contentious legislature process by employing a solution that avoided the state legislature altogether, creating the Board through an executive order (Bradley, 2008).

In Miami, the state's focus on bond ratings differed from the city's need to balance the fiscal advantages of a higher bond rating against the social costs of increased taxes or reduced services. The public perception of a power grab by the state was probably amplified by the cultural tension between northern and southern Florida. The state's regional differences are captured in the common phrase that in Florida, the further north you go, the further south you get (MacKay, 2008). These attitudes translated into not only residents' views of the Board but also the ability of the Board's staff to work with the city. For example, Colvin believed that his status as an outsider with a southern accent prevented city workers from openly discussing their views of the crisis and state intervention. The Governor reduced this tension by selecting local Board members (Brochin, 2008; Colvin, 2008; Sittig, 2008). City commissioners also downplayed any power struggle by emphasizing that they were partnering with the Board rather than losing power (Miami City Commission, 1996d).
Florida's power was muted by its uncertainty in how to operate because of never having imposed a control board; its sensitivity to constitutionality concerns about its authority in a Home Rule state; and Miami's history of regional political power and more political sophistication than the state. Success in Miami taught the state that its intervention could resolve complex local fiscal crises (Colvin, 2008; MacKay, 2008). With this experience, the threat of a future power shift detrimental to the local community has become more relevant. In fact, Marquez (2008) supported Miami's Board but would "hate to be in a position now of being in a fiscally distressed city having to deal with the state of Florida because I'm sure... they solidified their administration... all in the state's favor." One such change is that the state increased municipal monitoring and coordination between the auditor general and local officials in the early stages of fiscal problems (Colvin, 2008; Sittig, 2008). More broadly, the experience weakened Home Rule because it clearly established the state's right to intervene in local affairs and provided the state with the legal and policy expertise to overrule local prerogatives in favor of state goals.

**Oversight Board and Local Democracy**

The visual concept of the state taking over or even usurping municipal elected officials, I know anybody does with great hesitation. I remember looking at it to see if we [the state] could draw on alternatives [to the Oversight Board] (Brochin, 2008).

The broadest critique of control boards is their threat to the local democracy, which combines concerns of weakening the local governance structure itself and decreasing the power available to the local government relative to the power of the state. The Board's removal of financial authority from the elected leadership temporarily reduces the system of local accountability, although that accountability can already be compromised by a local presence of
corruption and mismanagement (Beatty, 2008). Weighing one form of accountability loss against the other is not straightforward. Commissioner Teele recognized the loss of local power in Miami when he argued that “I don’t think it’s a very prudent use of our time to play chicken with the Oversight Board. Because, at the end of the day, they are the ones that vote” (Miami City Commission, 1998b). The design of Miami’s Board, however, attempted to alleviate this problem through its Board member selection process and public scrutiny under Florida’s Sunshine Laws. Board members also sought to focus residents on their elected officials. In addition, the public incorporated the Board into its civic landscape, and individuals challenged the Board in the court system.

Community Accountability

Board members. Governor Chiles sought to make the Board representative of Miami primarily through its membership. With the initial exception of Lt. Governor MacKay, the Board members were local to Miami-Dade County. The Board reflected the city’s ethnic and racial diversity, with Anglo, Hispanic, and African-American members, and exhibited gender and party balance (Brochin, 2008; Bryson, 2008; Frank, 2008; MacKay, 2008). Community leader Reverend Dunn (2008) trusted the Board because he felt that Governor Chiles considered local preferences in his selection process, arguing that “even though it was top down, it was considerate of the bottom up.” Although the uniform community support and sense of inclusion is a testament to the Governor’s success, the residents may not have actually affected membership. Rather, prior relationships and recommendations of the interim city manager seemed to shape the Board (MacKay, 2008; Stierheim, 2008).
The professional backgrounds of Board members in business, law, and public finance focused on the city's fiscal health. Moreover, their apparent lack of political aspirations and seeming objectivity built community trust in the wake of Operation Greenpalm (Beatty, 2008; Bryson, 2008; Stierheim, 2008). Although this does not speak directly to democratic accountability, the Board members comforted residents when their political leadership disappointed them.

Miami's Oversight Board was broadly respected for being apolitical. In contrast, a politicized Board could hinder progress and create conflict as in a subsequent Board for the Dade County public schools (MacKay, 2008; Marquez, 2008; Stierheim, 2008). Within Miami, the Board maintained credibility and a perception of lacking political motivation by comprising primarily business leaders. However, their backgrounds meant that the Board members had little public finance experience and depended on an experienced staff to make private sector expectations match the public sector (Sittig, 2008).

Sunshine laws. Florida's Sunshine Laws require that meetings among elected officials be open to the public with prior notification and that documents be available for public review (Emergency Financial Oversight Board, Miami City Commission, & Governor's Office of Florida, 1996). Compelling legal reasons supported both sides of whether the Board should be subject to these laws. The Governor chose to apply the laws to encourage residents' scrutiny and input. This public process also created a channel for media attention, and encouraged local officials to be responsive to the Board. This public link to the city's civic structure may have been among the most critical elements of the Board's success (Brochin, 2008; Sittig, 2008). As in the normal political process, the Board used its staff to coordinate privately and negotiate with the local government, but city manager Marquez argues that Board meetings were more open
than many city government meetings with Commissioners because decisions were made by the Board too quickly to reach private consensus (Marquez, 2008; Shoffstall, 2008; Sittig, 2008).

**Board actions.** According to Board members Beatty and MacKay, the Board did not actively pursue concerns of local accountability as the Governor had in the Board’s design. Not only did the members choose not to reach out to residents, but also they actively avoided direct communication with residents beyond their public meetings. They preferred to steer citizens to elected officials so as not to usurp their role or cause embarrassment (Beatty, 2008; MacKay, 2008; Sittig, 2008). This lack of public involvement could mean sidestepping issues in which they were involved. For example, MacKay responded to a resident that:

> it would be inappropriate for me to comment on the city’s proposal for a fire assessment fee, because the council members of the City of Miami are the ones who were elected to make these local decisions. I do understand your concerns and I urge you to let the City Commission know how you feel (MacKay, 1997).

In fact, not acknowledging the Board’s role seems deceptive, because the Board’s advocacy was a driving force behind the fee.

**Resident-driven response.** The relationship between the public and the Oversight Board was determined not only from above by the state but also from below by the local community. Residents, having lost confidence in their own leadership during the corruption scandal and looking for objectivity, were generally receptive to the creation of the Oversight Board, and the business community was particularly supportive (Brochin, 2008; R. R. Dunn, 2008; Fernandez & Elmore, 1996; MacKay, 2008; L. Morgan & Norton, 1996; Sittig, 2008). Lacking alternatives, even the city commissioners unanimously approved creating the Board (Marquez, 2008; McKenna, 1996). The firefighter union endorsed the Board because of lack of faith in the commission’s political will, but union members were also wary of a new, unknown layer of management (Bryson, 2008). While the media generally supported the Board, the loudest
objections came from former Mayor Suarez and his supporters in Cuban radio who argued that the crisis was an artificial tool for the takeover of a city politically dominated by Cubans (Figure 6-2) (Acosta, 1997; Garcia, 1997c; MacKay, 2008; Sittig, 2008; Stierheim, 2008). Interim city manager Stierheim also resisted state intervention because he believed the city could solve its crisis locally, and he feared that state involvement would damage Miami’s tourist and corporate reputation (Lester, 1996a; Stierheim, 1996b).

While residents tended to support the Board, they lacked interest in its operation except as related to specific issues. Public attendance at Board meetings was usually limited to city employees or union representatives affected by that day’s decisions (Beatty, 2008; Brochin, 2008; MacKay, 2008). However, when specific legislative or contract issues concerned residents,
they approached and petitioned Board members as they would their elected officials (Beatty, 2008; Bradley, 2008; Brochin, 2008; Marquez, 2008; Miami Citizens for Recycling, 1997).

Residents contacted both the city commissioners and Board members about the highly contentious fire assessment fee (Figure 6-3). Residents addressed Board members in two thirds of the approximately ninety letters and sixty-signature petition in the state archives, and almost always opposed the fee (Letters regarding the Fire Assessment Fee, 1998).1 Conversely, the firefighters union sent a letter threatening to sue unless the city passed the fee (Miami Association of Firefighters, 1998). Thus, the community did not express an inability to hold the

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1 This archive included multiple copies of the same letters, and while I tried to not double count, the numbers are not exact. In addition, I am not sure of the selection process for saving letters in the archives, so there may be a selection bias towards including ones that address the Oversight Board.
Board accountable, but rather incorporated it into their civic infrastructure alongside their democratically elected city government.

Constitutionality lawsuit. Having publicly challenged the legal validity of the Oversight Board at its inception, Mayor Suarez attempted to disband the Board when he was briefly re-elected (Suarez, 1996). Suarez, however, clearly did not have that authority and failed. In 1997, he pursued his grievances in court as a plaintiff a lawsuit arguing that 1) the Governor wrongfully intervened because the city was not truly in fiscal emergency; and 2) as a product of the intervention, the fire assessment fee should be revoked. The lawsuit was dismissed by the Circuit Court and on appeal in District Court with the finding that the proper process created the fee because the city commission and not the Board passed legislation (McEntee, 1997; "Rainbow Lighting, Inc. v. Chiles, Case #97-2544," 1997). The motivations of the commissioners, and by extension the influence of the Board, were irrelevant. Thus, as long as the city passed the laws, the power of the local democratic structure ultimately remained intact with a Board ("Rainbow Lighting, Inc. v. Chiles, Case #97-2544," 1997).

The lawsuit raises questions about an Oversight Board’s constitutionality in a Home Rule state. Home Rule is intended to protect local governments from majoritarian tyranny by the state, and imposing an Oversight Board could be one expression of such tyranny. The Governor attempted to resolve constitutionality and tyranny doubts with a voluntary intergovernmental agreement, but participation was complicated by his threat to remove commissioners from office for misfeasance if they did not comply by signing the agreement (MacKay, 2008; Stierheim, 2008). Even Beatty, a Board member and chair questions whether local officials have the authority to transfer their responsibilities to a Board because municipal charters establish the responsibilities of local government in a Home Rule state. Thus, residents should be required to
transfer this authority by referendum or a change in the city charter (Beatty, 2008). Beyond Home Rule states, these questions address how much to expect local control of city governance in a federalist system. Finally, the Board’s legal counsel identified the combination of the board members, checks of the courts, and the macro-accountability of the Governor to all state residents as protections against a Board’s abuse of power (Brochin, 2008). This argument does not recognize that the interests of a particular city may differ from those of the majority of state residents.

Local Government Buy-in

Local buy-in, while not automatic, is critical for lasting improvement, because the local actors remain after a temporary board leaves. Recognizing this reality, the media and bond rating agencies linked the Oversight Board’s potential impact to the cooperation and support of local officials (Navarro, 1996a, 1996b). The institutional choice for the Board to oversee rather than impose policies emphasized the contributions of city staff, elected officials, and union leaders, making them more eager to help. In addition, the selection of local board members rather than state level appointees contributed to this local orientation (Colvin, 2008; Marquez, 2008; Schoffstall, 2008). These efforts to increase local support also reduced the potential for the dominance of state interests over local ones.

The local buy-in made several changes sought by the Board more durable. Despite the controversy and delay in implementing a fire assessment fee and garbage fee increase, the legislation had the support of local officials when they were passed, and they have remained. With encouragement from the Board, the city took broader ownership of its local finances by passing financial integrity ordinances that upheld basic public finance principles; provided
checks including holding department heads who deviate from their budget subject to termination; and gained favor from bond rating agencies (Bridges, 2000; Colvin, 2008; Sittig, 2008). City government employees voice this ownership in recalling that "we did most of the work, the city staff. They [the Oversight Board staff] were there for review and for playing devils advocate and for suggesting to the Oversight Board possible alternatives. They were a sounding board, they were critical of our work" (Marquez, 2008).

The Board also built support for professionalism throughout the city government, particularly in the finance department. By demanding quality rather than imposing particular solutions, the Board spurred the city to hire competent leaders in a process starkly different than prior to the crisis (Dluhy & Frank, 2003; Gomez, 2008). Finally, this new professional attitude has helped maintain Stierheim’s fund restructuring that eliminated the accounting gimmicks (Bradley, 2008).

Resident-driven response to fiscal crisis

Operation Greenpalm and Miami’s fiscal crisis created a political opportunity to the wealthy Coalition for a New Miami’s unsuccessful attempt to dissolve Miami so it would become a part of unincorporated Dade County and for an African-American organization’s successful change from at-large to district commissioner elections in Miami. These two movements progressed together and shared a ballot September 4, 1997 (Figure 6-4). In addition, the commission later created a referendum to restructure local government. These attempts to redesign the local government illustrate that city residents identified local democracy failure as a dominant cause of the city’s problems.
Referendum: Dissolve Miami

Within two months of the crisis, a local group petitioned for an election to dissolve Miami as a solution to the city’s insolvency (Adams, 1996; Bearden, 1997; Copeland, 1996; Miami City Commission, 1996f; Viglucci, 1996). The Coalition for a New Miami, primarily comprising downtown businessmen, pointed to the city’s poor services and insolvency alongside high taxes as indicators of Miami’s improper scale. Although the ballot was only for dissolution, the group hoped to incorporate a series of small municipalities from dissolved city rather than to completely convert the city into part of unincorporated Dade county (Stearns, 2008; Stearns &
Chapter 6

Carollo, 1996). Gene Stearns, the prominent Miami lawyer and resident of nearby Key Biscayne, had helped incorporate a series of small, wealthy, homogenous communities in the early 1990s. He argued that his efforts were about reducing governments to an appropriate scale because “the bigger your government, the less effective it is at [garden variety services]. And... that’s particularly true in a multi-cultural, multi-racial environment” (2008). Having failed to win Coconut Grove’s secession from Miami in 1993, Stearns used the crisis to market his pre-existing goal to abolish Miami and incorporate many of its neighborhoods in new, smaller municipalities (Stearns, 2008; Viglucci, 1996).

The Coalition for a New Miami was “a money coalition, it just wasn’t a people coalition” (Stearns, 2008). In fact, the only demographic with a majority in favor of the abolition was the Anglos (Puente, 1996). Critics attacked the effort as a ploy to remove wealthy residents from the larger tax base (L. Morgan & Norton, 1996; Puente, 1996; Stierheim, 2008). City leaders, protective of their political positions, strongly opposed the dissolution and argued that taxes would be constant but residents would lose some representation (Marquez, 1997; Viglucci, 1997). Unions and city employees worried about their job security and salaries also organized against abolition (Bryson, 2008). The majority of Hispanics opposed the measure partly because Hispanic identity was entangled with the city and Cuban radio aggressively campaigned that dissolution would help Castro (Adams, 1996; Bearden, 1997; McEntee, 1997d; Puente, 1996; Stearns, 2008; Viglucci, 1997). Initial support among blacks because of the county’s greater black political representation ended as Miami’s movement for district elections developed and ultimately succeeded (Puente, 1996). On election day, 85 percent of voters chose to preserve Miami ("By Wide Margin, Miami Voters Preserve City " 1997; "Miami Voters Crush Proposal To Abolish City " 1997).
Board members chose not to intervene in the abolition effort despite its clear fiscal implications and concern from bond rating agencies, because they viewed the political governance decision as beyond their scope (Oversight Board, 1997h).

Those were political, community issues and efforts. It just wasn’t our charge... We kept very singularly focused... We oftentimes talked about the need to maintain a singularity of our focus on ensuring the fiscal survival of the city, not on all the shenanigans that were going on outside of us (Beatty, 2008).

Although neither dissolution leaders nor Board members or staff recall interaction between the Oversight Board and campaign, the Board was briefed in four meetings about the effort’s potential legal and financial consequences (Brochin, 2008; Emergency Financial Oversight Board, 1997b, 1997c, 1997g, 1997h; MacKay, 2008; Stearns, 2008). The Board’s role was to ensure that the transition plan would be fiscally sound; to handle the city’s financial liabilities, assets, and services, if the effort passed; and to update the state on the effort (City of Miami, 1997b; Emergency Financial Oversight Board, 1997g, 1997h; Henriches, 1997).

The Board and dissolution effort did impact each other as alternative paths. The Board’s success alleviated the need for a major, permanent institutional change. Stearns believes that the Board’s competent intervention made his campaign more difficult, because people found hope that Miami would be fiscally stable (Stearns, 2008). The Coalition for a New Miami may have helped the Board by changing the language surrounding it from takeover to saving the city, as the media and city leaders repeatedly invoked the city’s potential death and survival (Adams, 1996; Cohen, 1996; Miami City Commission, 1996b, 1996c; "Miami is Not About to Die!," 1996). The referendum may have also alerted the community to the severity of the emergency, thus increasing public support for assistance from an external institution such as an Oversight Board.
Chapter 6

Referendum: Switch from at-large to district elections

Operation Greenpalm upset an uneasy balance among the city’s Anglos, Hispanics, and blacks. The black population had always composed a significant share of Miami’s residents but lived in segregated neighborhoods with unequal services, and tensions between blacks and the rest of the city grew with the Cubans’ political and economic rise. Miami endured seventeen bouts of racial violence between 1968 and 1989, and the city and county exhibited the conditions most likely to result in riots, including a structure of at-large elections that minimizes minority representation. Blacks were further politically alienated by their countywide distribution and failed efforts in the 1980s to switch to district elections in several cities (M. Dunn, 1997; Lieberson & Silverman, 1965; Porter & Dunn, 1984; Portes & Stepick, 1993; Stack & Warren, 1992). However, a silent agreement since 1965 ensured that one of the five Miami commissioners was black until 1996 when Commissioner Dawkins resigned (M. Dunn, 1997; Viglucci, 1997).

After Dawkins left, Mayor Carollo appointed local black leader Reverend Dunn as interim commissioner who was soon defeated in a special election by the Hispanic candidate. When the new commissioner was forced out by his own scandal, he was replaced by African-American Thelma Gibson. Despite regaining black representation, this period highlighted the system’s weakness for a black population composing twenty percent of the city (Lester, 1997; Viglucci, 1997). Dunn and PULSE, a church-based African-American organization, sued Miami under the Voting Rights Act and modeled their case on a successful 1992 Dade County lawsuit argued, coincidentally, by Stearns. These suits reasoned that “the election of someone who’s black but acceptable to the white community is not the definition of representation” but occurs
with an at-large system (Stearns, 2008). PULSE demanded district elections with a majority black district.

The city commissioners and mayor publicly supported the electoral change while privately attempting to subvert it. The lawsuit was expected to succeed, and officials did not want to fight a losing battle. In addition, Mayor Carollo could not publicly oppose the effort because his black support was critical to his re-election (R. R. Dunn, 2008). Thus, the city settled with PULSE by creating a referendum to switch to district elections. The commission authorized a task force to determine the plan’s details and then unanimously agreed with the plan in principle in December (Miami City Commission, 1996g; Wisckol, 1997). Local officials, however, resisted their loss of influence over the selection of the black commissioner, and the mayor and a commissioner unsuccessfully approached Dunn to withdraw the suit in exchange for future political favor (R. R. Dunn, 2008). The commission also stalled the enactment of the plan by not convening its task force until PULSE threatened to reactivate the lawsuit if the city did not complete its district boundary proposal (Miami City Commission, 1996d; Wisckol, 1997).

The commissioners proposed to include this referendum in the September 1997 special election about dissolving the city; backed away citing the quick timeline, opposition to current plans, and the issue’s divisiveness; and then finally placed the proposal on the ballot in July (Miami City Commission, 1997h, 1997j). The commission combined the electoral switch with a shift from a weak to strong mayor who could veto ordinances and hire the city manager. The new system would replace the five at-large seats with five districts plus an at-large mayor (Miami City Commission, 1997g, 1997i; Viglucci, 1997). The referendum was approved by four out of five voters ("By Wide Margin, Miami Voters Preserve City " 1997; "Miami Hopes New Manager Is a Sign of Recovery," 1998).
As with the abolition effort, the Oversight Board distanced itself from the debate about the electoral structure (Beatty, 2008; Brochin, 2008; Colvin, 2008). The Board requested a copy of the district proposal, but concurrently denied jurisdiction over the issue (Oversight Board, 1997g; Jones, 1997). Both those opposed to and in favor of the change did, however, attempt to use the Board bolster their case. The same day that the commission agreed to implement the Board, they refused to commit to the district proposal by deferring authority to the Board because of potential fiscal impact (Miami City Commission, 1996d). Months later, the Black Lawyers Association asked one of the two black members on the Board to intervene because of the commission’s defiance, but Beatty’s response denied that the Board had authority over the issue (Beatty, 1997; Clyne, 1997).

The fallout from the fiscal emergency both hindered and bolstered the move to district elections. The city commission used the financial crisis as a stalling tactic by gaining an initial extension for the proposal because of the urgency of the crisis; as a failed argument to avoid the legal fees of the election; and as an attempt to postpone the switch because “we need to be a City before we turn a district” (Miami City Commission, 1997e; Wisckol, 1997). Conversely, the Governor’s scrutiny of Miami pushed officials to show good faith by responding to the electoral concerns of residents. In addition, the referendum to dissolve Miami required providing black representation as existed in the county to secure black support for retaining the city (R. R. Dunn, 2008; Wisckol, 1997). Thus, district commissioners and dissolution were framed as alternatives.

Referendum: Changing role of the mayor

The final referendum to restructure local government during the Oversight Board era was proposed two years later by the city commission who sought to create a stronger mayor while
also strengthening the powers of the commission. Among its changes, the measure would eliminate the city manager position; require the commission to approve the mayor’s selection of department heads; and create a mayoral term limit (Bridges, 1999a, 1999e). The proposal was also viewed as an attempt to oust Mayor Carollo through a special mayoral election under the new structure. The referendum was attacked by the bond rating agencies, unions, and mayor.

This effort repeated the pattern of the past referenda in which opponents sought intervention that the Board refused. Bond rating agencies warned that the political turmoil of a governance change could hurt the city’s bond rating, prompting the unions to call on the Board to block the referendum (Bridges, 1999b; Gabriel, 1999). The Miami Herald, although also opposed to the measure, offered the Board “our advice: Don’t go there.” The editorial board pitted the risk of fiscal irresponsibility against local democratic participation and concluded that “the board’s intervention would represent a significant constitutional breach – one that would divest the electorate of its right to cast a vote” ("Don’t Intervene in Vote: Oversight Board Should Steer Clear," 1999). The Board was more conflicted about its role in this election than in past measures and thought, but was uncertain, that it had the power to prevent the referendum by rejecting election funds or asking the Governor to intervene. However, the Board ultimately issued a statement of opposition to the measure but declined to intervene (Bridges, 1999b, 1999c). The referendum was approved in November 1999, and was followed by a special election in which Mayor Carollo retained his seat and got a more powerful office.

**Conclusion**

Miami’s fiscal emergency catalyzed institutional change from both above and below when the local government was too weak to resolve its crisis. Although the city suffered from
economic problems beyond its control, the city government contributed to the crisis through its lack of oversight or professional knowledge compounded by extensive political turmoil. State intervention helped solve the Miami's organizational problems without addressing middle-class flight or poverty. Thus, while the solution did not further majoritarian tyranny, neither did the state promote local interests over its own. Miami's Board also did not exacerbate the external market causes of fiscal crisis by unnecessarily favoring the private market through pro-creditor terms in new bond issuances. Rather, the Board altered the city's relationship to the market by improving local credibility in the bond market.

The Board improved local government as an institutional conduit for technical assistance and a scapegoat for unpopular fiscal policy. The Board translated short-term benefits into long-term change through greater professionalism and new fiscal integrity ordinances. However, the institutional design of the Board raises questions about its possibility to harm local democracy that the Governor sought to answer through the intergovernmental agreement, selection of Board members, and application of the Sunshine laws. Because it exercised veto power rather than imposing legislation, the Board withstood its legal challenge. Finally, residents incorporated the Board into their civic landscape.

Locally, a referendum to abolish Miami failed while efforts to create single-member districts and a stronger mayor succeeded. These efforts expressed residents' belief that the institutional design of local democracy had failed. Through its refusal to intervene in these efforts, the Oversight Board avoided both stating that it shared these residents' beliefs and serving as the mechanism to resolve any problems in institutional design that did exist. Although not explicitly linked, these movements and the Board affected each other by offering alternative solutions. More importantly, the Board gave the public space to examine those governance
institutions highlighted by the corruption and fiscal crisis. By providing the steady technical resources for the city’s routine operations, a base of institutional knowledge, and the oversight of the city’s fiscal health, the Board provided a stable institution through and around which the local community could repair its democracy.
FIGHTING FOR CONTROL: DISTRICT OF COLUMBIA’S CONTROL BOARD

CHAPTER 7
In April, 1995, Congress passed legislation creating a control board for Washington, DC after several years of the city’s financial deterioration. The federal government proposed the Control Board as the only logical response to the city’s impending insolvency. Many local residents, in contrast, believed “that the Control Board is merely an arm of a mostly white, Republican-led Congress bent on controlling the majority-black District” and punishing a federally unpopular mayor (Horwitz & Vise, 1996). The Board oversaw the finances and management of the District government from June 1995 until September 2001, during which it reformed the fiscal practices of the city and took over several public services. At the conclusion of the control period, the District was in a better financial position due to a combination of Control Board reforms, Congressional legislation, local efforts, and an improved national economy. The Board has been remembered as a fiscal success, but its governance impact is less clear. The Board’s tenure was marked by controversy and protest. A framework of power relationships within federalism, local dependence on the market, and local democracy failure provides a structure for understanding how the Control Board helped the city, its disadvantages, and its interaction with Washington, DC’s struggle for democratic self-governance.

Causes of Failure

Reports in late 1994 of a fiscal crisis in the District fully exposed the vast scope of slowly developing budget problems. Mayor Marion Barry understood his city’s precarious position by
the late 1980s and assembled the Rivlin commission to study the District’s finances (see Table 7-1 for budget summary). The commission reported in November, 1990 that “the District of Columbia confronts an immediate fiscal crisis” and anticipated an annual general fund deficit of $700 million by 1996. The comprehensive analysis of the District’s budgetary challenges identified problems frequently highlighted in later efforts to repair the District’s financial stability including decreasing federal compensation; the unique presence of state responsibilities; high staffing levels; the economy; the income distribution of residents; and the rise of drugs (Commission on Budget and Financial Priorities, 1990). However, the recommendations to the new mayor, Sharon Pratt Kelly, were largely ignored (Rivlin, 2008b).

Warnings of impending crisis turned into calls for emergency action four years later when the city’s finances continued to struggle with problems in each potential area of failure. The city suffered from problems of majority tyranny that emerged under the burden of a federal legacy of liabilities and federal revenue constraints paired with unique state level expenditure demands. The city experienced market weakness and socioeconomic challenges common to central cities. Washington, DC also created its own local democracy failures of unchecked local government spending and poor management.

Majoritarian Tyranny

Federal Legacy. District residents strongly favor the Home Rule status of the city gained in 1974. However, Congress set the terms of local governance and transferred financial burdens from the appointed to the elected local government. A 1979 audit uncovered a $284 million accumulated deficit from the city’s federal era that increased to $378 million in 1980 (Holloway, 1996; Oversight Hearing on DC Finances, Joint Hearing, 1995). The city’s inherited deficit and
## Table 7-1. Summary of District Budget in 1990, 1995, and 2001

Fiscal Year Ended September 30

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<tr>
<td>Occupancy</td>
<td>128,687</td>
<td>137,791</td>
<td>159,996</td>
</tr>
<tr>
<td>Other</td>
<td>1,022,922</td>
<td>1,369,787</td>
<td>2,027,620</td>
</tr>
<tr>
<td>Debt Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal Retirement</td>
<td>84,922</td>
<td>157,308</td>
<td>108,725</td>
</tr>
<tr>
<td>Interest and Fiscal Charges</td>
<td>169,928</td>
<td>187,587</td>
<td>149,177</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>-</td>
<td>195,525</td>
<td>852,879</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,703,006</td>
<td>4,239,174</td>
<td>5,115,599</td>
</tr>
<tr>
<td><strong>Excess of Revenues over Expenditures</strong></td>
<td>(22,744)</td>
<td>(5,246)</td>
<td>(349,716)</td>
</tr>
<tr>
<td>Total other Financing Sources</td>
<td>(95,442)</td>
<td>(5,974)</td>
<td>(272,096)</td>
</tr>
<tr>
<td><strong>Fund Balance at Beginning of Year</strong></td>
<td>(213,403)</td>
<td>(324,106)</td>
<td>484,625</td>
</tr>
<tr>
<td><strong>Fund Balance at End of Year</strong></td>
<td>(331,589)</td>
<td>(326,345)</td>
<td>928,042</td>
</tr>
</tbody>
</table>


1 Taxes only separated into categories for General Fund
2 Available for the General Fund only

(amounts in $1,000s)
poor financial records prevented it from entering the private bond market at the start of Home Rule (Raines, 2008). The federal government also transferred to the city three-quarters of an unfunded pension liability that did not require massive immediate spending but would grow dramatically over time (Commission on Budget, 1990). In 1982, the local government forecast an $8.8 billion liability for 2004 (District of District of Columbia, 1982). Moreover, by the 1990s, the city dedicated approximately $300 million, or seven to eight percent of its budget, to this unfunded pension liability rather than local services (Oversight Hearing on DC Finances, Joint Hearing, 1995, pp. 34, 44).

Federal Relationship. The federal design of the District and the federal government’s relationship with the city constrains the District’s revenue capacity. As the only city lacking a state, the District faces a structural burden of geographic limitations on its tax base coupled with state service burdens. The city cannot draw on the tax base of the wealthy suburbs only a few miles outside of the downtown core, because they are in Maryland and Virginia. Yet, these suburbs benefit from the economic opportunities within the District. At the same time, the small city must provide state functions. Representative Norton (2008), the District’s non-voting member of Congress, posits that “you might not have had the city go down because truth be told for all the problems that the city had, the major reason the city went down is it was paying for state functions that no city in the United States pays for.” The District dedicated almost half of its spending to expensive and expanding functions usually provided by the state, such as higher education and motor vehicle licensing (Rivlin, 2008a; White House Proposal for the District of Columbia, 1997a). For example, the city’s Medicaid costs increased by 93 percent between 1990 and 1994 (Oversight Hearing on DC Finances, Joint Hearing, 1995).
Despite the state responsibilities required of the District, Congress limits the city’s revenue powers to less than that of states. Most significantly, Congress prohibits a nonresident income tax, a tax found in all states with income taxes as well as smaller versions for commuters to several large cities, that could raise up to $720 million per year (Oversight Hearing on DC Finances, Joint Hearing, 1995). This revenue alone matches the District’s largest budget gap. In addition, the federal government limits the city’s property tax base through a ninety foot height restriction and an extensive presence of nontaxable federal and nonprofit property (Commission on Budget, 1990; Oversight Hearing on DC Finances, Joint Hearing, 1995).

Between granting Home Rule and the city’s fiscal crisis, the federal government attempted to reimburse the District for the costs of federal presence through an annual payment. However, despite a steady burden, the payment declined from 24 percent of the city’s budget in 1975 to 14 percent in 1990 (Commission on Budget, 1990). Moreover, the size of the payments was unpredictable because of changing payment formulas and a five-year freeze in 1994 at $660 million (O’Cleireacain, 1997). The federal government also provided the city with other funds for particular services, just as other cities receive federal funds. However, major cities often receive thirty to forty percent of their revenue from the state as well as federal funds, while Washington, DC receives less than twenty percent from the federal government (O’Cleireacain, 1997). Thus, the federal government has not fully compensated for its presence and constraints.

A study by McKinsey and the Urban Institute (1994) argued that the city could only solve one-third of its fiscal problems and the rest of the responsibility lay with the federal government. Even without estimating the impact of a nonresident income tax, the DC Budget Office identified changes in the federal-local relationship to save the city $378 and $647 million annually by 1992 and 1996, respectively. These recommendations exceeded potential savings from local spending
cuts by over fifty percent even without estimating potential nonresident income tax revenue. Although the District could better control its local spending, local officials, consultants, and even a Control Board member attribute much of the fiscal crisis to the federal relationship with the city (Commission on Budget, 1990; Newman, 2008).

**Market Weakness**

Washington, DC shared the socioeconomic troubles of many central cities, heightened by the city’s small geographic area that limits its capture of wealthy neighborhoods beyond the downtown core. The city lost residents and jobs over decades, and the city’s population declined from 638,000 to 559,000 between 1980 and 1995. The middle-class population fled such that the District’s mean household income increased while the median decreased. In addition, the city’s share of regional employment steadily dropped from over 40 percent in 1970 to only 25 percent in 1990. The District’s employment even decreased 2.8 percent between 1989 and 1997 as suburban employment grew (O’Cleireacain, 1997). The city’s stagnant commercial market, delinquent tax payments, and economic problems led to decreased property tax revenues throughout the early 1990s (District of Columbia, 1993; DC Tax Revenue Commission, 1998; O’Cleireacain, 1997). Between 1993 and 1995, the $274 million decline in property tax revenue contributed to a total decline in local revenues of $175 million (Holloway, 1996). At the same time, the crack epidemic hit the District, causing both a crime wave and greater demand for social services. Thus, the District followed a national urban pattern of decreased revenues and increased need.

**Local Democracy Failure**
Local Spending. The District’s uncontrolled local spending during the 1990s contributed to the city’s crisis. Although the District entered the 1980s with a large accumulated deficit, the city lowered its negative balance to $205 million by 1987, followed by a slight increase for the decade’s net surplus of $46 million (District of Columbia, 1990; Holloway, 1996; Raines, 2008). In 1990, the accumulated deficit jumped to $332 million because of both overspending and a significant revenue shortfall (District of Columbia, 1990). Stemming from Mayor Barry’s drug addiction “in 1990, the last year of my administration, I [Barry] had lost control of the government because of my personal difficulties” (Oversight Hearing on DC Finances, Joint Hearing, 1995).

Sharon Pratt Kelly was elected mayor in 1990 with the promise to restore financial stability to the city. Congress both allowed her to eliminate the accumulated deficit in 1991 through $337 million of long-term bonds, a step forbidden to Barry, and paid the city $300 million above its existing federal payment (District of Columbia, 1982; 1991; Ragland, 1994). Although close to zero, the city enjoyed its first positive fund balances from 1991 to 1993. However, Mayor Kelly lacked the political support and government experience to truly contain the city’s finances; she ignored economic advice given by her advisers, the budget office, and the Rivlin Commission; and budget problems quickly reemerged (Brimmer, 2008b; Commission on Budget, 1990; Lazere, 2008; Norton, 2008; Raines, 2008; Rose Barras, 2008).

In the early 1990s, revenue flattened while high spending continued. Revenue stagnated because of a drop in real estate property values and a six percentage point jump in outstanding property taxes (District of Columbia, 1997). The University of the District of Columbia (UDC) and DC General Hospital operated with substantial losses in the 1980s and early 1990s. Beyond these troubled institutions, expenditures peaked in 1994 with over $500 million of increases for
future employee benefits, human services, public safety, and education. In total, general fund expenditures increased 11.3 percent while revenues increased only 3.3 percent (District of Columbia, 1992; 1994; 1997). Only half of the Rivlin Commission’s $700 million of recommended cuts was implemented by 1994 (McKinsey and Urban Institute, 1994). The District government used gimmicks to disguise its growing budgetary problems: The city changed the real property tax year for a one-time revenue increase of $173 million in 1993 and excluded Water and Sewer funds and the Metro payments from financial reports (District of Columbia, 1993; Oversight Hearing on DC Finances, Joint Hearing, 1995). Despite receiving annual financial reporting awards from the Government Finance Officers Association, the city’s budget problems were inescapable (District of Columbia, 1987; 1993; 1995). Marion Barry ran for mayor again in 1994, focusing his successful election bid on the city’s fiscal problems.

Management Problems. Poor management also hampered the District government. Managerial competence declined in Mayor Barry’s final term when he saved costs by providing buyouts to many senior officials (Raines, 2008). Moreover, the Budget office estimated that improvements to the government’s management and organization could save the city $128 million to $217 million annually by 1992 and 1996, respectively (Commission on Budget, 1990). For example, a financial management system installed in 1979 was outdated and unreliable by the 1990s (Holloway, 1996; O’Cleireacain, 1997).

Elected officials could not control much of the city’s budget. Under the Home Rule charter, the District Council only voted on the aggregate public school budget, and it was unclear whether or not they lacked a line item veto for school finances. The court system also removed agencies from the Council and Mayor’s authority because of inadequate social services. By 1995, only 55 percent of District employees were overseen by the mayor. Major agencies
excluded from his purview or with court orders included the University of the District of Columbia (UDC), the court system, Medicaid, and the medical services of the Department of Corrections (Oversight Hearing on DC Finances, Joint Hearing, 1995). Even under the Control Board, the city was not able to regain its oversight of several of these agencies, and four new ones were placed under receivership including the Housing Authority and part of the juvenile detention center (District of Columbia Financial Responsibility and Management Assistance Authority (FRMAA), 1999a; 2000a). By 1998, the city dedicated $319 million annually – equaling 8.4 percent of the budget – to receivers and court administrators from 41 court orders (Fiscal Year 1999 District of Columbia Operating Budget and Financial Plan, 1998).

Articulation of Crisis

Local and federal awareness of the city’s horrible financial situation emerged slowly and was initially disguised (FRMAA, 1996a). In 1993 as Director of the federal Office of Management and Budget, Alice Rivlin (2008b) began trying to increase federal support for the District, and the following year she observed that the city was failing to pay bills to contractors. Also in 1994, the General Accounting Office (GAO) released a report that detailed many of the city’s financial problems and harshly criticized the District’s spending patterns. Local awareness of the crisis evolved at the same time with a change in leadership. Barry was elected mayor in November 1994 with a campaign focused on the city’s growing financial problems. In December, Mayor Kelly, Mayor-elect Barry, and Council Chair Clarke met with Wall Street rating agencies attempting to prevent any downgrade in the city’s bond rating (Kellman & Flynn, 1994). However, Barry was not aware of the extent of the city’s fiscal crisis until he took office in 1995, and Rivlin and federal Comptroller Ed DeSeve updated him on the city’s status. Barry
said don’t come to the mayor’s office, it will arouse too much suspicion about why am I talking to the OMB director. So we [Rivlin, DeSeve, Barry] met in my house… Ed had been over the budgets with… Barry’s people, but Barry had not, I think, understood fully how bad it was… He’d been gone. And Barry’s a very smart man and he really got… it as soon as it was laid out for him. But I don’t think he had realized how bad things had gotten under the Kelly administration. So, we sat there and went through this and… he was in shock (Rivlin, 2008b).

As the crisis unfolded in 1994, Congress’ initial response was a 1995 Appropriations Act for the District that tied the size of the federal payment to city employee and budget cuts (see Table 7-2 for timeline). However, Barry testified that the Act worsened the city’s problem because it set a budget limit based on an assumption of accurate financial reporting. Instead, the District reported a fiscal year 1994 deficit of $335 million that was almost $200 million above Congress’ expectation (FRMAA, 1996a). The city would be punished for Mayor Kelly’s higher spending with either requirements for more extensive cuts to meet the budget target or reductions in the federal payment that would exacerbate the crisis (Oversight Hearing on DC Finances, Joint Hearing, 1995).

Congress considered more active intervention at the end of February 1995, when it held joint hearings on the District. Just prior to the hearings, Standard and Poor’s lowered the city’s credit rating, and Moody’s lowered its rating to below investment grade. In addition, Rivlin (2008b) and DeSeve (2008) had begun working with Congress because Treasury Secretary Rubin “was scared to death of Marion Barry having the blank check drawn on the Treasury” because of the District’s access to federal loans. John Hill of the GAO testified that the city had extensive budget problems including its largest annual deficit since Home Rule and a negative $400 million cash projection for the end of 1995. The interim chief financial officer for the city also predicted that the District would run out of cash by May without federal intervention (Oversight Hearing on DC Finances, Joint Hearing, 1995). Republicans led by Jim Walsh
### Table 7.2. Timeline of the District’s Fiscal Crisis and Control Board

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1974</td>
<td>Referendum passed for Home Rule, taking effect January 1975. The federal relationship left the city with a $284 million accumulated deficit; unfunded pension liability projected to increase to $8.8 billion by 2004; state responsibilities; and revenue constraints.</td>
</tr>
<tr>
<td>November 1990</td>
<td>Sharon Pratt Kelly elected mayor of the District.</td>
</tr>
<tr>
<td></td>
<td>Rivlin Commission releases its report predicting an impending fiscal crisis and annual general fund deficit of $700 million by the mid-1990s. The report also recommends local and federal solutions to these problems.</td>
</tr>
<tr>
<td>September 1994</td>
<td>The federal 1995 Appropriations Act for the District requires the city to cut spending by $140 million and reduce personnel by 2,000 full-time positions.</td>
</tr>
<tr>
<td>November 1994</td>
<td>Marion Barry elected mayor of the District, having been mayor throughout the 1980s and a Councilmember since 1992. He presents a “Transformation Plan” to implement permanent changes in city government and to reduce local spending.</td>
</tr>
<tr>
<td>February 1995</td>
<td>Standard and Poor’s and Moody’s lower the District’s credit rating. Moody’s lowers the rating to below investment grade.</td>
</tr>
<tr>
<td></td>
<td>The subcommittees on the District of Columbia for the Appropriations and Government Reform and Oversight Committees of the House of Representatives hold joint oversight hearings about the District’s Finances and begin to outline a solution to the city’s fiscal crisis.</td>
</tr>
<tr>
<td>April 1995</td>
<td>District of Columbia Financial Responsibility and Management Assistance Act of 1995 establishes the District of Columbia Financial Responsibility and Management Assistance Authority (Control Board). The first members were appointed in June.</td>
</tr>
<tr>
<td>November 1996</td>
<td>Control Board replaces the public school’s elected Board of Education with an appointed Education Board of Trustees. The public school takeover was initially well received, but soon met protests. The efforts to improve the schools were widely seen as a failure.</td>
</tr>
<tr>
<td>August 1997</td>
<td>National Capital Revitalization and Self-Government Improvement Act, commonly referred to as the Revitalization Act, was passed by Congress. The Act shifted the costs of several state functions and the unfunded pension liability to the federal government, but also included the Management Reform Act that transferred the management of most major District agencies and departments from the mayor to the Control Board.</td>
</tr>
<tr>
<td>June 1998</td>
<td>Terms of the first Control Board members expire and four new members are appointed.</td>
</tr>
<tr>
<td>November 1998</td>
<td>Chief Financial Officer Anthony Williams was elected mayor of the District.</td>
</tr>
<tr>
<td>January 1999</td>
<td>The Control Board transfers management powers of District agencies back to the mayor.</td>
</tr>
<tr>
<td>June 2000</td>
<td>The city passed a referendum proposed by the Council that changed the structure of the Board of Education. The new Board included five elected members and four appointed by the mayor and approved by the Council. The referendum also established a State Education Agency.</td>
</tr>
<tr>
<td>April 2001</td>
<td>After years of the hospital’s annual operating deficits and months of negotiations between the District Council and Control Board, the Control Board passed its only legislation and shut down DC General. This action ignited protests around the city.</td>
</tr>
<tr>
<td>September 2001</td>
<td>Control Board activities suspended.</td>
</tr>
</tbody>
</table>
interpreted these reports to mean the city was on the brink of bankruptcy, not just insolvency (Brimmer, 2008b).

The hearings framed the nature of the solution by attributing the crisis to local democracy failure. Local officials argued that the deficit grew from a majoritarian tyranny expressed as a structural imbalance and the lack of adequate federal support (Rose Barras, 2008). However, Republican Representative Tom Davis, chairman of the House Government Oversight subcommittee on the District, argued throughout the hearings that the problem was local, even denying the role of the market in causing the fiscal crisis. In his opening statement, he asserted: “Just so that everyone understands what faces the District of Columbia, it is neither a revenue problem nor a budget problem, rather the District of Columbia faces a spending problem of monumental proportions and a management failure to enforce controls or implement reductions.” He pointed to excessive personnel, blamed rising Medicaid costs on the city rather than a relevant court order, underplayed the role of the unfunded pension liability, and deferred examining the city-federal relationship, because of its unimportance to the crisis (Oversight Hearing on DC Finances, Joint Hearing, 1995). This focus meant that Congressional solutions to the fiscal crisis had to fix management rather than assuming residual costs from the city’s federal era or increasing funding for state functions. The framing implied that federal intervention would be required, because the local government that spawned the crisis would be incapable of resolving its problems.
Local Response

Mayor and Council

Locally elected officials responded to the fiscal crisis with three strategies – short-term savings; the mayor’s longer-term Transformation Plan; and calls for greater federal support. Each of these solutions addresses a different cause of failure: the market, local democracy, and majoritarian tyranny, respectively. Mayor Barry began his pledge to resolve the crisis as a mayoral candidate focused on change but distanced from the crisis’ creation. He stated that “even though most of the financial crisis was caused by the previous administration, my administration will do everything possible to meet the Congressional spending and disbursing limitations” (District of Columbia, 1994). This pairing of deflecting blame and promising solutions echoes successful IMF agreements and Mayor Carollo’s response to Miami’s crisis. However, Mayor Barry was not completely removed from the development of the financial emergency, because he had been mayor throughout the 1980s and a councilmember prior to his reelection.

Market Weakness. The Council and mayor first focused on short-term savings to carry the District through a temporarily weak private market. Thus, they sought to reduce expenditures for fiscal year 1995 to meet the Congressional mandate of $140 million in spending cuts. However, the city deferred some spending and did not immediately follow plans to reduce other expenditures (Oversight Hearing on DC Finances, Joint Hearing, 1995). In February 1995, the District Council voted to cut salaries of the city’s 25,000 unionized workers to save $60 million unless the mayor acted quickly (H. Schneider & Vise, 1995). In fact, Mayor Barry did gain temporary concessions of $70 million (FRMAA, 1996a). In addition, the mayor sought to restructure the city’s debt, and the city legislated the end of stipends for all part-time commission
members, buyouts of 1,920 full-time employees, and a tax amnesty that increased revenue by $12 million (Oversight Hearing on DC Finances, Joint Hearing, 1995). According to the mayor, the District reduced its 1995 spending to $151 million less than the prior fiscal year (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996).

Local Democracy Failure. The local leadership also recognized the need for internal improvements to reduce costs over the long-term. Mayor Barry proposed more permanent changes to the city government in his Transformation Plan in November 1994 (Oversight Hearing on DC Finances, Joint Hearing, 1995). The Plan sought to reduce city personnel by 10,000 full time employees through attrition, retirement, buy-outs, and severance plans (Demczuk, 2007). Barry testified that the city had eliminated 3,000 jobs in his first three months in office. In addition, he limited public medical services including at DC General Hospital (Oversight Hearing on DC Finances, Joint Hearing, 1995). These service cuts may have been provocatively intended to spur Congressional aid, but the mayor presented them as part of his larger plan. In addition, the Mayor assigned the City Administrator to meet weekly with department heads to monitor progress in meeting budget reduction targets (Oversight Hearing on DC Finances, Joint Hearing, 1995).

In March 1996, Congressman Davis distinguished these efforts from a lackluster Council: “I want to commend you, Mr. Mayor, for the positive steps that you’ve taken recently. Your transformation budget and your multi-year plan is a realistic response to the economic crisis we face in the Nation’s Capital” (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996). However, local Washington Times columnist and journalist Jonetta Barras (2008) remembers little
attention paid to the Mayor’s Transformation Plan, and Barry’s Director of Intergovernmental Relations, Bernard Demczuk (2007), observed that the plan was quickly replaced by the implementation of the Control Board.

Federal Government. Locally elected officials hoped to overcome the crisis not only through changes in the District but also increased federal responsibility. For example, in 1994, the Council passed legislation linking reduced spending in the municipal portion of the pension plan to greater federal funding for the unfunded liability. Barry focused much of his Congressional testimony in February 1995 asking the federal government not only to increase its pension funding but also takeover Medicaid, fund the prison system, and back local debt. He argued that the District’s finances could not improve unless state functions shifted to the federal government (Oversight Hearing on DC Finances, Joint Hearing, 1995). Although they resurfaced two years later, these proposals were ignored by Congress throughout the first year of the crisis. The federal government refused to acknowledge that majoritarian tyranny imposing federal interests on the District was a cause of local fiscal crisis.

Local Control Board Proposals.
The [Rivlin] Commission does not advocate that the District abrogate its fiscal responsibility to some external body, such as a financial Control Board. Our problem can be solved by our elected officials, particularly if the federal government, surrounding jurisdictions, and all affected parties fairly contribute to the solution. However, we do suggest than an independent advisory board can serve as a catalyst for, and evaluator of, the tough decisions that face us. (Commission on Budget, 1990)

Five years earlier, the Rivlin Commission first proposed a form of control board that would comprise representatives of the local community, elected officials, and federal government. After the fiscal crisis emerged, Councilmember Kevin Chavous proposed a bill February 7, 1995 for a Financial Review Board composed of two mayoral appointees, two Council appointees, two

Delegate Norton praised Chavous' proposal and echoed his call for local participation by testifying that “the District has nothing to fear from an oversight board that it has had a part in creating; only from an oversight board that will be inevitably imposed unilaterally if the city suddenly goes bankrupt” (Oversight Hearing on DC Finances, Joint Hearing, 1995). Council Chair Clarke testified that the Council understood that some form of a Control Board was necessary (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996). Barry also recognized the need for an oversight board and favored one that included local input and additional revenue, in order to not only address problems in the local government but also both reduce the city’s dependence on the market and protect against federal interests that harm the city (Oversight Hearing on DC Finances, Joint Hearing, 1995). These conceptions of a control board with local representation were similar to most prior control boards. However, Congress did not negotiate with the District to include local involvement while developing its own version. Instead, Congress and the Administration looked to Congresswoman Norton as the representative of the District’s interests.

Local Community. Many local stakeholders other than elected officials did not cooperate in efforts to resolve the crisis. Employees at a senior home and physicians at DC General Hospital held strikes without offering solutions (Brimmer, 2008b). The unions did not offer assistance beyond their initial one-time concessions because pushback from the membership largely outweighed union leaderships’ understanding of the city’s financial problems. In fact, during negotiations in 1996, the city employee’s unions and mayor blamed each other for their unwillingness to compromise. The teachers’ union was exceptionally uncooperative and later
proved to have corrupt leaders (Newman, 2008; D. Vise, 1996c). At the same time, many nonprofits and foundations continued to provide critical social services after the District had stopped payments. Thus, residents and local organizations varied widely in their contributions to the city’s recovery.

Creating the Control Board

The federal government moved quickly to create a Control Board. Initially, Congressman Walsh drafted a bill to place the District in receivership, but soon supported a Control Board (Brimmer, 2008b). Delegate Norton formally proposed an oversight board to Congress February 16 that would be designed jointly with the District (Oversight Hearing on DC Finances, Joint Hearing, 1995; D. A. Vise & Schneider, 1995). District participation was dropped, but Congress quickly began working with Clinton Administration members Rivlin and DeSeve to design the board (Brimmer, 2008a; H. Schneider & Vise, 1995; D. A. Vise & Schneider, 1995). Because of DeSeve’s work with control boards in Philadelphia and Yonkers, the federal legislation drew on these previous boards (DeSeve, 2008; White House, 1995).

The District’s fiscal crisis gained attention just as Republicans became the majority in Congress and Mayor Barry was elected in November, 1994. These events were particularly significant in combination because of the high disregard that the Republicans had for Barry despite his local popularity, financial knowledge, and political savvy (Demczuk, 2007; DeSeve, 2008; Lazere, 2008). Concerned about the potential for extreme Republican solutions and even greater majoritarian tyranny over District interests, Norton (2008) proactively promoted the Control Board as a compromise between receivership and a greater preservation of Home Rule (Brimmer, 2008b). However, Congress’ negative attitude towards Barry caused the exclusion of
local officials from the Control Board negotiations (Norton, 2008; Rivlin, 2008b). These alienated local officials may have helped resolve the crisis more if the federal government instead considered Chavous’ control board proposal and worked to earn the mayor’s support. Instead, “there was no process. We were insulted by the white conservative Congress taking advantage of Marion Barry who was wounded” (Demczuk, 2007).

**District of Columbia Financial Responsibility and Management Assistance Act of 1995**

The federal government created the Control Board as a trusted, independent institution to reform the existing city government and established it with the authority to act without detailed oversight (DeSeve, 2008). Moreover, the federal government envisioned a wide-ranging role for the Board not only to stabilize the city’s budget and financial problems but also to improve public services; restructure the city workforce; modernize its various management systems; and reexamine the District’s relationship with federal government (FRMAA, 1996f; 2001a). The Control Board also saw its role as a mediator among local groups from the District government, private sector, and non-profits attempting to improve social services and attract new businesses (FRMAA, 1998b). Thus, the Control Board influenced many aspects of local governance.

Public Law 104-8, the federal Act creating the District of Columbia Financial Responsibility and Management Assistance Authority (commonly known as the Control Board or the Authority) routed most local government actions through the Control Board. The Board’s approval was required for budgets, four year financial plans, private and Treasury borrowing, loans, and many leases and contracts (FRMAA, 2001a). The Authority was also granted veto power over all non-emergency local Acts to ensure the city spent according to the budget. Locally, the Act adjusted the District’s budget process; required that the city work towards a

The Control Board’s non-fiscal responsibilities were less direct. The Act ordered the Authority to analyze and provide recommendations regarding the city’s financial systems and revenues, management and structural design, public services, and District-federal relationship. If the District government chose not to implement any local recommendations, then Congress could enable further Control Board action. However, the Act did not require any specific responses by the federal government to recommendations for Congress or the President ("District of Columbia Financial Responsibility and Management Assistance Act of 1995," 1995). This design acknowledged the local significance of the federalist power dynamic, but did not empower the Control Board to correct this type of problem to the same degree that it could intervene in local government failure.

The Act provided the Control Board with several enforcement powers. Most significantly, federal funds were issued to the Authority rather than directly to the city so that the Control Board could withhold funds if the local government failed to comply with its approved budget. Similarly, if the District failed to pay scheduled loan repayments, Congress could withhold the amount from its federal payment.

The Act included four provisions required to end the District’s control period and suspend the Control Board: regaining reasonable access to short- and long-term credit markets; repayment of all debt issued by the Authority; repayment of all Treasury loans; and a balanced budget for four consecutive fiscal years ("District of Columbia Financial Responsibility and
Management Assistance Act of 1995," 1995). However, if any conditions of the financial crisis return, the President can reactivate the Board and appoint new members without new legislation.

Relationship to the District Government. The Control Board was established as part of the District’s government structure without being subject to local oversight. In fact, the Act exempted the Control Board from all local laws with the exception of provisions from three laws that required public transparency. The relationship of the Authority to the District government was unclear, evidenced by the city’s including the Control Board within its organizational chart and many residents addressing the Control Board as a part of local government, but the Control Board distinguishing itself from local agencies (District of Columbia, 1998).

Public Law 104-8 not only created the Authority but also changed the permanent local government structure. The legislation increased the powers of the city’s Inspector General (IG) and created the position of an independent Chief Financial Officer (CFO) with expansive financial responsibilities. The Act also changed what funds must be included in the budget, added funding requirements, required four year budgeting, and mandated that all local acts include budgetary impact statements during the control period ("District of Columbia Financial Responsibility and Management Assistance Act of 1995," 1995). Thus, the Act changed both temporary and permanent components of the city’s fiscal governance.

Change over time

Legislative empowerment. The role and responsibilities of the Authority changed as Congress passed legislation expanding the Board’s powers. With each power granted to the Control Board, the District’s power relative to the federal government diminished. Delegate Norton (2008) initially fought to keep decision making power with the mayor, but Congress
shifted power to the Control Board “until finally at the end it was taking virtually everything.”

Less than a year after the creation of the Authority, Congress held hearings to determine if new
powers were needed for the Control Board, CFO, and IG. While Congressman Davis maintained
that the Board’s role was strictly apolitical, Council Chair Clarke saw the reviews as advancing a
hidden agenda to expand the Board’s role beyond finances (Implementation of Public Law 104-8,
District of Columbia Financial Responsibility and Management Assistance Authority Act of

In April 1996, the Control Board received veto power over the city’s emergency
legislation, and the CFO gained new hiring and firing authority (Nevans, 1996a). These changes
prompted a Washington Times article devoted to Mayor Barry’s new irrelevance (Mercurio &
Nevans, 1996). The Appropriations Act for 1997 ("District of Columbia Appropriations Act,
1997," 1996) further expanded the reach of the Authority and the CFO with an expenditure cap
on the District budget to be enforced by the Control Board. This Act enabled the Board to “take
such steps as are necessary to assure that the District of Columbia meets the requirements of this
section” to meet the budget including an expanded power to issue any orders, rules, or
regulations that were within the authority of the mayor or agency heads. The new power for
orders was particularly critical to enabling Control Board actions altering the Lottery Board,
public schools, and other independent agencies. The Appropriations Act also centralized the
city’s financial and budgetary functions to being under the purview of the CFO (US District
Court, 1996a; D. Vise, 1996e).

The broadest expansion of the Control Board’s powers occurred in August 1997 when the
Management Reform Act was passed as part of the National Capital Revitalization and Self-
Government Improvement Act (Revitalization Act), an Act focused on increasing federal
funding for District services. This Act gave the Authority executive management responsibility for four citywide agencies and nine substantial departments that had previously been under the mayor's control (FRMAA, 1997c). The few agencies remaining under Mayor Barry, including the libraries and recreation department, had a total budget of only $100 million (Loeb, 1997). To help oversee these new responsibilities, the Control Board created the new position of Chief Management Officer (CMO) (Brimmer, 1998; Rivlin, 2008b). Congress continued to expand the Control Board's responsibilities throughout Appropriations Acts that required the Board to evaluate the city's regulations regarding medical malpractice and to develop a plan for disposing of excess school property (FRMAA, "District of Columbia Appropriations Act, 2000," 1999; 1998a). The powers of the Control Board only diminished to the extent that the board itself chose to return governance responsibilities to the local government.

Two boards. The Control Board had two distinct phases marked by a turnover of four of the board's five members in 1998. The first board focused on the immediate fiscal crisis, management problems, and inadequate public services. This stage involved most of the Control Board's actions to cut public services and intervene in local government management systems and personnel decisions, which explains part of the greater resentment towards the first Control Board chair (discussed below). The second Board focused its hearings more on economic development and a transition back to a strong local government (Newman, 2008). The most significant product of this transition effort was an early 1999 Memo of Understanding that effectively reversed the Management Reform Act by returning the executive branch's daily operations, policy actions, and oversight to the mayor (FRMAA, 1999c). As Control Board Chair, Rivlin's leadership style was more "deferential" to the choices of local officials than Brimmer; she sought to work with local officials rather than impose decisions; and she stressed
ending the Board as quickly as possible (Jahi, 2003; Lazere, 2008; Rose Barras, 2008; D. A. Vise, 1998a). This stage of the Control Board attempted to reduce and monitor local democracy failure without weakening local autonomy in the federalist system.

**Actions of the Control Board**

While the Control Board briefly asserted its ability to withhold the federal payment in late 1995 to bring spending under control, the Board later administered additional funds for several departments including the public schools and public safety (FRMAA, 1996d; 1998b; *HR 2661, District of Columbia Fiscal Protection Act of 1995*, 1995). The Control Board repeatedly rejected or required changes to budget and financial plan proposals for fiscal years 1996 and 1997 that then peaked in a contentious eight month budget process for 1998 with three rejections of the mayor’s budget and two of the Council’s budget, Control Board recommendations submitted directly to Congress, and then finally a revised financial plan and budget joint with the mayor and Council (FRMAA, 1996a; 1998b; Mercurio, 1996b). The Authority did not reject any later budgets when Mayor Williams was in power, instead mediating local disputes and advising the District government (FRMAA, 1999a; *Fiscal Year 2001 District of Columbia Financial Plan and Budget*, 2000; D. A. Vise & Williams, 1999).

The Control board also oversaw local legislation. By October 1996, the Authority rejected twelve Acts and required changes in another sixteen out of over two hundred Acts because they lacked financial impact statements. As the city adjusted to this requirement, rejections decreased such that the Board only rejected six of 287 Acts in 2000 (FRMAA, 1996a; 1999a; 2000a). The Control Board also disapproved legislation that they believed would be too expensive including a referendum to legalize medical marijuana and an act allowing physicians
to negotiate jointly with health plans (FRMAA, 2001d; Hansen, 1999). The Control Board proactively developed the 1999 Tax Parity Act that lowered various tax rates to promote economic development. Carol O’Cleireacain wrote the Act on behalf of the Authority and worked with the Council which unanimously approved the legislation over the mayor’s opposition (Lazere, 2008; Rivlin, 2008b).

The Control Board was required to review a wide range of contracts, including all collective bargaining agreements and most leases, service, and non-competitive contracts. In its first sixteen months, the Control Board had reviewed almost 3,000 contracts, revised problematic ones, and rejected five outright. Two controversial rejections were with supporters of Mayor Barry (FRMAA, 1996a; 1998b; D. Vise, 1996g). The Authority slowly limited the number of contracts requiring review and focused its last few years of contract oversight on the Convention Center and a major land sale (FRMAA, 1998i; R. Watkins, 2008). In 2000, the Board reviewed only about two hundred contracts, some of which it revised but did not reject (FRMAA, 2000a). The Authority did not have the power to renegotiate existing union agreements or bargain directly with labor unions. Rather, the Mayor negotiated new agreements that the Authority could then accept or reject (FRMAA, 1996f).

Unlike other control boards, the Authority was charged with evaluating and reforming city management from replacing city parking meters to a comprehensive overhaul of regulations and the permit process (FRMAA, 1998a; 1999b). Management oversight significantly expanded with the Management Reform Act discussed above. The most significant statewide administrative change led by the Control Board was a drastic personnel reduction. The Authority oversaw reductions to an originally 40,000 employee workforce of 7,500 full-time positions in its first year and another 2,800 by mid-1998. Almost sixty percent of these employees were
shifted to independent agencies or the federal government, while the rest were eliminated (*Fiscal Year 1999 District of Columbia Operating Budget and Financial Plan*, 1998; *District of Columbia*, 1998; D. A. Vise, 1996a). At the same time, the Control Board added skilled managers to agencies lacking leadership talent (FRMAA, 1996f).

The Control Board not only reduced the District government but also dramatically restructured two independent agencies. In September 1996, the Board overrode Council reform legislation, abolished the Lottery Board, and placed the lottery under the CFO (Mercurio, 1996d). The Authority’s elimination of the Lottery Board “represents the first time it has invoked the so-called ‘atomic bomb’ granted by Congress that allows it to order major change in the structure of the DC government” (H. Harris & Vise, 1996). Two months later, the Control Board demoted the public school’s Board of Education to an advisory role, fired the superintendent, appointed a new Board of Trustees, and hired General Becton as the new CEO of public schools. Finally, the Control Board briefly added a CMO to the city government. With these changes, the Authority not only impacted the District government’s actions but also its design. These actions highlighted that institutional structure in addition to poor local leadership can foster local democracy failure.

**Long-Term Fiscal and Government Changes**

The Control Board altered the city’s position in the market and improved the city’s standing with Congress. The Board had variable success in reducing different components of local democracy failure, but they made permanent improvements through institutional changes in the structure of local government. The city’s emergence from crisis can also be credited to
simultaneous changes in federal responsibilities and improvements in the economy. Finally, concerns of future problems remain in the District.

Market Weakness

Budget Improvements. The District’s accumulated deficit increased from $324 to over $500 million in fiscal years 1995 and 1996 (District of Columbia, 1995; 1996; FRMAA, 1998a). Although at lower levels than projected, this spending created severe cash-flow problems when combined with a stalled federal payment, and the city was only two weeks from being unable to pay vendors in March 1996 (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996). In 1997, the District posted a $186 million surplus for its first unqualified audit (Fiscal Year 1997 District of Columbia Audit Report and CFO Oversight 1998). The District has maintained balanced budgets since then; declared that it had emerged from fiscal crisis in 1998; eliminated its accumulated deficit in 1999; reversed its accumulated deficit of $484 million in 1995 to an accumulated surplus of $464 in 2001; and established a cash reserve (District of Columbia, 1998; FRMAA, 1999d; 2000b; The Outlook for the District of Columbia Government: The Post-Control Board Period, 2001). Moreover, the city emerged from crisis without long-term borrowing dedicated to the city’s accumulated deficit (FRMAA, 2000c).

Access to Credit. Although not borrowing to eliminate the accumulated deficit, the city was active in the bond market during the control period. In fiscal year 1996, the Control Board coordinated two short-term borrowings totaling $500 million from the Treasury and one unrated issuance from the private market (Oversight of District of Columbia Cash Status, Operating Deficit, and Private Financial Market Access, 1996). In October 1996, the Control Board
reintroduced the District to the long-term credit market for capital borrowing slightly above market rates and the following year issued general obligation bonds at approximately market rate (FRMAA, 1996a; 1998a). The District obtained investment grade credit ratings from the three major bond rating agencies in September 1998 for Washington Convention Center bonds; restructured its existing debt in 1999; and budgeted for over $250 million in long-term borrowing for new projects in 2000 (FRMAA, 1998h; 1999a). The city bond ratings have continued to improve during and after the Control Board era (FRMAA, 2000c; The Outlook for the District of Columbia Government: The Post-Control Board Period, 2001).

**Federalist Context**

Local Democracy Failure

The Control Board had varying impacts on the health of the city’s budget and management quality. The Authority sped up a process of fiscal improvements that local officials continued after its exit of requiring fiscal impact statements for all legislation and providing more stringent Council oversight of the executive branch (Chan, 2001; DeSeve, 2008). Moreover, the imposition of the Board frightened both local officials and residents into caring about the budget so they would not lose Home Rule again (Norton, 2008; Rose Barras, 2008). In contrast, Control Board members recognized their limited improvements in management, procurement, and public school reform (Chan, 2001; Newman, 2008). Rivlin (2008b) argued that having a small group of volunteers with other full-time jobs run a city is "an absolutely insane thing to do." A draft of the Board’s outgoing report cited continuing challenges to improve these and other administrative issues (FRMAA, 2001c).

Inspector General. The leadership of the IG and CFO for the District were included as critical components of Congress’ long-term solution to the fiscal crisis. The IG position remained vacant for many months before being filled. The IG proved to be an ineffective manager who was fired within a year (D. A. Vise, 1996c; D. A. Vise & Schneider, 1996b). Subsequent IGs were more competent but are not remembered as key actors in the District’s improvement.

Chief Financial Officer. The community, leadership, and fiscal watchdogs broadly credit Anthony Williams for the improvements he made as CFO and the confidence he brought as mayor to the business community (Lazere, 2008; Newman, 2008; Raines, 2008). Initially viewed as an apolitical technocrat, Williams surprised Control Board members by translating his success as CFO into a winning bid for mayor despite his shyness and prior lack of political ambitions
(Newman, 2008). Rivlin (2008b) recalls: “I remember Tony coming in to see me at the Fed and saying ‘I’m thinking of running for mayor,’ and I was very surprised. And I didn’t think that it was a terribly good idea. I mean, I didn’t think he’d likely have a strong enough political base to pull it off.” The next CFO stumbled (Hansen, 1999), but was replaced by the current CFO Natwar Ghandi, who has been viewed by both the Control Board and local elected officials as skillfully maintaining fiscal responsibility despite recent revelations of scandal in the Tax Office.

Beyond the Control Board Era

Non-Control Board improvements. Not all of the city’s improvements occurred because of the Control Board. Delegate Norton (2008) and Revitalization Act designer Franklin Raines (2008) also credit the Revitalization Act with quickly improving the fiscal health of the city and providing a stable, permanent revenue source. While this effort was bolstered by the presence of the Control Board, much of the legislation’s design and advocacy was independent of the Board. In addition, both critics and proponents of the Control Board recognize a growing national economy beginning in the late 1990s that particularly helped urban centers as a key component of the District’s resurgence (Demczuk, 2007; Lazere, 2008; Norton, 2008; Rivlin, 2008b). These changes address both the federalist and market causes of crisis without regard to local democracy failure.

Remaining concerns. Despite the District’s recent success, the city continues to face challenges that limit its long-term health. Internally, local democracy failure remains a threat as a product of individuals within the government. A $50 million embezzlement scandal in the Tax Office discovered in 2007 has highlighted the need for continued reform in the city government. The scandal, likely the largest in city history, began during the Control Board era and raises
concern that the Board’s focus on redesigning institutions from above may have overlooked critical aspects of employee culture and controls.

Problems also remain in the city’s relationship to both the market and federal government. Until the past year, the city maintained fiscal health because of its strong commercial core and high income residents, but recent economic decline has led to budget cutbacks and deficit threats. Despite gains from the Revitalization Act, the city’s relationship with the federal government still limits its flexibility in responding to current challenges (Lazere, 2008). Among its final efforts, the Control Board raised the structural challenge: “A failure by local and federal authorities to make a good faith effort to negotiate a new structure for a more balanced relationship in the post-Control Board era will ultimately forestall the District’s reform efforts, and reanimation of another Control Board in the future would become much more likely” (FRMAA, 2001b). District residents and officials continue to fight for the nonresident income tax, a new federal payment to offset the federal presence and $486 million per year the city spends on state functions, and budget autonomy from Congress (Brimmer, 1998; Brotherton, 2007; Demczuk, 2007; FRMAA, 2001c; Newman, 2008; Schroeder, 2007; US District Court, 2003).

**Structural Advantages**

It’s really not about advantages and disad[vantages]... It’s the only remedy available. (Norton, 2008)

The federal government considered a control board to be the only serious option to address the District’s fiscal crisis because Democrats resisted greater reductions to Home Rule; Republicans refused to consider more local fiscal control; and other highly publicized, large-city fiscal crises led to control boards with which members of the Administration had worked.
However, control boards do offer institutional advantages and disadvantages as compared to other solutions. The District’s experience illustrates that the benefits suggested in the IMF literature – technical assistance, a political scapegoat for unpopular decisions, and external credibility – can be critical components of a control board. The assistance provided by the Control Board primarily focused on local government failure, but also improved the city’s standing relative to the private market and federal government.

Local Government Failure

Technical Assistance. The District sorely needed to upgrade financial management, contract, and procurement systems that were so chaotic that they were on the verge of disrupting critical public health services (FRMAA, 1996a). The Control Board updated three of these management systems (FRMAA, 1999a; Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996). The Authority also provided the technical capacity not only of its members but also a staff of approximately thirty financial and budget analysts, attorneys, and accountants, many of whom had knowledge of the District government, and additional access to the wide expertise of federal employees (FRMAA, "District of Columbia Financial Responsibility and Management Assistance Act of 1995," 1995; 1996a; 1998b). Council member Jarvis described the major asset of the Control Board as a quantitative analytical capacity similar to the style of services provided by the Congressional Budget Office (White House Proposal for the District of Columbia, 1997a). The Control Board hired consultants for detailed evaluations including the city’s asset management; the development of a performance measure for several agencies; and recommendations for public safety and regulatory reform (FRMAA, 1997a). Critics argued that
these firms were not helpful and instead represented a shift from management by Barry’s “cronies” to management by the Control Board’s cronies (Rose Barras, 2008).

The legislation creating the Control Board also created a CFO empowered with the political independence to focus on the technical aspects of the budget. Williams, as CFO, was widely credited with shoring up the city’s technical strength for the budget process, and fiscal impact estimates for legislation (Lazere, 2008). He also increased tax collection by over $100 million per year through an improved collection and administrative setup.

Political Scapegoat. The Control Board entered the District in part because the city government had not demonstrated the political will necessary to resolve the budget crisis, at least not quickly (Demczuk, 2007; Raines, 2008). Mayor Barry quickly developed a pattern of “punching back” against Control Board action for political support and then the cooperating with the Board’s action (D. Vise, 1996i). This allowed him to symbolically support his union base while still implementing unpopular decisions (Blomquist, 1996a; H. Schneider & Vise, 1996; D. Vise, 1996c). “Mr. Barry, whose political success has largely been built upon job creation, was using the board ‘as a foil’ to preserve his base by passing blame for tough decisions, like cutting jobs” (Janofsky, 1996).

Representative Davis instructed an initially frustrated Brimmer that “the fact that they’re [elected officials] going to be pointing the finger at the Board, that’s why you’re there... It’s called politics” (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996; Nevans, 1996c). Brimmer quickly offered this cover, stating that he hoped Barry would recommend some budget cuts and leave more difficult cuts such as reducing welfare benefits to the Control Board (D. Vise, 1996c). Beyond the mayor, Council members acted to direct residents’ anger towards the
Board rather than themselves (Powell, 1996). Finally, the Control Board provided some political
cover to Congress to provide assistance to a city unpopular nationally (Demczuk, 2007).

The closing of the deficit-ridden DC General Hospital was the quintessential use of the
Control Board as scapegoat. The Council could not politically navigate closing the public
institution that served primarily poor, black residents. Control Board Chair Rivlin (2008b)
recalls:

We knew that we had to get this done before we went out of business and the
Council knew that, because they didn’t want the political responsibility, they
wanted us to take it... It was a very clear example of here’s something that the
Council has agreed has to be done and the mayor has agreed has to be done, but
it’s politically unpopular and the Control Board has the power to do it. So let’s all
talk about what it should be and then let the Control Board do it.

The Council did, in fact, publicly oppose the shuttering of the hospital with months of legislative
delays until the Control Board passed its own legislation to sidestep the Council (FRMAA,
2001e). Although Mayor Williams took responsibility for this action without blaming the
Authority, the Council did ultimately not take any political blame for closing the hospital.

**Market and Federalist Weakness**

While the first two benefits of the Control Board worked to remedy the local
government’s internal failures, its third critical benefit sought to improve the District’s
relationship to the external forces needed for local fiscal success. The District faced a severe
credibility crisis in the eyes of Congress, the private market, and the courts at the beginning of
1995. Congressman Bonilla urged DC’s locally elected officials to “help us [Congress] with the
perception problem, the real problem, and the image the city has had for too long now”
(Oversight Hearing on DC Finances, Joint Hearing, 1995). Federal supporters of the city
believed that the local government responsible for the fiscal crisis, and Mayor Barry in
particular, lacked the necessary credibility to restore the confidence of Wall Street or Congress (DeSeve, 2008; Norton, 2008). Even Barry recognized that Congressional intervention could be required to help reverse the city’s image and the Council began to incorporate the need for improved credibility into its legislative debates (H. Harris, 1996b; Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996).

Private Market. Federal intervention assuaged Wall Street because they trusted the Administration’s crafters of the legislation who also periodically sought their input (DeSeve, 2008). The Control Board itself created a perception of fiscal discipline as it balanced immediate financial needs against risk to the city’s reputation (Newman, 2008; Rose Barras, 2008; H. Schneider, 1996a, 1996b). However, the legislation and Control Board presence were not entirely positive for the city’s credit rating, because the Act reduced the District’s access to the Treasury and prevented the local government from proving that it could manage its own finances over the long term (The Outlook for the District of Columbia Government: The Post-Control Board Period, 2001; Oversight of District of Columbia Cash Status, Operating Deficit, and Private Financial Market Access, 1996). When the city’s ratings improved in 1998 and 1999, Standard and Poor’s cited the Revitalization Act as its main cause, followed by local management improvements, and then Control Board oversight (The Outlook for the District of Columbia Government: The Post-Control Board Period, 2001).

Congressional Resources. While most cities in the United States require confidence to access the resources of the municipal bond market for cities, the District is even more reliant on Congressional resources. Norton sought the Authority because “only a board can give a credible voice that the Congress will hear to the District’s strong case for greater revenues” (Oversight
Representative Davis explicitly tied resources to the Board’s credibility when he told Mayor Barry “that’s why a Control Board is there. They will be your best friends before the time has come because they may give credibility to some of the statements you’re making” and allow for increased federal payments (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996). Congress also channeled additional funding for the District’s public schools through the Control Board that representatives were unwilling to provide directly to the local government (D. Vise, 1996d).

The Control Board successfully provided a trustworthy alternative to Barry’s leadership and assured Congress that the city would meet Congressional requirements and standards (DeSeve, 2008; Lazere, 2008; Raines, 2008). “A lasting legacy of the Control Board may be a more favorable congressional attitude toward the District” (Chan, 2001). In addition, members of Mayor Barry’s office, the Presidential Administration, and critics of the Control Board describe Williams as a major reason the city regained Congress’ trust (Demczuk, 2007; Rose Barras, 2008). As mayor, Williams continued to use his reputation as a professional manager and federal background to build the faith of private businesses and Congress (Raines, 2008).

Revitalization Act and the City-Federal Relationship.
The only real alternative to restore some confidence and the ability to access capital was a Control Board. In the six years since it was formed, the District’s finances have improved dramatically. However, what many people do not realize is that the single most important factor in the District’s financial recovery was the Revitalization Act of 1997. (Councilmember Evans, 2001).

The Revitalization Act significantly altered the responsibilities of the federal government and provided the most substantial increase in assistance to the District since Home Rule. With the Act, the federal government ended the federal payment and instead assumed the city’s unfunded pension liability; increased its Medicaid payment to 70 percent, equal to the federal
portion plus a typical state contribution; closed the Lorton prison and transferred city felons to the federal Bureau of Prisons; and accepted the costs of corrections, parole, and the court system ("National Capital Revitalization and Self-Government Improvement Act of 1997," 1997; White House Proposal for the District of Columbia, 1997b). Analysts estimated a net increase in District revenues of $44 to 60 million during the Act’s first year that would increase to over $200 million by 2001 and that will continue to grow because Medicaid costs are expanding beyond inflation (Brimmer, 1998; Lazere, 2008; White House Proposal for the District of Columbia, 1997a). By fiscal year 1999, the District’s budget office attributed its budget improvement primarily to the growing economy and Revitalization Act (District of Columbia, 1998).

The assistance of the Revitalization Act was not an assured outcome of Congress’ intervention in the fiscal crisis, because Congress wanted to ensure that the city had adequately reformed before giving it a “pot of gold at the end” (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996; D. Vise, 1996h; White House Proposal for the District of Columbia, 1997a; White House Proposal for the District of Columbia, 1997b). The Control Board was a prerequisite for that “gold,” because it both implemented reforms and provided a trustworthy channel for funds as an alternative to the mayor (D. Vise, 1996h; White House Proposal for the District of Columbia, 1997a; White House Proposal for the District of Columbia, 1997b). Raines (2008), who designed the Revitalization Act, insists “they would never have appropriated this money to Marion Barry. Never.” Barry himself noted that the federal government now embraced reforms that they had criticized when he proposed them (Fiscal Year 1997 District of Columbia Audit Report and CFO Oversight 1998). Senator Faircloth explicitly linked the Board and the Revitalization Act with his inclusion of the Management Reform Act, which shifted city management to the Board at the expense of the mayor (Loeb, 1997).

The design of the Revitalization Act also depended on a concerned President assisting OMB Director Raines and his predecessor Rivlin, who helped as long-time residents with a deep knowledge of the city (Norton, 2008; Raines, 2008). The Act was further aided by key behind-the-scenes support from Newt Gingrich and Hillary Clinton (Brimmer, 2008b; Raines, 2008; D. A. Vise, 1996a).

Courts. The major institution from which the Control Board was unable to engender trust and restore District credibility was the courts. As discussed above, the courts continued to place agencies under receivership despite management changes being implemented by the Authority.
The reform efforts started during the Control Board era and led by Mayor Williams required a slow process to overcome a long accumulation of management problems. This process is not yet complete. Thus, the Control Board was more successful in addressing the problem of majoritarian tyranny than overcoming the powers of court embedded in the nation’s political structure.

**Structural Disadvantages**

The IMF literature describes not only advantages of instituting an external agency such as Control Board but also potential areas of harm to the local government. Critiques focus on favoritism towards the private market, increased power to external political actors, and challenges to local democracy.

**Concessions to the Private Market.** Counter to predictions based on the international literature, the Control Board did not instigate major concessions to the private lenders. Because of the city’s unique access to the Treasury, the District was able to obtain short-term liquidity without meeting potentially unreasonable demands of the private credit markets (DeSeve, 2008). Moreover, the Control Board assigned a staff member to update rating agencies but did not consult them in Authority decisions (R. Watkins, 2008). Instead, the Board followed a Congressional mandate to spur economic development. During the control period, Congress created tax incentives for District residents and businesses, the Control Board developed the Tax Parity Act, and the Authority passed over two hundred pro-business orders including reductions to unemployment benefits and the relaxation of environmental standards that drew opposition from local officials (D. A. Vise, 1998c). Since the termination of the Board, the District government has continued to prioritize economic development even when the debt introduced by
the projects could hurt the city’s bond rating (Lazere, 2008). Thus, the Authority, while pro-
business, did not support any unreasonable terms of private lenders in any contracts.

**Power to External Political Actors.** The Control Board exacerbated the power of an external political actor – the federal government – over the city. Although Congress always had unlimited power over the District, the federal government lacked the time or focus to intervene in the routine operations and policy decisions of the city. The Control Board initially appeared to protect the District’s independence, because it provided a local alternative to creating a new federal department (Raines, 2008). However, Republicans sought to use the bill creating the Control Board as they had often used Appropriations bills – as a tool for riders of legislative intervention including prohibitions on funding abortions and a requirement that the District end rent control. The legislative compromise mandated the Control Board to study these issues without requiring their enactment (Brimmer, 2008b). During the control period, Congress passed charter school legislation for the District and directed the Authority to speed a land sale and address a local decision to suspend zoning for technology facilities (Nathan Associates, 2000). Congress’ numerous interventions about particular local policies prompted Rivlin’s observation that Congress was “micromanaging as if it would rather be a city council than a national legislature” (D. A. Vise, 1998a).

Members of Congress individually used the Authority to assert their influence over the city. Congressman Horn even declared that “somebody mentioned micromanaging, my last micromanagement would be one pothole at Independence and 3rd –” (New Visions for the District of Columbia, 1999). Rivlin (2008b) recalls other requests to fix potholes and a request by Trent Lott to resolve a minor issue on his block. “It was not Trent Lott majority leader. It was Trent Lott, DC resident… I just thought, I can’t believe it that he’s actually calling me about
this.” Representative Istook asked why an approved development proposal differed from the Advisory Neighborhood Committee preference and Representative Hoyer thanked the Board for funding specific firemen. The Control Board provided a focal point for powerful individuals to direct minor complaints not worth pursuing in a more complex environment.

**Control Board and Local Democracy**

Washington, DC is especially prone to the threat of majoritarian tyranny by the federal government against the city, and residents were as concerned about the city’s democratic power within the federalist structure as they were about the internal functioning of local democracy. District residents who had fought for decades to achieve local governance felt threatened by the Control Board. The design of and outreach by the Board attempted to mitigate concerns, but the Authority’s interactions with local officials instead increased governance tensions. Residents and local officials protested and sued the Board for its existence and particular policy actions throughout the control period. The removal of Vernon Hawkins, public school takeover, and closing of DC General Hospital aroused intense local opposition to the Board. At the same time, residents slowly integrated the Control Board into their map of local governance and sought government action not only through elected officials but also the Control Board.

**Congressional Context**

*Home Rule.* The District’s fiscal crisis and potential federal solutions were the city’s first major challenge to Home Rule (Brimmer, 2008b). Delegate Norton argued that a control board should maximize local governance through a design with the input of local residents, temporary term, and role of working with local officials or serving as a review body *(Oversight Hearing on*
“After all, we are about to introduce an unprecedented entity into the life of a city that has always had to struggle for the most elementary democracy freely available to every other American jurisdiction as a matter of right.” Representative Collins argued for empowering the Control Board to fulfill its mission but echoed Norton’s call for local representation and respect for Home Rule (Actions Taken by Five Cities to Restore Their Financial Health, 1995). Public Law 104-8 specifically stated that the solution to the crisis must preserve DC’s Home Rule ("District of Columbia Financial Responsibility and Management Assistance Act of 1995," 1995). However, not all members of Congress agreed that Home Rule was a priority, believing the federal financial responsibility should give it governance power (Oversight Hearing on DC Finances, Joint Hearing, 1995). In fact, whatever its details, the creation of the Control Board itself was a strike against Home Rule by implying not only that the District had failed to govern itself but that it might not be able to (Raines, 2008).

Race and party. The District-federal relationship was complicated by differences in race and political party. Republicans had just gained the majority in Congress, while the District was overwhelming Democratic. Moreover, Demczuk (2007), an aide to Mayor Barry, observed that city’s majority black population contrasted to white majorities not only in Congress but also Wall Street and the Washington Post, supporters of Congressional intervention. Politics, race, and Home Rule combined locally into “the whole myth of the plantation, that the white people wanted to take over DC and they would use any excuse they could to do it,” that worried the designers of the Control Board (DeSeve, 2008).
Despite Congressional deliberations and an explicit reference to preserving home rule in Public Law 104-8, the terms defining the District’s Control Board deferred less to local democracy than other control boards. Philadelphia’s served as a model for the Control Board, but Congress did not adopt its city-state intergovernmental agreement to establish the Board. Rather, Congress relied strictly on its existing powers over the District government (DeSeve, 2008). Council Chair Clarke continued to seek such an agreement even after the Control Board was created, arguing that the lack of local input in defining the Board fueled community suspicions of a Congressional takeover and complicated cooperation between the Board and local officials (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996).

Public Law 104-8 subjected the Control Board only to the Sunshine portions of three District laws requiring access to public records such as final and dissenting Board opinions, statements of policy, correspondence with the Authority; and public meetings with transcripts for all official actions (FRMAA, 1995; 2001a; Rezneck, 1995). The legislation left bylaws dictating the deliberative procedure to the Board, and Brimmer (2008b) closed the process from the public except for occasional hearings. The Board’s bylaws also applied its own procurement rules rather than following the District’s. This decision gave the Authority latitude but undermined the power of the local law with the implication that it was insufficient (Rose Barras, 2008).

Internal Dynamics. The District Control Board was not a board of equals. Rather, the Authority’s by-laws assign the Chair general management responsibilities, veto control over many Board decisions, the power to hire the executive director, and staff oversight. Thus, Brimmer (2008b) described himself as the CEO of the Authority, with other members leading in
particular policy areas. Despite this hierarchy, the Control Board almost always unanimously agreed on their actions, and Brimmer almost never exercised his veto power.

*Control Board Membership.* Control Board members were selected through a compromise among the Administration, Norton, and Congressional Republicans. The federal government sought credible experts whose selection would respect local democracy both through familiarity with Norton, Barry, and many District residents and by reflecting the city's composition (Brimmer, 2008b; D. L. Brown & Schneider, 1995; DeSeve, 2008; Rivlin, 2008b; Rose Barras, 2008). Each Board had at least four city residents, four African-Americans, and three men and two women. In addition, each Board was bipartisan with two Republicans despite the city's overwhelmingly Democratic population (Brimmer, 1998; Hansen, 1998).

Many Control Board members had extensive experience both in the federal government and analyzing the city's finances or advising locally elected officials. For example, Control Board Chair Brimmer had been on the Federal Reserve Board and consulted for or advised Mayors Barry and Kelly since 1982. Other Board members were federal economists, lawyers, and Assistant Secretaries of Departments as well as members of local public boards, including the Board of Education, part of Kelly's transition team, and recipients of local leadership awards (Brimmer, 2008b; FRMAA, 1998b; D. A. Vise, 1998b). Control Board member Newman (2008) believed that as city residents, they represented the District better than a federal agency. The selection of the city's first CFO paralleled the Authority: Williams, the CFO of the Department of Agriculture, was a compromise after Barry rejected the Administration's first choice of O'Cleireacain, who was neither black nor a District resident (Rivlin, 2008b).

After seemingly permanent tension between residents and the first Control Board, Rivlin was selected as Board chair in part because of her local credibility (D. A. Vise, 1998d). Her
Fighting for Control

qualifications as Vice Chair of the Federal Reserve Board, Director of the OMB and Congressional Budget Office, and chair of the local Rivlin Commission for Barry, as well as her offer to serve as the city’s budget director under Mayor Kelly, were similar to Brimmer’s background, but her local trust helped governance during the second Control Board and beyond (DeSeve, 2008; D. A. Vise, 1998a). However, unlike most other control boards, the District’s did not extend local representation on the Board to the inclusion of democratically selected officials nor did it allow them to nominate members. No elected or executive officials sat on the Board, as the Governor, mayor, and state and city comptroller did in New York and state Secretary of Budget and the city’s Director of Finance did in Philadelphia (Holloway, 1996). In contrast, the President appointed all five private citizens to the Control Board.

Interaction with District Council

The Control Board built a tense but largely cooperative relationship with the Council. The Administration and Norton met with the Council as they developed the Control Board legislation, but communication problems quickly began once the Board was established (DeSeve, 2008). Brimmer (2008b) rejected Council Chair Clarke’s requests to observe Board meetings and that the Board’s Executive Director attend Council meetings. Instead, Brimmer established a joint, optional, monthly meeting. Clarke complained that the Authority was uncommunicative and unresponsive (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996). By late 1996, the Council was so frustrated that several sessions devolved into complaints about the Control Board’s refusal to work cooperatively and lack of respect for city government (Mercurio, 1996d; Morris, 1996a).
As the Council accepted the Control Board’s position, many of its members built relationships with members of the Authority on various policy issues, and the collaboration lowered legislative conflict and Control Board vetoes (Brimmer, 2008b; FRMAA, 1996f; Newman, 2008). The relationship became slightly more balanced when the Council, other local officials, and the Control Board formed a Criminal Justice Coordinating Council (FRMAA, 1998c). However, the limits of this equity were manifest in the Control Board’s presentation of regulatory reform that both proudly announced working with the Council and declared unilateral actions wherever the Council fell short (FRMAA, 1998d; 1998f). The Board sought to work with Council to build agreement on legislation, but did not shy away from vetoes when disputes remained (Rivlin, 2008b). Moreover, the relationship was often unidirectional: the Board updated the Council without seeking input while the Council formally requested information and testimony from the Authority (R. Watkins, 2008). Until the Control Board officially began the transition to local governance in 1999, Council members generally appeared before the Control Board rather than meeting regularly with them (Rivlin, 2008b).

Interaction with Mayors

Marion Barry. The Control Board had a much more combative relationship with Mayor Barry than with the Council. Barry initially supported creating a Control Board on the condition that he contributed: “I want to be in the room when this is discussed. I don’t want to be outside the room throwing sticks at it” (Oversight Hearing on DC Finances, Joint Hearing, 1995). However, Barry was quickly excluded from the development of the legislation and became uncooperative, resenting his loss of power to a new CFO and Congress’ use of the Control Board as a “supercop” against him (DeSeve, 2008; Implementation of Public Law 104-8, District of
By its creation, Barry twice publicly compared the Control Board to slavery (Brimmer, 2008b; Nevans, 1996b). Barry supported garbage workers who went on strike against the Board and joined public demonstrations at UDC protesting the Authority (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996).

Behind the scenes, however, Barry’s relationship with the Authority slowly developed as his key staff regularly worked closely with Control Board staff (Demczuk, 2007). The mayor also sometimes privately agreed to complain but not demonstrate in exchange for credit for positive policy advances (Newman, 2008). By spring 1997, Mayor Barry testified that he and the Control Board worked cooperatively despite their differences (White House Proposal for the District of Columbia, 1997a).

Cooperation with the Control Board ended with the Management Reform Act of 1997. Barry initially attempted to claim credit for some of the new government leadership, but the Control Board made it clear that the mayor had minimal influence (D. A. Vise, 1997a). Barry lashed out against the Control Board and Congress, particularly Senator Faircloth. The Senator’s personal dislike of Barry seemed to motivate the Management Reform Act and his desire for a permanent Control Board, ceremonial mayor, and advisory Council. Barry not only compared Faircloth to a Southern Segregationist treating the District as his plantation but also asserted that “democracy has been raped...When he [Faircloth] got the opportunity to stick up the District and begin to rape democracy, he did so... Senator Faircloth started the rape” (Brimmer, 2008b; Loeb, 1997; Powell, 1998). Barras (2008) argues that if the Control Board had worked to build a strong
relationship with the mayor, then the Authority could have more easily helped the city by harnessing Barry’s widespread local influence at the start of the Control Board.

Anthony Williams. The Control Board’s relationship with Mayor Williams starkly contrasted their antagonistic battles with Barry (Figure 7-1). As CFO in 1996, Williams began publicly praising the Control Board for pursuing the difficult task of preserving local democracy while distinguishing himself from Barry by publicly critiquing the mayor’s leadership (H. Harris, 1996a; D. Vise, 1996a, 1996k). By the time he was elected mayor, Williams had a strong rapport with the Control Board and the trust of the federal government based on his work in the Clinton Administration (Cottman, 2000). Congress’ preference for Williams combined with the second Control Board’s desire to transition governance back to the city led to a sudden shift on the mayor’s first day in office. “At the inauguration ceremony, I had this piece of paper and I walked
right up to the front as soon as he made his speech and took the oath, and that was the first thing he did, right there in front of everybody. He signed and we waved this paper around” (Rivlin, 2008b). The timing of that paper, a memo of understanding that transferred the management power of all city departments back to the mayor, suggests that new leadership needed to replace Barry for a transition to occur (Powell, 1998). The Authority not only extended local governance control to the mayor but also included him in new weekly deliberations with the Board and Council Chair (FRMAA, 1999a). The Authority’s preferences became increasingly aligned with Mayor Williams (Chan, 2001).

Control Board Community Outreach

Just as the IMF literature links long-term success to local enthusiasm, Congress and the Control Board recognized that lasting change required community support and input without significant conflict (FRMAA, 1996f; Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996). The Authority also stressed its dedication to public engagement in light of its position as an appointed governance institution (FRMAA, 1996f; Public Meeting on Strategic Plan, 1996). The Control Board’s most extensive outreach was its hundreds of public meetings including hearings open to resident comments, informal conversations with community organizations, forums held by Board members and the executive director, and neighborhood meetings they attended across the city (FRMAA, 1996c; 1996f; 1997b; 1998e; Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996; Rose Barras, 2008). The Control Board complemented these meetings with appearances on the local radio program DC Politics Hour, interviews in local newspapers, and a website with a
detailed view of the group's background, actions, and relevant federal and local laws (FRMAA, 1998b; Lazere, 2008). The Authority also surveyed district residents to rate the District's most important public services, although Representative Davis critiqued this effort as too political for an apolitical body. (Blomquist, 1996b; FRMAA, 1998b).

These efforts did not always translate into the perception that the Control Board was listening to the public. Delegate Norton (1999) criticized the Board for not hosting meetings jointly with elected officials who would bolster public participation. Challenges to attending were compounded by the short notice for many public meetings. The Control Board's selection of public school CEO General Becton, who was viewed as authoritarian because of his military background, and CMO Camille Barnett, who entered the District with a combative reputation, also countered a tone of public engagement (Powell, 1997). Despite mixed reactions to public outreach, the Control Board's official documents reference their efforts to positively engage the public without mention of the controversies they provoked.

Community Response

Daniel A. Rezneck, the Control Board's general counsel since 1995, likes to recall an incident that captured the ambivalence residents often felt about the board. He returned to his office one day to find a lone picketer outside. "I said to him, 'What are you doing?"' Rezneck said. "He said, 'I'm protesting the Control Board.' I said, 'I work for the Control Board.' And he said, 'Keep up the good work.'" (Chan, 2001)

Local Support. Approval of the establishment of the Control Board was divided across the city with support concentrated in white, upper-middle class neighborhoods and among opponents to Mayor Barry. Local media outlets the Washington Post and several reporters from the DC Watch also endorsed the Board's creation (Demczuk, 2007; Rose Barras, 2008). Because of a broadly critical reaction to the Board throughout the city, individual residents and
community groups quietly encouraged the Board through positive letters or, as Control Board member Newman (2008) recalls, "sometimes people would come up in the grocery store and whisper thank you for what you did and then dash away" (Eichmiller, 1997; "Letter to Connie Newman, May 20" 1997; McPhatter Sr, 1997; Walker, 1998). However, even among these supportive notes were calls for greater Control Board involvement with the public.

Local Opposition. The city's negative opinion of the Control Board was so dominant that Control Board members felt, "particularly at the beginning of the Control Board, the outside world's kind of an enemy" (Newman, 2008). Antagonism towards the Board, centered in the city's black population, increased as residents began to sense a loss of local power (Lazere, 2008; Norton, 2008). A racial split in attitudes toward the Control Board persevered that did not extend to variations in income and social class. After two years, two-thirds of the city's white population supported and only one-fifth opposed the Authority. In contrast, half of black residents opposed and forty percent approved of the Board. In total, only 46 percent of residents approved of the Control Board's execution of its job and 40 percent disapproved (Table 7-3). Moreover, rates of local objection to the Board's role in particular city service areas were greater for every one included in the survey (D. A. Vise & Morin, 1997). Thus, although many of the protests discussed below were carried out by a vocal minority, the objections reflected the opposition of a substantial share of the city population.

Opposition to the Authority was largely focused on the extreme power disparity between the federal government and the District and was expressed in inflammatory terms grounded in race and Home Rule. Sam Smith, the publisher and reporter for the local media outlets the Progressive Review and the DC Almanac, was an outspoken critic of both the Control Board and the city's prior "colonial" relationship with the federal government. His regular critiques almost
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Do you approve or disapprove of the way the D.C. financial control board is handling its job?

- **Approve** 46 40 65
- **Disapprove** 40 49 20

Overall, do you think the District of Columbia is better off worse off or about the same today as it was before the control board was established?

- **Better** 35 27 57
- **Worse** 21 27 7
- **Same** 37 41 27

Do you think that the quality of public education that children get in Washington is better, worse or about the same today as it was before the control board was established?

- **Better** 11 11 9
- **Worse** 27 33 13
- **Same** 52 51 57

Do you think Washington is safer, less safe or about the same today as it was before the control board was established?

- **Safer** 15 15 13
- **Less Safe** 32 39 19
- **Same** 49 44 61

A total of 1,004 randomly selected D.C. residents were interviewed between April 30 and May 4. The margin of sampling error for the overall results was plus or minus 3 percentage points.


**Table 7-3. Local Reaction to the Control Board**

exclusively referred to the Control Board as the junta (S. Smith, 1995, 1997). James Featherstone, a longtime resident of the predominantly poor and black section of the city Southeast, repeated the common call that the District was “up against a Congress that wants to be plantation masters rather than legislators” (D. A. Vise & Morin, 1997). Jewel Parker (1997)
wrote the Control Board to prevent particular funding cuts but ended with a broader grievance that “it’s all about ‘CONTROL’ blacks stay back, and Whites get ahead.”

*Home Rule opposition.* The Control Board’s harm to Home Rule was a constant thread of residents’ opposition to the Board, and the most vocal organized opposition was the pro-Home Rule group the Statehood Green Party (Demczuk, 2007; Newman, 2008; S. Smith, 2007). Despite Congress’ claim that a Control Board could preserve local governance, a Washington Post op-ed (Pyatt, 1995) stated that “anyone who says the imposition of a financial Control Board with unprecedented power does not mean the suspension of home rule is either incredibly naive or shamelessly dishonest.” This revocation of power was particularly poignant because it was taken from Barry, who had led the cities Free DC movement to achieve Home Rule (Demczuk, 2007). This Home Rule based opposition sometimes overshadowed or confused racial anger by incorporating a vision of the predominantly black Control Board as part of the white leadership in Congress. Black opposition led by Lawrence Guyot and Mark Thompson “took offense to the fact that there was a Control Board that got rid of their police chief and hired a new police chief, even the one they got rid of was corrupt and was white, and the one they brought in was black and had a really good reputation” (Rose Barras, 2008).

Although Norton initially proposed a control board to minimize harm to Home Rule, she became increasingly outspoken against the Control Board’s failure to respect local leadership. By late 1996, Congressman Davis chided Norton for trying to preserve poorly performing local democratic institutions (Mercurio & Ferrechio, 1996b). Norton, in turn, was “astonished that instead of... collaboration, the Control Board has issued an imperial order that sets a deeply adversarial tone... We need a Control Board that can help heal the city, not a board that gives no deference to basic democracy” (D. A. Vise, 1997a). She argued, moreover, that the Authority
hurt Home Rule with its focus on management reports instead of cooperative technical assistance (D. A. Vise, 1997b). After the Board’s vast expansion of power, Norton even expressed doubt that Congress would terminate the Board when the District met the required conditions (Fiscal Year 1997 District of Columbia Audit Report and CFO Oversight 1998). Thus, Norton shifted from leading the Authority’s creation to joining its strongest public opponents, only cooperating privately. This shift parallels a perceived change in the use of the Control Board from a tool to repair local democracy failure to a tool of majoritarian tyranny by the federal government.

Public Protests. Public demonstrations occurred throughout the first Control Board and then faded by the second Control Board as residents felt that these displays were ineffective and disapproval of the Authority turned into resignation (Newman, 2008; R. Watkins, 2008). Public works union employees staged the first demonstration against the Control Board on December 4, 1995, when they blocked the Control Board offices with city owned garbage trucks during the morning rush hour. The trash collectors were protesting potential anti-union activity by the Board and pressing for negotiations (Brimmer, 2008b; Dewey, 1995). Several months later, students and faculty demonstrations at UDC in response to expenditure caps imposed by the Control Board drew criticism from CFO Williams but the participation of Council Chair Clarke (Implementation of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, 1996; Strauss & Schneider, 1996). The UDC protests emerged largely from the black community, in which eight out of ten residents opposed the Control Board’s cuts (D. A. Vise & Morin, 1997). In these and other protests, members of the Control Board criticized Mayor Barry for supporting the protestors.

The most wide-reaching protests occurred in reaction to the Management Reform Act. During the development of the Act, protestors gathered outside Raines’ ordinarily obscure OMB
office. Days prior to the legislation being signed, three hundred residents outside the White House were monitored by two dozen police officers and Secret Service agents while staging a mock funeral mourning “the death of Democracy in DC” (H. R. Harris, 1997; Raines, 2008). The day that the Act was enacted, protestors were disbanded and arrested by police officers in riot gear while Norton and local ministers gathered elsewhere to pray about the legislation. The pastors’ words echoed the mock funeral as one declared that “the city of the District of Columbia is being crucified… The nails are being driven into the hands of our people,” and another added “but that doesn’t mean democracy will stay in the tomb” (Salmon & Schumacher, 1997).

The protests escalated during the public Control Board meeting to implement the changes when several dozen protestors chanted a combination of “free DC” and racial slurs until a bomb threat ended the meeting. Control Board member Ladner deflected the criticism while acknowledging the city’s lack of democracy: “This doesn’t bother me. I’m not a Tom. I understand it, I don’t take it personally, and I’m not afraid of this… Of course the city is a colony… The question is who fixes the colony: Congress or us?” (H. R. Harris, 1997; D. A. Vise, 1997a). Throughout August, these protests continued under the leadership of Democracy First and church leader Rev. Willie Wilson with an attempt to travel to Senator Faircloth’s North Carolina home and a demonstration at the columnist George Will’s house (Salmon, 1997). Protests calmed after several weeks and did not reignite until the closing of DC General Hospital.

Lawsuits. The courts provided the formal channel to challenge the Control Board, and the antipathy towards the Authority was manifest in the number of lawsuits filed against the Board. While other control boards were rarely sued, approximately thirty lawsuits included the District’s Control Board as a defendant (Rezneck, 2008). The lawsuits against the Board fit into three basic
types of charges: challenging the Constitutionality of the Board’s existence; disputing the extent of the Board’s scope; and including the Board as a defendant in cases brought against the city.

*Lois Adams et al v President Clinton et al* disputed the Constitutionality of the Control Board’s existence as part of a broader lawsuit against the federal government about District representation. The plaintiffs, local residents, demanded that the Control Board disband because its existence violated rights to equal protection and a republican government. The Court, however, granted the Board’s motion to dismiss because the plaintiffs could not show that harm would be remedied by terminating the Authority, and Congress rather than the Board has the power to create the District’s governance structure (Rezneck, 1998; US District Court, 2000b). The presence of the Board remained otherwise unchallenged.

Most lawsuits involving the Control Board attempted to determine the scope of its powers. The courts upheld the Board’s right to grant contracts with their own procurement process and to reject city contracts in two lawsuits, one affirming the Control Board’s authority and the other failing to reject it (US District Court, Horwitz & Vise, 1996; 2001a).

The first major lawsuit challenging the Control Board’s power to structure local governance occurred in September 1996 when the Authority moved to disband the Lottery Board. Lottery Board member Alice Davis declared that “‘I never thought I would live in Gestapo times” and joined other Lottery Board members in a suit alleging that the Control Board disrupted their First Amendment rights by forcing them to vote to rehire their executive director. The Lottery Board sued even as the Control Board threatened to charge them with misdemeanors for not following orders of the Authority (H. Harris & Vise, 1996; Morris, 1996b). The plaintiffs requested a temporary restraining order to prevent the Control Board from ordering the dissolution, but the Courts agreed with the Board that Public Law 104-8 made temporary
restraining orders ineffective through its provision that no court actions have effect while pending or being appealed ("District of Columbia Financial Responsibility and Management Assistance Act of 1995," 1995). At the same time, Congress empowered the Control Board with an amendment allowing it to order any actions within the scope of any city agency including independent ones. The Courts found that this gave the Authority the jurisdiction to run the lottery itself or reassign its management, and the ruling established an important precedent on the Board’s scope of powers (US District Court, 1996a).

The only lawsuit that the Control Board completely lost found that the Board exceeded its authority when voiding existing provisions of a collective bargaining agreement with the UDC faculty (Rezneck, 2008). The plaintiffs disputed reductions in force imposed by the Authority counter to union agreements, while the Control Board argued that the amendment authorizing them to act as any independent agency allowed them to renegotiate contracts in place of the UDC Board of Trustees. However, the District and Appeals Courts found that the UDC Board of Trustees lacked that power and Public Law 104-8 required that the Board follow existing terms of labor contracts (US Appeals Court, 1998b; US District Court, 1998b). The impact of the Court’s check on Control Board powers proved limited, however, because of Congress’ support. In a similar lawsuit, city unions sued the Control Board for changing an existing labor agreement. However, the lawsuit prompted Congress to pass retroactive legislation authorizing the Board’s actions. The Courts found for the defendants “with regret,” because Congress has ultimate authority in the District (US District Court, 2000a). Even when a check on the scope of the Authority seemed necessary, the Courts were an ineffective tool against the Control Board as an agent of Congress.
Chapter 7

A series of lawsuits against the District government included the Control Board among their defendants. The Courts dismissed the Board as a defendant in two cases that grouped the Authority with District agencies despite the plaintiffs’ argument that the Control Board’s power of the purse and government supervision meant that it could remedy these situations, because the Board was not intended to run agencies or dedicate agency funds to particular purposes (US District Court, 1999a; 1999c). The Court dismissed another lawsuit against the Control Board among District government defendants in Marva Yvonne Glenn and Wanda Y. Dickens v Anthony Williams et al, finding that the plaintiffs wrongly considered the Control Board to be a part of the District government (US District Court, 1998a). Finally, the Court dismissed a suit against the Authority in place of the Board of Education that it demoted because the Board of Education could not be sued, and so the Control Board was protected by transference (US District Court, 1999b). Despite their differences in reasoning, the outcomes of these cases provided further protection to the Control Board from checks through the Courts.

Vernon Hawkins

Several Control Board actions ignited the antipathy of parts of the local community, and the reactions typify the convergence of service crises, fights for political independence, and racial tension throughout the control period. The first highly publicized conflict began when the Control Board demanded that Mayor Barry fire his friend and long-time employee, Vernon Hawkins, as head of the Department of Human Services because the department imminently risked losing services for a highly vulnerable population (D. A. Vise, 1996b).

Mayor Barry and his supporters responded by aggressively attacking the Control Board and calling the firing “absolutely anti-democratic, anti-American, un-American... It reminds me
of what happened in Germany during the period when citizens were abrogated – their rights were abrogated – in a totalitarian kind of state” (Woodlee & Vise, 1996). Even as Barry later partially backed down by claiming that he was referencing another totalitarian German regime than the Nazis, he called the Control Board pharaohs in other public statements (Mercurio & Ferrechio, 1996a). Barry’s comments spurred a broader attack led by his pastor, Rev. Willie Wilson, who declared war on the Control Board because of its the “robbery of home rule” (Figure 7-2) (D. Vise, 1996b). Wilson’s attacks became racially charged when he addressed a community celebration with 250,000 attendees by calling Brimmer “the foolish Negro at the top.” Another
church leader expanded that Brimmer “is what we call a handkerchief-head Negro. He is not concerned about African Americans... who live east of the [Anacostia] river. He’s doing the white folks’ bidding.” A third speaker turned his focus to the Board’s harm to Home Rule (Horwitz & Vise, 1996).

Although the legal scope of the Control Board had not yet been tested, Congress clearly gave the Board their full support (Torry, 1996). Congressmen Gingrich and Davis threatened to revoke Home Rule entirely unless the mayor became more cooperative, and Barry ended his attacks without tempering Wilson (Mercurio, 1996a, 1996c; Nevans, 1996b; D. Vise & Yang, 1996). The reverend organized more protests and extended his racial assaults to Congress, describing their message as “‘if you don’t do what we say, we’ll chain you and whip you until you agree to our terms.’ Maybe Gingrich and some other member of Congress should change their names to Ku, Klux, and Klan” (Black, 1996). Wilson organized several demonstrations including at the homes of Control Board members; equated the Control Board’s presence with slavery; and endorsed the call “to come off the plantation” (D. Vise & Goldstein, 1996). Norton, caught between the local residents and Congress, responded to the Hawkins events with the statement that “it makes me want to cry” (Mercurio, 1996c).

Public School takeover

The Control Board’s takeover of the DC public school system, governed by an independent, elected Board of Education (school board), generated citywide controversy despite an almost universal perception that the schools were failing. After over six months of meetings with residents, students, parents, teachers, unions, school board members, and locally elected officials to investigate the conditions of the school system, the Control Board issued a scathing
Fighting for Control

report in November 1996 that detailed the failures of the public school system from underperformance to violence (FRMAA, 1996b; "Students seek control board help," 1996). The Board blamed the school board and superintendent for the school system’s problems and demoted the school board to an advisory role. The Authority replaced the old leadership with a new CEO and temporary Emergency Transitional Education Board of Trustees of nine appointees, seven of whom were selected by the Board with the others nominated by elected officials (FRMAA, 1996b). In addition, Congress granted the Council line-item veto authority over the school budget for the first time.

The Control Board’s actions were received positively at their crowded public announcement, despite the Control Board acknowledgement that “some residents will resent these actions as an infringement on Home Rule” (FRMAA, 1996b; D. A. Vise, 1996d). In fact, Home Rule concerns rapidly became the focus of a wide-reaching negative response to the Control Board’s involvement in the schools. Jay Silberman, a white school board member, dramatized his objection to their “lynching of democracy” by publicly presenting a mannequin with a noose tightened around its neck (Ferrechio, 1996; Mercurio & Ferrechio, 1996a). Brimmer (1996) sought an apology in a letter to the School Board stating that he was stunned and outraged to see the leadership of the School Board... watching Mr. Jay Silberman... actually lynching a human figure screaming with the agony of dying showing on its face... Did they not know that there are thousands of black citizens in the City (including me and three of my other colleagues) who were born or grew up in the South at a time when lynchings were still occurring and when the legacy of this racial violence was still alive in the memory of virtually every black child?

Tensions then mounted at a Control Board news conference when school board members were prevented from attending by a “security guard wielding a screwdriver” (D. Vise, 1996f).
Shortly after the takeover, seventy five ministers and activists protested at the Capitol with much of the same language employed in other protests including descriptions of the Control Board as “plantation masters” (Figure 7-3) (D. Vise & Woodlee, 1996). Barras (1998) described the Trustees as “an unelected body intent on tossing democracy to the heap as if it were some used dishrag” and critics decried their lack of accountability as appointees (D. Vise, 1996k). In addition to those typical Control Board critiques, community groups and even the Washington Post, generally supportive of the Control Board, decried the secrecy of the unelected Board of Trustees (MacLaury & Reeves, 1997; "The Secretive Trustees," 1997; What Works And What’s Wasted In The District Of Columbia School System, 1997).

Elected leaders criticized the nature of the Control Board takeover while realizing major reforms were necessary. Council member Chavous’s perspective was that
some of the tension between the elected board and the transitional board of trustees is what happens when democracy, however justified, is suspended. If you look at those persons sitting at this table, none of us were acutely involved in running or managing the school system six months ago yet we are the point people out in the area of education reform in this city.

Delegate Norton criticized the Control Board and Board of Trustees for failing to work with elected officials or engage the public and promoting themselves to Congress at the expense of the city (D. Vise, 1996j; What Works And What's Wasted In The District Of Columbia School System, 1997). By May 1997, over twice as many locals believed that the school system had gotten worse since the creation of the Control Board than thought that the schools had improved. Moreover, only two out of ten residents supported the Control Board’s efforts in the public schools (D. A. Vise & Morin, 1997).

*Lawsuit.* Nine of thirteen school board members legally challenged the takeover in an attempt to regain their full role (D. A. Vise, 1996d). The District Court followed the Lottery Board precedent in denying the plaintiffs’ request for a temporary restraining order preventing the Control Board takeover and, because of the September 1996 expansion of powers, dismissing claims that the Control Board exceeded its authority (US District Court, 1996b). During appeals, the Court further followed the Lottery Board case, finding that replacing the school board was not a constitutional infringement on their right to vote (US Appeals Court, 1998a). However, the Appeals Court dismissed the claim that the content of the Authority’s orders were not subject to judicial review and modified the initial ruling on the scope of the Control Board’s power (US District Court, 1996b). The final opinion found that the Control Board did have the right to take over governance of the public schools but could not delegate their governance responsibilities to the Board of Trustees or Superintendent. Thus, the Control Board could only appoint a new Board as advisors rather than empowered agents of the Authority (US Appeals Court, 1998a; US
District Court, 1996b). The Control Board responded initially by reviewing and approving Trustees’ recommendations and then replaced its Board of Trustees with an Educational Advisory Committee in 2000 (FRMAA, 1998g; 2000d).

**Impact.** The Control Board’s intervention did not significantly improve the public school system. Although many residents wrote the Board throughout 1997 with particular concerns about the schools, only twenty percent of District residents that May supported the Board’s efforts, and most supporters felt the Authority had not yet impacted education (D. A. Vise & Morin, 1997). The new leadership of the public schools further lost direction in 1998 when both Superintendent Becton and the chair of the Board of Trustees resigned. Barras (2008) and Board member Newman (2008) both describe the public schools as among the Board’s largest failures. Despite these problems, the Control Board agreed to a Council request to maintain its management until the Council had the opportunity to reform the school board in January 2001 (Chavous, 1999). Thus, the Authority’s management of the schools outlasted that of other District agencies. This continued oversight ultimately meant that the Authority’s intervention allowed for a locally led improvement for the governance structure of the public schools.

**DC General Hospital**

DC General Hospital ran substantial annual deficits for years before the fiscal crisis. Between 1994 and 1997, the hospital had accumulated deficits of over $140 million and annual operating losses of approximately $50 million (District of Columbia, 1995; 1997). Thus, strategies to improve the city’s fiscal health by the Rivlin Commission, Mayor Barry, and Control Board included drastic changes for the city’s only public hospital. In 1995, the city eliminated 200 beds in DC General, and Barry proposed privatizing the hospital as part of his
Fighting for Control

The District basically pursued this strategy and shifted management of these public medical services to the Public Benefit Corporation (PBC) October 1, 1997. The PBC was unable to resolve DC General’s financial and service problems. In September 2000, the PBC tried to avert a cash crisis by laying off a quarter of its workers, but hundreds of protestors succeeded in having the Council delay layoffs (A. Goldstein, 2000). In November, the Chairman of the PBC announced that DC General might be forced to close within two months, and that PBC could spend all of its funding by March.

In December, the Control Board issued a resolution that granted the local government two weeks to begin firing five hundred employees and ninety days to restructure the PBC. The Control Board began developing contingency plans in case the local government failed to implement a new plan before the hospital closed. Out of numerous proposals including one that maintained DC General, Mayor Williams (2001) announced that he, the Control Board, and the Council jointly selected a plan closing the hospital. Council chair Cropp contributed to the plan, although she did not publicly endorse it. The Council publicly opposed the closing of DC General and fought to keep it open (Rivlin, 2008b). Ultimately, the Control Board sidestepped the Council and passed its only legislative acts of the control period on April 30, 2001. These Acts required the immediate reorganization of Department of Health, authorized the mayor to contract out the health care functions of the PBC, and abolished the PBC.

Community members extensively lobbied the Control Board about DC General Hospital. Initially, employees complained to the Authority about hospital leadership, but communication focused on opposing structural changes as the plan to shutter DC General developed (Figure 7-4). DC medical associations, the Washington Post, and the DC Catholic Conference of the Archdiocese of Washington challenged the Control Board about the plan’s public health

Anger towards the Control Board for the closure of DC culminated at the public meeting that was required to terminate the PBC and DC General. Over one hundred demonstrators, including Lyndon H. LaRouche Jr supporters and anti-globalization demonstrators in town for
the World Bank and IMF’s annual meetings, appeared at the meeting (Avram Goldstein & Miller, 2001). Rivlin (2008b) recalls the dramatic scene:

These young demonstrators…were mostly, to look at them anyway, suburban white kids…There were some other kind of legitimate local protestors there – members of the unions at the hospital and people who really had a stake in this… We walked in and they were shouting, and they had some slogan, “no, no, can’t go…” They kept shouting this, and I kept trying to call the meeting to order and realized I couldn’t.

We quickly caucused and decided we needed to move the meeting somewhere else… and then the Board plus Dan Rezneck and a couple of other staff people disappeared [out] a back door down into police vehicles and went speeding over from 441 4th St to the Martin Luther King Library which isn’t terribly far… Now, we knew the demonstrators would find out where we were and follow, so we thought we’d better get it done pretty quickly. There were some other people there. There were a couple of reporters… but no demonstrators at the beginning and so we were able to have our meeting… Just as we were finishing, we could hear the demonstrators coming down the stairs. One of the policemen said “I think we better get you out of here.” He was really concerned about the safety of the Board. I wasn’t, because I didn’t think these kids were going to beat us up, they were just going to shout. But he was quite worried about our safety, so he pulled us out the back door and back into the police vehicles, and we escaped just as the young people were storming into the room.

The Board’s inaccessibility and secrecy at this critical moment angered many residents (Lazere, 2008). The emotions surrounding the closing of DC General spilled over into the same racially charged accusations that the Control Board had faced during its other controversies. One resident wrote the Control Board that “southern whites thought that enslaved Africans would die out from violence and disease once they left the plantations… The Financial Control Board wants to deprive African Americans of hospital beds at a time of health care turmoil: Is the wish for the death of African Americans still alive today” (Hemphill, 2001).

The public’s furor over closing DC General frames the Council’s public opposition to the plan. In February 2001, five Council members held a public meeting and accused the Control Board of being motivated by class when closing the hospital (Royce, 2001). Chavous and
Chapter 7

Catania filed for a temporary restraining order to delay the Authority legislation terminating the PBC. However, the Court rejected the restraining order and dismissed the lawsuit following the precedent of the Lottery Board case (Avram Goldstein & Miller, 2001; US District Court, 2001b). Chavous (2008) recalls not expecting to win but wanting to symbolically highlight their opposition. Defiant of the Control Board’s Acts shuttering DC General and the PBC, the Council repeatedly added budget provisions to fund them that the Authority ultimately rejected.

Impact. Closing DC General did not initially cut costs as anticipated, which fueled resentment over the action (Taylor, 2001). However, the medical and urgent care services provided by the PBC’s replacement, the DC Healthcare Alliance more recently have been considered a significant improvement both financially and in quality of care. Barras (2008) argues that the Control Board correctly closed the hospital but should have explained more to the public and built more community buy-in before acting.

Resident Participation in Governance

Residents not only protested the Control Board but also incorporated it into their governance structure, because they believed that the Board was the major locus of local power. Thirty to forty residents often attended hearings and public meetings to testify, lobby, or ask questions (Demczuk, 2007; Newman, 2008). Even when Control Board meeting attendance waned, Control Board visits to community groups were well attended (Blomquist, 1996c; Rivlin, 2008b). Residents’ communications to the Authority increasingly became issue-oriented complaints about the legislative and executive operations of the local government (Rose Barras, 2008). Community groups also signaled that the Control Board was significant to local governance with invitations to speak at public functions.
Letters to the Control Board often asked for help with unresolved complaints about city services or lawsuits against the District government. Examples include attempts to restore a city employee’s payroll, follow-up to obtain roof repairs at a local shelter, and an appeal for a special education placement. Similarly, Brimmer noted in 1996 that his “voice mail at home is clogged with calls from contractors and vendors, telling me their difficulties with the city” (Janofsky, 1996). During the second Control Board, residents continued to contact the Authority with specific requests and to complain about unfair public service distribution during public meetings (Rivlin, 2008b). For example, individuals wrote to the Control Board hoping to resolve employee lawsuits for racial discrimination and service delivery problems with the Child Support Office and Department of Motor Vehicles. Sometimes residents would bypass the city government and complain only to the Control Board. Petitions about historic preservation, calls for the investigation of police action during the IMF protests, and follow-ups to neglected public service complaints were often sent jointly to the Mayor, Council members, Department heads, other local officials, and the Control Board. These letters implied that residents viewed the Control Board not as an external fiscal oversight agency but rather as a part of the local government.

Communication to the Board from both individuals and groups also focused on policy requests. Residents tried to preserve funding for small services like the tree planting program and major ones such as the Temporary Assistance Program subsidy (Figure 7-5). Letter writing campaigns with standardized letters included appeals for the Office on Aging and postcards from residents of Randall Shelter to restore homeless funds. The Control Board solicited feedback for regulatory reform and extended the period for feedback because of the strong response (FRMAA, 1998f). Towards the end of the control period, policy requests spanned many issues with little publicity, including appeals that the Board veto a repeal of the city’s moratorium on
Figure 7.5. Residents Contact the Control Board about Policy and Personal Issues
Source: District of Columbia Archives

nude dance clubs and preserve the Georgetown Flea Market to controversial issues such as organized letter campaigns opposing terminating rent control, supporting the State Education Agency of Adult Education, and favoring of the Physicians Negotiation Act.

Transition back to city

The Control Board was a temporary solution to an immediate fiscal crisis, but it was also intended to create long-term change. Because such change required the cooperation of and
adequate organizational capacity within the local government, the Authority began transitioning back to local government control after only a few years in power. Just one year after the Management Reform Act, Brimmer (1998) recommended returning department oversight to the mayor after Mayor Barry had been replaced. Mayor Williams had worked for the Control Board as CFO, and the Board members expected Williams to continue his pattern of fiscal responsibility (R. Watkins, 2008). Thus, the Control Board signed the memo of understanding with the new mayor that made this power shift while allowing the Authority to retake control at will. The Board also initiated weekly meetings that included the mayor and Council Chair so they could jointly prepare for the city’s self-governance (New Visions for the District of Columbia, 1999; Rivlin, 2008b). In its final year, the Control Board developed a transition plan with recommended governance mechanisms to maintain management reforms (FRMAA, 2000a).

**Local legislation.** During the control period, the District Council passed bills that strengthened two positions in local government important to Public Law 104-8 — the IG and CFO. The local legislation introduced penalties for obstructing IG investigations; strengthened the independence of the IG and CFO; established a CFO for each department and agency; and required that the CFO provide fiscal impact statements for legislation and labor agreements, just as he had for the Control Board. Finally, the Council countered the GAO’s recommendation for greater fiscal oversight by Congress with the request that Congress to reduce its appropriations oversight as the District illustrated management success (The Outlook for the District of Columbia Government: The Post-Control Board Period, 2001).

**Congress.** Congress participated in the transition process by requiring future budget conservancy through its Appropriations Acts for the city. The Acts for fiscal years 1999 through 2001 established a strict reserve fund and amended the requirements to create a larger reserve
and constrain its uses ("District of Columbia Appropriations Act, 1999," 1998; "District of Columbia Appropriations Act, 2000," 1999; "District of Columbia Appropriations Act, 2001," 2000). The 2001 Appropriations Act also required Congressional approval to fire the CFO. Near the conclusion of the control period, Congress sponsored hearings about potential changes to the District government to ensure that it approved the future direction of the city after losing its focused oversight tool of the Control Board. Congress did not, however, require particular legislative change by the District. Rather, the Control Board, Mayor, and Council prepared joint testimony proposing how to help the District (The Outlook for the District of Columbia Government: The Post-Control Board Period, 2001). Their collective agreement contrasted prior hearings where each actor emphasized different goals.

**Residential Governance Response to Fiscal Crisis**

The fiscal crisis did not spur residents to resolve local democracy failures. Rather, no major reforms in the basic structure of the District government were enacted beyond the public schools. The only proposal to gain publicity as the crisis unfolded was a November 1994 petition to merge the District into Maryland. Members of the DC Statehood movement also used the crisis to amplify their calls for greater local control, arguing that additional authority would allow effective self-governance (H. Schneider & Henderson, 1994). In 1999, Council Chair Cropp testified that the city had been afraid to review the Home Rule charter because of the potential Congressional reaction, but then proposed that citizens should lead reform efforts during the transition back to city control (New Visions for the District of Columbia, 1999). The Council did not translate their suggestions into fundamental reform such as merging the city into a neighboring state, a new electoral structure, or added mayoral powers.
Residents reacted more proactively after the Control Board’s temporarily displaced the school board. Rather than return authority to a school board in which residents lost faith, the Council introduced a new board approved by voters in an early 2000 referendum and effective when the Control Board ended its Board of Trustees. The new school board comprised one at-large member, four elected members, and four members appointed by the mayor and confirmed by the Council. This new management strategy empowered the Mayor and Council with some oversight of the school system through these appointments. The current mayor has again reformed this structure, highlighting the attention given to public school governance by the city.

*Control Board Led Discussion.* The Control Board spurred some broader discussion of alternate local government structures by commissioning two reports from nonprofits D.C. Agenda and the Georgetown Public Policy Institute in 1997. The reports proposed five basic leadership structures: 1) the existing Mayor-Council, 2) Mayor-Council-Chief Management Officer, 3) Council-Manager, 4) Manager-Mayor-Council, or 5) more Presidential appointments. These reports, however, attracted little initial attention. The Control Board did not present its analysis of these reports to Congress, because the Board instead gained management authority of most of District departments and agencies (Brimmer, 1998). Just before his term expired, Brimmer announced his view that three senior managers – the CMO, CFO, and IG – should share authority over city departments, and he presented this plan to Congress (Hansen, 1998; Washington, 1998). While Brimmer recommended submitting the changes to a vote by District residents, he argued that “the exact legislative method to be followed is a lesser importance than the timely adoption of the changes themselves” (Brimmer, 1998). Surprised, Harlan and Newman responded to Brimmer’s comments by emphatically expressing that the District’s governance structure should be the choice of residents and the city’s elected officials, and by

Resident reactions to the five governance proposals expressed a mix of anger towards Brimmer’s anti-democratic tone and frustration with the existing city government. An op-ed in the Washington Times reacted to “Boss” Brimmer’s proposal with venom, saying that the “despotic chairman” and “paternalistic overseer” should let the people of the nation’s capital go... Can’t you just see this pompous antagonist puffed up and making his personal pronouncement of the death of democracy before a roomful of jurists charged with upholding democracy without so much as a passing thought or reference to the democratic rights of nearly 600,000 people? (Washington, 1998)

Similarly, resident Earl Gordon attacked Brimmer and praised Harlan for respecting local democracy, stressing that an electoral process for reform is critical to “show the people of the District, the nation and the world that American democracy is not like some Banana Republic experiment that can be shelved when things are going bad” (FRMAA, 1998b). As in many of Control Board protests, the community reacted not only to the content of the Authority’s ideas – in this case, a new governance structure – but also how they were presented.

Other residents agreed with Brimmer that the current form of government could not succeed. For example, Glen Pringle and Raymond Beurket Jr sent letters arguing that the form of government had failed and must change, potentially even to introduce Presidential appointees (FRMAA, 1998b). A September 2000 letter by resident Alfredo Pulupa complaining about city parking services concluded with his opposition to Home Rule. Despite concerns over the current form of city government that were highlighted during the fiscal crisis, residents pushed back against Brimmer’s proposals and did not initiate governance reform in the District.
Conclusion

The fiscal crisis in Washington, DC emanated from the joint causes of federal majoritarian tyranny, market weakness, and local democracy failure. The District is especially prone to problems related to its place in the federalist structure, because the federal government enjoys extensive powers over the city's local affairs. Moreover, the constraints imposed by the federal government heavily increased fiscal strain by weakening the city's revenue capacity while increasing its service responsibilities. While the economy and poor local management contributed to fiscal crisis, they did not significantly differ from the problems of other major American cities.

The Control Board implemented to resolve the city's crisis was not designed to address each of these root causes equally. The Control Board provided the local government with the important benefits of technical assistance and a buffer for political blame, while also improving the District government's credibility in the eyes of both the bond market and external political actors. Given the power of Congress over the city, the credibility that the Control Board provided on the city's behalf to Congress was a critical component of gaining new, stable, long-term resources. The Board also helped promote the District's long-term interests by reshaping the relationship between the federal government and city through the Revitalization Act.

These benefits, however, were not without costs. While the threat of abusing new loan contracts to favor private investors predicted was not significant in the District, the added power to Congress did hurt the city's sovereignty. In addition, the Control Board was perceived as a direct threat to the city's local democracy. Local opposition to any increase in majoritarian tyranny made residents and local leaders resistant to externally imposed changes in the local government, even if those changes could reduce local democracy failure. In the management of
public services, the Board generated the most controversy, threatened residents’ sense of local control, and contributed the least. Residents learned to incorporate the Control Board into their structure of local governance, and protests over the Board’s harm to Home Rule diminished over time. However, when the Board made controversial decisions, these complaints flared and were expressed through racially charged sentiments including untold plantation references.

The extent of tension between the local government and Control Board was not inevitable. Both the mayor and some Council members publicly approved the idea of a control board and Norton encouraged a control board designed with the District community. This willingness signals local awareness of the need to address local democracy failure. However, Congress chose not to enact an intergovernmental agreement or elicit local participation, instead imposing its solution on the city. Moreover, Brimmer’s assertive style may have sped fiscal improvements, but hindered public buy-in needed to translate short-term progress into long-term gains. This antagonism may have also harmed the Control Board’s failed comprehensive management and public service reforms. A different tone could have engaged the city government to improve its governance culture and empowered residents to hold its democratic leadership accountable. Instead, the Control Board’s unwillingness to acknowledge the significant harm of federal power over the District made it a tool of majoritarian tyranny and reduced its effectiveness as a solution to local democracy failure. The experiences of Washington, DC suggest that unless safeguards are explicitly included in its institutional design, a control board is not the optimal solution to a fiscal crisis that emanates from a political imbalance within federalism.
While control boards in Miami and the District both helped these cities regain financial
stability, they responded to different causes of failure, were created with different institutional
structures, and operated within communities that had dramatically different responses to their
presence. Highlighting critical similarities and differences between the cases of Miami and the
District clarifies the divergent control board outcomes in the interrelated realms of interaction
with external political actors, policy scope, and help or harm to local democracy. These case
studies reveal that control boards must have proper consideration of existing political and market
realities, design, and implementation to realize their benefits while minimizing their
disadvantages. Most critically, these two case studies bookmark opposite ends of the control
board spectrum of local powers and institutional responsibilities. The relative controversy and
success and of these interventions in fiscal and social policy indicate that mission creep causes
unnecessary harm, particularly when a local government occupies a weak position in the
federalist system.

The origins of fiscal crisis and pre-existing federalist power dynamics shaped the
reception of control board intervention. These differences both led to and were amplified by
variations in the role granted to the boards, their membership composition, and the transition
back to local governance. These cases suggest that control boards can generate more community
buy-in if they respect local power with a bounded role and mechanisms such as an
intergovernmental agreement. In addition to their own changes, the control boards in these two
cities existed at a moment of potential local governance reform. The interplay between local structural change and the temporary institution of a control board could strengthen local democracy if 1) more actively encouraged and 2) the control board does not impose its own terms for government reform.

**Emergence of Crisis**

The local environments in which the fiscal crises unfolded in Miami and Washington, DC differed in part because of the difference in time periods during which the municipalities’ finances deteriorated. In Miami, the problems had been secretly building, but the community became aware of a budget crisis suddenly. From the moment of discovery, the local community acted to swiftly address the problem. Urgency led to a sense of need for cooperative action between a proactive mayor, willing unions, and pro-bono consultants to the mayor’s Blue Ribbon Task Force. Mayor Carollo also quickly sought state involvement in the solution. Thus, residents were welcoming to a Governor who was invited to help their city.

In contrast, before crisis was declared in the District, the local and federal government knew for years that the city had substantial budgetary problems, and Congress spent almost a year studying them. This slow evolution made the financial problems seem less urgent; failed to induce the cooperation of unions; focused city officials on the external, structural causes of the crisis; and directed federal attention to patterns of excessive local spending. In resolving the crisis, private consultants provided evaluations of city services similar to those of Miami’s Task Force. However, whereas Miami’s reports were developed pro-bono under the oversight of the mayor, the District’s consultants were hired by the Control Board. These differences decreased the civic spirit assumed in the studies and opened them up to local criticism. Thus, the
conditions leading to crisis also made efforts to resolve it more combative in the District than in Miami.

This timing also made the particular solution of a control board more appealing in Miami than Washington. A board enters the governance structure only after a crisis has emerged. More active state monitoring, as in North Carolina, could better prevent financial emergencies, but Florida’s home rule charters disallow such preemptive intervention (Dluhy & Frank, 2002; Frank, 2008). Thus, the state could not have known to help the city earlier. In contrast, Congress has the authority and responsibility to oversee the District’s finances and must approve its budget each year. The urgency that required control board intervention seemed less plausible to District residents who believed that the federal government could have acted earlier to divert a crisis rather than dramatically takeover the city’s finances.

 Causes of Fiscal Crisis

Miami and the District had similar challenges in the private market but differed in the degree to which problems of federalism versus local democracy contributed to fiscal crisis. When these cities were faced with a weak economy and reduced ability to meet budget demands, high deficits and minimal or negative fund balances exposed the underlying problems in each city. Majoritarian tyranny dominated policy, service provision, and budgetary pressures in the District. In contrast, local incompetence that was hidden by corruption precipitated Miami’s crisis. These cases illustrate that different causes of crises require different institutional responses.

 Market Conditions
Miami and Washington, DC shared the socioeconomic shifts and challenges with the private market common to many American central cities. These problems peaked in the early 1990s and reduced the slack available in their city budgets, making them vulnerable to fiscal crisis. In contrast, cities fared well economically in the late 1990s. The improved national economy, reduction or reversal of out-migration from cities, and private investment in urban downtowns helped local governments. Both Miami and the District regained fiscal health in this environment. The national ebb and flow of large city budget pressures indicates the fiscal crisis was in part tied to market conditions and the resolution of the crisis cannot be attributed solely to fiscal control boards.

Control boards are designed to help cities navigate the private market, particularly in times of crisis when the city’s reputation has been damaged. While the leadership of Miami was actually more corrupt and inept than that of the District, both cities needed external assistance to restore confidence. Both Miami and the District increased their credibility and access to the municipal bond market through their control boards. That credibility also helped the District gain federal resources and reduce its long-term dependence on the private market. However, this attention to investors opens cities to the threat of shifting too much power to the private market. While the control boards mirror IMF agreements in seeking to protect creditors, the boards do not help set the terms for new borrowing. In fact, the borrowing rules in both case studies and fiscal constraint made this concern of abuse unwarranted. Granting that control boards do have an interest in protecting debt already issued, in the case of Miami and the District they did not have an incentive to favor the terms of creditors over the public interest in new contracts. Thus, these cases illustrate that control boards can be a useful tool for improving a city’s relationship to the market.
Chapter 8

Federalist Power Structure

A critical difference between Miami and Washington, DC during their moment of crisis was their degree of power in pre-existing political relationships. As the second largest city in the state and with its international reputation, Miami long enjoyed substantial influence in the Florida legislature. The former Lt. Governor of Florida recalls that “Miami is huge... No one could tell them what to do, they could muscle their way around, you know. And generally speaking were more sophisticated than the rest of the state” (MacKay, 2008). Moreover, the Home Rule tradition in the state insulated the city from external interference. The District, conversely, lacked representation in the federal government, fought for decades for local Home Rule, and continued to experience policy intervention by Congress. This majoritarian tyranny established structurally unsustainable revenue and service conditions under which the local government had to operate. Thus, the District’s political position within the federalist system was a major contributor to its fiscal crisis.

Reactions to the Control Board. The nature of these relationships translated into different understandings of control board intervention. With the exception of a small portion of the Cuban community, Miami residents did not view the Oversight Board as a state threat to their local autonomy. District discussion about the Control Board incorporated the city’s prior subservience to the federal government and critique of the intervention as another attack on Home Rule. These established power dynamics interacted with local tensions. Both Miami and the District confronted ethnic and racial conflict prior to fiscal crisis. Moreover, the majority races and political parties in these cities differed from those of the governments implementing each control board. Because this is a shared experience across the two cities, the District’s racial distribution
is not a sufficient explanation for why the discourse surrounding the Control Board was so racially charged. While limited Cuban protests existed against a white takeover of Miami, race and ethnicity did not dominate debates over the controversial decisions endorsed by the Oversight Board. Thus, the provocative racial commentary employed by critics of the Control Board should be seen as part of a conflict over the Control Board that extends beyond racial tension. The language of these responses explicitly connects the Control Board to residents’ resentment of the pre-existing “plantation” style relationship the city had with the federal government.

**Formal Intergovernmental Powers.** These divergent positions of power both led to and were compounded by the choice of whether to employ an intergovernmental agreement establishing the control board. Florida elected to use such an agreement because of state Constitutionality concerns, but the choice maintained the appearance that the mayor and commissioners were voluntarily guiding Miami’s response to the fiscal crisis. Thus, the local government retained its local influence. When Congress chose not to bother with an unnecessary agreement, it exercised its power at the expense of Council cooperation as proposed by Chavous. This shifted the locus of local policy attention away from the District government to the Control Board and federal government.

While the intergovernmental agreement choice had a consequential impact on relationships among residents, the local government, and the control boards, the difference in state and local power dynamics in establishing the boards was largely symbolic. Despite appearing voluntary, Miami commissioners were essentially forced to sign the agreement through a behind-the-scenes threat from the Governor to fire anyone who refused. The state also chose not to create a more powerful Board or use direct state control to speed the city’s recovery,
but state officials were prepared for the Board to intervene more if the city had been less cooperative (Bradley, 2008; Dluhy & Frank, 2002, 2003; Schoffstall, 2008; Sittig, 2008). Thus, the Florida government actually possessed a similar degree of control over its crisis city as Congress did over the District. The state’s choices helped preserve local democracy in Miami by signaling a respect through actions such as an intergovernmental agreement that were missing from Congress.

Despite these pronounced differences in local and state/federal power, the presence of the control boards surprisingly brought the power relationships in the two case studies closer together. Florida was empowered by its ability to oversee Miami’s finances and aid its recovery.

This was the first time that Miami came in head to head contact with the reformed, revitalized institutions of state government... Miami has caused us [the state] to use some of the muscle we thought we had, and to demonstrate that we knew how to do it... They have forced us to confront some very sophisticated problems that you wouldn’t normally see in Tallahassee (MacKay, 2008).

Thus, the state will be strong relative to municipalities in future financial emergencies. In contrast, the presence of the Control Board in the District brought attention to the structural imbalance in the local-federal relationship and led to Congress acknowledging a broader obligation to the city through the Revitalization Act. In fact, Barry’s aide Demczuk (2007) considers the Control Board’s most significant contribution to the District to be its plan highlighting that the city’s lack of revenues resulted not only from local irresponsibility but also the federal role. These control boards altered the local and state/federal relationships by focusing attention on them throughout the control period.

Control Board Powers. Florida and the federal government both established control boards to protect their self interest without significant spending on local governments. Florida’s primary concern was maintaining its credit rating and helping Miami’s finances with minimal
state risk. The federal government was concerned about the District’s access to borrowing from
the Treasury when locked out of the private market. These governments initially empowered
each control board with similar tools to restore the financial and budgetary health of their host
cities. While the intergovernmental agreement signed in Miami set limits for state involvement,
the District had no comparable bounds on the Control Board. As the control period continued,
the federal government increased the Authority’s power so that its managerial role became quite
distinct from that of Miami’s Oversight Board. This difference, moreover, was the basis for
much of the Control Board’s harm to local democracy: The District’s control board pursuit of
social functions corresponded to more sovereignty complaints than occurred in Miami.

The fiscal oversight responsibilities of Miami’s and the District’s boards were similar.
Both could reject their city’s annual budget, financial plan, and contracts; investigate local
finances and government decisions; work with city employees to revise finance systems and
procedures; and directly or indirectly withhold state or federal funds if the city failed to follow its
budget. In addition, the District Control Board was granted the enforcement mechanisms of the
power to subpoena and making misleading the boards a misdemeanor that is grounds for being
fired from city government ("District of Columbia Financial Responsibility and Management
Assistance Act of 1995," 1995). Despite their contract review power, neither board could
renegotiate existing labor agreements. In addition, they did not negotiate new union contracts
but rather approved or rejecting ones developed by the city government. Thus, the ability of both
boards to improve the local government’s finances was concentrated in their powers to reject
local actions, withhold funds, and cooperatively improve financial systems. Moreover, use of
these powers rarely provoked controversy about the role of the control boards in either city.
Permanent changes to local fiscal rules were implemented alongside the temporary institutions of control boards. Congress established a permanent CFO, long-term budgeting requirements, and a strict reserve fund while creating the Control Board and then late in the control period. Although the District made legislative changes in anticipation of end of the Authority, Congress and the Control Board were highly visible in guiding the transition. The Control Board did not push the Council to pass new fiscal integrity legislation, because it felt that the legislation in place and independent CFO were enough to maintain the city’s fiscal health (Newman, 2008; Rivlin, 2008b). Thus, the city government was not a major focus in the changes to the city’s fiscal policy. In contrast, the Oversight Board privately pressured local officials to implement their own reforms that introduced many of these fiscal and budgetary improvements. The city commissioners were able, therefore, to take ownership of these changes during their transition back to local control. As compared to the District, Miami’s approach bolsters the strength of local officials and provides the local buy-in to make the financial reform more durable.

The differences between these two cases extend beyond the involvement of external political actors in internal fiscal reform. Amendments to Public Law 104-8, Appropriations Acts, and the Management Reform Act greatly expanded the powers of the District’s Control Board so that its management and local service responsibilities greatly exceeded those of Miami’s Oversight Board. While the Control Board had been confident in its fiscal role, Board members themselves “seemed ill at ease with their newfound managerial powers” and began to publicly disagree with each other in contrast to their earlier unified front. Opposition to management decisions of the Board also increased from the Council and residents (Powell, 1997). In fact, the move may have been more political than practical. Even before gaining
executive control over most city departments and agencies, the Control Board was already meeting its objectives to return the city to fiscal stability (Rivlin, 2008b). Thus, this increased power was not necessary to achieve the original goals of the Control Board. Similarly, the Miami Oversight Board was able to achieve its financial objectives without such expansive powers over the local government structure.

Not only did Miami’s Board succeed without the extensive powers of the District’s Board, but also the District failed to use its greater powers to more broadly improve the city’s public services. Members of the community and Board labeled their service efforts, particularly public school reform, the Board’s largest failures. Moreover, these efforts most upset residents in terms of local governance. The combination of limited success and surrounding controversy present in the District’s service reform efforts and absent from Miami suggest that the role of control boards should be highly constrained with a focus on fiscal impact. This finding mirrors revelations of IMF stabilization agreements’ failed non-macroeconomic conditionality, and the connection was embodied by IMF protestors who packed a 2001 District Control Board meeting to protest its local intervention.

In addition to distinctions in their powers, each control board presented a different tone about the role of local government. Board members in Miami shied away from addressing the particular service complaints and policy recommendations of local residents, instead directing them to their elected officials. Board members in the District responded to some residents’ requests directly or guided them through the local government (Rivlin, 2008b). This involvement in the small details of government services blurred the line between the role of the Control Board and locally elected officials. While this distinction was unclear behind the scenes
in both cities, the visible involvement of the Control Board weakened the local strength of the District’s permanent governance structure.

Local Democracy Failure

Miami’s extent of local democracy failure prior to fiscal crisis greatly exceeded that of Washington, DC. Miami’s crisis revealed corruption, competence, and a lack of institutional safeguards throughout the city government. In contrast, the District government slowly improved its general fund balance and market standing for over a decade after gaining Home Rule. Although the city did suffer from management and spending problems, these problems were not strikingly different than those found in other cities. The difference in local democracy failure across cities was reflected in the greater community desire for change in the design and leadership of the local government in Miami than the District. Yet, the control board in Washington, DC had greater powers to restructure the local democracy than did the one in Miami.

Local Change. The control period in both cases provided an opportunity for locally led governance change. In both cities, residents elected a new type of mayor following the fiscal crisis. Manny Diaz was elected mayor of Miami in 2001 as a reform-oriented lawyer with no previous political experience. Anthony Williams won his mayoral bid after his improvements to the city’s budget department as CFO, despite his lack of political experience and the dislike for the Control Board that hired him. These leadership selections imply that the highly publicized budgetary crises and interventions focused residents on the need for fiscal responsibility in local politics. These changes did not translate into other elected officials, with Miami commissioners
continuing to face legal problems and many District Council members maintaining their pre-crisis seats.

Extensive governance reforms occurred in Miami, and options for a new government structure surfaced in the District although few took hold. Miami’s multiple reform efforts, including a failed bid to abolish the city and successful bid to create ward-based commissioner seats, manifest the broad participation of local community members in city governance. While these efforts began before the fiscal crisis was articulated, the attention the emergency brought to city governance induced the popular support needed to implement such reform.

The same desire for reform was not present in the District, and the lack of traction for reform was paralleled by an unclear impact of the Board on democratic participation. At the conclusion of the control period, the Board’s executive director Francis Smith argued that the group had provided a model of strong local governance. Jeffrey Henig, director of the Center for Washington Area Studies at George Washington University, countered with the belief that local democracy was weakened because residents felt they were not empowered to govern their city (Chan, 2001). Residents may have been resistant to governance reform because they were not receptive to following suggestions by the Control Board, particularly Brimmer, to reform the city structure. Moreover, residents fought back against the particular governance reforms that the control board imposed with the lottery and school boards. The Council and city residents did redesign the school board while the Control Board managed the public school system.

In both Miami and the District, the reforms to city or school board governance occurred while the control board provided steady management. Thus, the local community was able to improve its governance structure without the temporary cost of uncertainty and flux as the institutions changed. Discussing the city’s high leadership turnover during the control period,
former Miami city manager Ed Marquez stated, “thank God the Oversight Board was in place... because it still allowed a process that required the city to be fiscally responsible. You still had a group of people there that had to okay the budgets and make sure that the five year plans were being done and being responsibly... It was a crazy period for a while” (Marquez, 2008). The control boards essentially served as a bridge between the flawed structures and the improved ones. Moreover, these boards were able to offer this function regardless of whether residents supported the individual policy decisions made by the boards. To the extent that Miami took greater advantage of this opportunity for reform than the District, the control board intervention helped strengthen that city’s local democracy more.

The legal article Missed Opportunity ("Missed Opportunity: Urban Fiscal Crises and Financial Control Boards," 1997) suggests that control boards should address immediate fiscal challenges in their first phase and then begin a second phase of structural reform that relies on local participation. The author argues that the latter stage is critical both for repairing underlying structural and inter-jurisdictional imbalance that caused the crisis and for affirming Home Rule as a democratic goal. These case studies demonstrate that participatory governance reform and new intergovernmental relationships can be an important element of control board intervention, although this element can be more fully developed and formalized. These institutions should be refined to encourage locally led reform while not imposing any particular form of change.

Control Board Change. The two control boards helped improve local democracy through two key benefits: technical assistance and absorbing political blame. The state and federal government used these boards as a technical assistance provider for the local governments in order to cheaply improve their fiscal structure. They provided additional assistance by allowing Miami and the District control boards to draw on permanent state and federal staff, respectively.
The Oversight Board and Control Board also served as political scapegoats that allowed local officials to enact unpopular but beneficial policies. Specific circumstances did not seem to impact this aspect of the boards. Rather, the role of absorbing blame appears to be an inherent structural design element of this type of institution.

The control boards themselves did not have equal power to address the institutional component of local democracy failure present in each city. The authority extended to the District’s Control Board allowed it to directly reshape the structure of local democracy in a manner unlike in Miami. The latter’s Oversight Board helped build internal management mechanisms and bolster the competency of local government workers. The Board encouraged the city to pass local fiscal legislation without requiring it to do so. Mayor Suarez’s lawsuit against the Oversight Board was dismissed with the opinion that the local government continued to properly create local policy because its process for passing legislation remained intact. The Oversight Board could not directly redesign the institutional structure of the local democracy, even though that was one contributor to crisis. Miami’s control board sought to address pervasive local democracy failure by improving leadership within the city’s existing institutional structure, while leaving it to residents to determine how to best redesign their local government.

The powers granted to the District’s Control Board instead sought to combat local democracy failure directly. Congress enabled the Control Board to replace or adjust the structure through which local governance occurred. In particular, the courts upheld the Control Board’s actions to abolish the Lottery Board and the PBC and to replace the school board with its own advisory Board of Trustees. While the courts in Florida provided a check on the limits of the Oversight Board’s ability to alter local governance, Congress’ ultimate authority prevented District courts to containing the Control Board’s impact on the city’s democratic structure.
These cases suggest that control board implementation and design should be better matched to the causes of fiscal crisis, particularly local democracy failure.

**Control Board Membership**

Although not a primary focus of my dissertation research, the cases of Miami and the District provide useful lessons about how control board composition can help or hurt the institution’s ability to overcome fiscal crisis. Members of the control boards had to be qualified to help the city as well as interact with the community. Like other control boards, these two comprised only volunteer members to encourage members’ public spirit and reduce the motivation to extend the Board’s term (Newman, 2008; R. Watkins, 2008). The creators of the boards in both cities selected their membership to reflect that of the city in an effort to represent local interests and reduce the appearance of majoritarian tyranny. The selection process worked in Miami and contributed to the Oversight Board’s success. Local activists and state officials noted the membership as the reason that the community felt respected. District residents did not similarly accept Control Board members as representative of their city. In fact, attacks against the Control Board were often loaded with imagery of white oppression of blacks despite the board’s majority black membership. Ironically, this racial tension diminished when Rivlin, who is white, replaced Brimmer, who is black, as Chair. The varying success of membership selection may have been based on differences in the backgrounds and individual personalities of Board members.

The professional experiences of members of the two boards similarly reflected a need to address the city’s market weakness, but the District’s Board had a history of greater involvement in government. Members of both boards were attorneys and business leaders. In fact, the two
boards drew from the same company: Ed Singletary was Vice President of Bell Atlantic in the District and Robert Beatty was legal counsel for BellSouth in Miami. However, Miami’s temporary Chair, Lt. Governor Buddy MacKay, was the only state member of the Oversight Board, while many of the District’s Control Board members were current or former federal employees. DC’s membership contrasted Miami’s appearance of a local effort and instead increased the perception that the Control Board was a tool of the federal government. In addition, Cynthia Curry, who had been the county’s assistant manager, was the only Oversight Board member with local government experience, while many District members had long-term engagement in city politics and had worked with both Marion Barry and Sharon Pratt Kelly. These connections to the local scene diminished the perception of the Board’s objective separation from politics that existed in Miami. In DC, even technocrat Anthony Williams realized a previously unknown political ambition when he left his position of CFO under the Control Board to become mayor. While unexpected, this shift reflects a different culture than in Miami, where no Board members or staff became political figures. This divergence in government involvement may have helped the Miami Board avoid some of the political controversy that plagued the Board in the District.

The personalities of the members on each control board also differed. In New York, Felix Rohatyn had promoted an advisory approach to control boards, because he believed that consensus was the best approach to incorporate strong constituencies such trade unions (Brimmer, 2008b). The Oversight Board fit within this style and acted to encourage local government action rather than imposing its own decisions on the city. Moreover, residents respected the Miami Board members and were open to their leadership. Brimmer’s leadership on the Control Board set a different tone. He made it clear from the start of the control period
that the Board would act as necessary to achieve its goals even if that required upsetting or displacing local officials. This approach drew broad community criticism and residents believed that he did not respect the local democracy. In contrast, they praised Rivlin’s leadership style and respect for the community. Thus, although membership rules are not easily codified, the participants on a control board greatly impact its interaction with local residents and influence on local democracy.

Democracy Lessons for Control Boards

The cases of Miami and the District indicate that control boards are useful tools in navigating fiscal crisis caused by a city’s interaction with the market. The differences across these cities suggest, however, that the implementation and design of control boards must more explicitly confront the dangers of majoritarian tyranny while reducing local democracy failure. Any crisis response must identify the causes of that crisis and be careful not to exacerbate one while resolving another.

The legal counsel for Miami’s Oversight Board compared this emergency takeover of local powers to martial law and called for the need to ensure that “people don’t abuse [the Board] because it’s a very sensitive and tenuous structure for the balance of power” (Brochin, 2008). The control board interventions in Miami and the District gave different weight the actors in their tenuous relationships. These case studies can guide the design of future control boards so as to preserve and even strengthen the local democracy of cities in fiscal crisis. Miami’s Oversight Board restored an annual budget surplus and positive fund balance to the city in only one year and was well received into the local governance structure. The District’s Control Board took over two years to regain a budget surplus and four years to establish a positive fund balance.
At the same time, the design of the Board did not protect Home Rule, and it was met fierce resistance from the local community. Thus, these case studies demonstrate that a tradeoff does not need to exist between fiscal responsibility and local power and buy-in. Rather, local support can improve the long-term success of these interventions.

The basic lessons in control board design that emerge from these cities are that mechanisms should be employed to limit the scope of the control board while also encouraging local ownership. The primary difference between Miami and DC’s control boards were how expansive their roles were. The District’s experience that the expansion of the Control Board’s role was not critical to its fiscal success and incited public protest illustrates that control board powers should be focused on fiscal functions. These cases indicate that mission creep beyond fiscal into social functions damages control board success with failure in policy areas outside of the institution’s expertise, distracts from the primary purpose of the control boards, and causes the bulk of controversy about local sovereignty.

Florida’s intergovernmental agreement contributed to the Oversight Board’s success both by limiting the Oversight Board’s role and garnering local support, and it should be repeated elsewhere. Control board members also shape the reception of the institution. Brimmer’s attitude downplaying local involvement in improving the finances and services of the District government created an unproductive tension with the community not encountered with more popular control board leadership. These cases revealed that symbolism was not nearly an empty gesture, but instead was indicative of a deeper respect for community and local democracy. That respect, in turn, can be harnessed to build local buy-in for durable governance change beyond the temporary control period.
Fiscal crisis creates an opportunity for local government reform, and a control board can serve as a bridge to new, locally developed governance institutions. In Miami, the Board provided stable oversight during local turnover and a multi-step transition to a new mayor-commissioner structure. The District's Control Board contributed to school reform more by overseeing the public schools while the city redesigned its school board than by implementing its own policy changes. These changes required referendums and therefore occurred with popular support. Control boards can capitalize on this support by helping the shift to these new institutions. Moreover, institutions implemented during their term can ease the transition from control boards back to local governance. Future control boards should be designed to proactively encourage and work in conjunction with locally led governance reform without dictating the form of those reforms.
SECTION IV.

CONCLUSION
CHAPTER 9

Policy and Research Implications
My research uses fiscal crisis as a starting point for 1) analyzing the role of institutions alternative to local democracy as a means to overcoming a single government problem with several potential causes and 2) contributing to theories of local democracy failure. I study both aspects of control boards, because the politics and finances of control boards are intertwined: Externally appointing individuals to macromanage the budget both eases the path to politically difficult actions that regain fiscal solvency and disconnects decision making from local accountability. I explore when this new structure successfully overcomes fiscal crisis in cases of market weakness, federalist constraints, and local democracy failure. In addition, I examine whether particular mechanisms can be included in control board design to maximize fiscal benefits while minimizing harm to local sovereignty. As a preliminary examination of control boards, this dissertation introduces as many questions as it answers. However, even the rough lessons provided by this study add to ongoing efforts to improve the fiscal stability and local democratic health of small and large municipalities across the country.

As the deteriorating economy pushes more cities into fiscal crisis, policy makers should consider a wider array of options to resolving these problems. In addition, the governance concerns studied in this dissertation bear directly on challenges already confronting existing control boards in major cities. In Pittsburgh, challenges to the control boards' membership were raised by a council member who charged that “this board does not look like the city of Pittsburgh... It is supposed to represent not all the white people, but all the people” (McNulty, 2004b). Community groups both there and in Buffalo have fought for greater transparency and
pushed for open control board meetings (McNulty, 2004a; Meyer, 2003). These two control boards are also struggling with critiques of their role in local politics. Buffalo’s control board endured challenges to their expanding mission and micromanagement (Meyer, 2004), while Pittsburgh’s fiscal management turned into a battle between two competing state agencies with different external agendas (Roddey & Haulk, 2005). After almost twenty years in operation, Philadelphia’s control board has become embedded in its city’s political infrastructure. Critics argue that the board is losing its objectivity as former board members work for the mayor and government employees shift to the board (Eisenhower, 2008). Thus, the research concerns of this dissertation are neither outdated nor relevant only to hypothetical, future fiscal crises.

Policy Implications

Research on the selection, implementation, and outcomes of control boards can guide state usage of the institution. Without identifying their particular mechanisms of change, my quantitative analysis suggests that control boards improve the finances of large crisis cities more than small ones. These findings are consistent with the argument that a management solution cannot help small municipalities that are becoming fundamentally unviable economically, but can help stabilize large cities with a more diverse economic base adjust to shifting conditions or weather a temporary shock. This suggests that control boards are best suited to respond to temporary market weakness and local democracy failure but not permanent market decline or majoritarian tyranny. However, additional policy research is required to test this hypothesis. Even without this question answered, the relative success of past control boards based on city scale should encourage policy makers to consider the individual circumstances of each fiscal crisis rather than automatically extend a large city model to small towns.
Chapter 9

Federalist Context

The urban fiscal health literature emphasizes that many determinants of fiscal condition occur beyond the scale of the local government. States play a particularly crucial role in defining the financial responsibilities, constraints, and opportunities of local governments. My research finds that after crisis, the absence of state tax and expenditure limitations (TELs) help fiscal recovery more significantly control board intervention. This suggests that states should revisit their TELs if they are concerned with the growing problem of local fiscal crisis. In addition, states can more fundamentally reform the structure of service provision and intergovernmental relationships. While the majority of authority for broad change exists at the state level, local officials can also work together to address underlying causes of crises that must be addressed at a supralocal scale. Rather than looking to models of intervention such as control boards that mimic patterns of IMF agreements, local officials can use fiscal crisis as an opening for new, regional institutions that parallel the European Union. This bottom-up form of governance building can empower local leaders, because they can jointly confront shifting economic, social, and political constraints that they cannot influence on a municipal scale. These state and inter-local changes have the potential to minimize fiscal crisis where control boards have not succeeded.

Even where control boards do improve fiscal conditions, they risk harming local governance. The cases of Miami and Washington, DC reveal that problems caused by majoritarian tyranny and local democracy failure are often conflated. Control boards primarily seek to improve a city’s relationship to the market and overcome local democracy failure, but they can actually worsen the threats of federalism in that process. In addition to constraints on imposed cities by states and the federal government, intergovernmental relationships determine
whether the larger scales of government are more likely to use control boards in moments of crisis. Miami’s local government had more incompetence, corruption, and structural deficiencies than in the District. However, the District’s control board had greater powers to override local officials, just as Congress had more power over the city than Florida did over Miami in non-crisis periods. Demczuk (Demczuk, 2007), an aide to DC’s Mayor Barry, points out that the loss of local power was even more stark because other cities with more corruption and dysfunction did not get a control board at all. Thus, rather than only responding to local problems, the use of these institutions also illustrates the relatively weak position of the local government. Control board legislation can more fairly resolve fiscal crisis by introducing protections for politically vulnerable cities. This lesson can also inform the IMF in suggesting that the development of stabilization agreements includes safeguards for easily exploited countries.

Policy makers should learn from Miami and the District when defining the attributes of new control boards. I find that the scope of control boards should remain narrow because issues beyond its core competency can distract a board from its primary mission, create controversy, and often fail. Control boards comprise individuals with business, legal, and financial backgrounds, and their expertise is better directed towards fiscal stability than social policy. When the boards of the case studies expanded their scope, protests ensued because residents perceived an attack on local sovereignty. The tension decreased local buy-in, therefore reducing chances of long-term success. Moreover, these attempts did not bring service improvements. Rather, the District Control Board did not improve city schools or other social services. State officials should recognize these drawbacks and limit the authority of control boards to fiscal management and administration. Intergovernmental agreements provide a particularly promising tool for clear control board definition and restraint against majoritarian tyranny.
Local Democracy Failure

Concern for reforming failing local democracies as a means to providing long-term stability should redirect control boards from a role of external agents quickly imposing solutions on a city to actively encouraging local participation. Especially important in cities with extensive corruption, policymakers should consider how boards can be designed to allow local reform efforts to develop without dictating the form of change. The boards should avoid involvement in political reform, because that could undermine the perception of their objectivity and therefore local acceptance and credibility. However, these boards can contribute as a stable fiscal bridge from an old to new government structure. Although other suggest a two stage control board process, with the latter stage focused on local participation and democracy building ("Missed Opportunity: Urban Fiscal Crises and Financial Control Boards," 1997), my research does not explore alternatives to the existing institutional design of control boards. Thus, this dissertation does not promote a particular strategy for institutionalizing the promotion of local reform efforts or their relationship to control boards.

This study does reveal the potential for institutional reform beyond control boards. Honadle et al (2004) present crisis as an unusual moment where fiscal issues are in the spotlight, creating a useful opportunity to begin long-term planning. Cities can also use the crisis to implement changes beyond fiscal management and budgeting. In Miami, several citizen groups organized ballot initiatives, and they won ward elections and a shift towards a strong mayor. Residents in other control board cities have made similar efforts. In fact, control boards coincided with government reform as early as Cleveland, when the city increased its mayoral and city council terms from two to four years (Noto & Rymarowicz, 1995). The potential for smaller
Policy and Research Implications

cities to similarly seize the moment of crisis is manifest in Hamtramk, MI, where citizens elected a Charter Commission to evaluate options for change in the municipality’s city manager governance structure (Carvlin, 2002). In addition, residents of Galion, OH, recognized the need for stronger institutional checks in decrying the city structure’s absence of oversight for the finance director (Lecker, 2005). These concerns can be decoupled from control board presence and channeled into a formal process for reform could strengthen local democracy and long-term fiscal stability.

Theories of Local Democracy Failure

Analysis of the occurrence and reaction to local fiscal crisis offers several contributions to theory on local democracy failure. This research indicates that separate causes of local crisis—a government’s relationship to the market, majoritarian tyranny within federalism, and local democracy failure—should be disaggregated and incorporated into evolving models within the political science debate. The quantitative and qualitative analysis in this dissertation helps separate local democracy failure from other problems.

By observing not only instances of crisis but also local government responses, the urban fiscal crisis literature distinguishes fiscal insolvency from democracy failure. Scholars observe that local governments tend to retrench when they enter fiscal stress, and my regressions find that most cities regain fiscal solvency relatively quickly. Thus, most local governments appropriately respond to changes in their economic position even if they experience some transitional pain. My quantitative analysis further reinforces the notion that the local democracy is not the source of failure, because small governments with control boards do not improve more than those without the new institution. Thus, the simple presence of insolvency not enough to indicate
democracy failure or justify the shift to an alternative model. The fiscal analysis in this dissertation, however, was not enough to determine when market weakness, federalism, or local democracy failure are the greatest contributor to fiscal crisis. Theoretical models of local democracy failure should analyze the process of changing outcomes in addition to the outcomes themselves.

The improvements brought to large cities, and perhaps some types of small cities missed in my aggregated analysis, suggests the control boards do offer advantages over local governments under certain circumstances. Thus, large cities might experience a type of democracy failure appropriate to the particular solution of control boards. This institution is designed to address one particular type of democracy failure detailed by Boettke (Boettke et al., 2007) – an absence of technical capacity. However, Boettke does not pose possibilities for overcoming this form of democracy failure; compare the relative merits of different responses; or discuss the tradeoffs of confronting these problems by overriding the elected government. This case study analysis evaluates the strengths and weaknesses of employing a non-democratic institution to resolve democracy’s failure in technical capacity. The cases of Miami and the District reveal that control boards not only bolster the missing technical capacity but also provide the political capacity to push certain outcomes. However, this political role has the risk of shifting from fiscal oversight to public services. Local democracy failure theory should therefore consider not only failure but also how to minimize the risks inherent to alternative models.

Dollery and Wallis (Dollery & Wallis, 2001) raise concerns about political conditions that could cause democracy failure. A solution to failure in one type of local democracy failure should consider how the intervention exacerbates or reduces these other problems. Control boards can be used to overcome problems of local democracy relevant to the theories of Dollery
and Wallis. Although these authors articulate a risk in increasing asymmetric information and control boards focus on strengthening the financial staff in budget decisions, the budget bureaucracies in this dissertation's case studies were weak at the time of crisis. Their problem was the inability to properly produce information, rather than wielding it too powerfully. In terms of failure caused by a government's relationship to the market, the scholars' fear of iron triangles reflects the IMF literature's critique of favoritism towards the private market. This risk can be curbed for control boards not only by prohibiting the issuance of new debt during the control board era but also by minimizing direct contact between the control board and local business leaders, instead requiring that locals continue to deal with elected officials.

The case studies in this dissertation complicate the other threats to local democracy that Dollery and Wallis outline by highlighting the importance of federalism. If analyzed only from a local perspective, control boards avoid problems of fiscal illusion articulated by the authors, to the extent that they maintain budget decisions at the local level rather than temporarily changing the intergovernmental flow of funds. However, they fail to address failure caused by constraints on funds or services mandated imposed by higher levels of governments. In terms of voter apathy induced by state intervention, the local presence of control boards in Miami and the District focused attention on local budgeting decisions; residents often interacted with board members as they did with elected officials; and they protested local changes that they perceived would impact them negatively. However, the District's control board did increase the local sense of disempowerment. Thus, lessons from these case studies can contribute to theories of Dollery and Wallis by emphasizing the need to protect against the external threat of majoritarian tyranny.

The importance of the federalist political context to local instances of failure emerged repeatedly throughout both my quantitative and qualitative research. Theories of democracy
failure must better explicate relationships across scales of government. My regressions match the urban fiscal health literature in identifying state policy and the national economy as major determinants of local fiscal crisis. Yet, the implementation of a control board implies that local leadership causes the problems and must be changed as part of a solution. Thus, when observing only local outcomes, the choices of both state and federal governments are manifest as local failure. Democracy failure theory should instead recognize the market and federalist constraints within which local governments must operate. In addition, state and federal choices that lead to local crisis should be evaluated as democratic failure at those larger scales.

More broadly, this dissertation examines how a democratic system can be adjusted to respond to the presence of failure conditions. In instances of market failure, corrections can occur through methods that work worth the market to induce altered behavior. For example, a tax still requires market transactions but increases the costs. In contrast, the government can override the market system with laws that work outside the market to prohibit, require, or freely provide certain transactions. For example, gun control laws restrict market transactions. My dissertation reveals that corrections to local democracy failure can similarly work with the existing democratic system or seek change by overriding it. Findings from the quantitative analysis suggest that the state can fix fiscal failure by adjusting the rules of local government without superseding it. Even control boards vary in the extent to which they work with or displace the local government. Miami’s control board, as compared to the one in the District, worked more with the local democratic system. Either model successfully addresses the short-term fiscal challenges of troubled cities, but the Miami model better supports local sovereignty and buy-in. To the extent that political scientists and policy makers normatively value local democracy, as I believe they should, local democracy failure theory should similarly explore the
degree to which solutions to other forms of failure can tweak the rules of local governance rather than replacing it with an alternative institution.

**Future Research**

This dissertation evokes a number of methodological, policy, and democratic theory questions for future research. These topics emerged from both the limitations of my study and related issues beyond the scope of this project. Theories of democracy failure inspired my analysis of control boards but require much broader consideration. Thus, I conclude by considering new directions for that area of theoretical inquiry.

**Overcoming Limitations**

My most significant methodological limitation was the reliability of comparative fiscal data. Existing quantitative data sources including the Census of Governments (COG) rely on local reporting such as cities’ Comprehensive Annual Financial Reports for their information. Yet, I discovered during my research that insufficient fiscal management or intentional deception often hid emerging fiscal problems. Fiscal crisis might instead appear on formal records only after a solution had begun and accounting practices improved. In such circumstances, reports would improperly identify progress as deterioration. Moreover, such cities would seem worse off than equivalent ones without the administrative gains to uncover their own problems. Thus, the greater the likelihood of fiscal crisis, the less reliable the data are for identifying that crisis. A complementary method of qualitative case studies would strengthen the credibility of my findings. More broadly, urban fiscal health scholars should consider how to better measure municipal fiscal condition despite reporting flaws.
The case studies of Miami and Washington, DC were constrained by their historical nature. I found that researching past control boards was required for analysis of longer term impact and allowed interviewees to provide more open responses that may have created controversy at the time. However, accounts captured from ten-year old memories, newspaper articles, and other archival research may be biased towards more extreme responses. The actors that I interviewed were more closely connected to the control boards than the general population, and newspapers publish sensational stories that attract readers. The views of the majority of city residents, in contrast, are hard to capture. Future researchers can use participant observation of ongoing control boards to better obtain data on the views across a wide range of residents and community groups.

This dissertation focuses on the nation’s largest and smallest cities. The COG’s definition of municipalities restrict my quantitative analysis to populations below 25,000, while my qualitative research centers on case studies of two cities among the nation’s fifty most populous. Medium-size cities are excluded from this analysis. However, cities of different scales have different economic, political, and social dynamics. In addition, the distribution of control boards in this class of cities differs from those studied. While Ohio and Pennsylvania account for approximately three-quarters of the small city cases, these two states make up only five of the 26 medium cases. New York has created almost half of large-city control boards, the most of any state, but only two medium-size ones. Massachusetts, in contrast, leads states in medium-sized city control board usage, having implemented eight such boards. Thus, future research on medium-size crisis cities and control boards should shift to that state. Beyond qualitative research of these boards, the large number of medium-size cities recommends quantitative research for this class of municipalities. However, the data sources used in this
Policy and Research Implications

dissertation would not be appropriate for medium-size cities. Other organizations such as the
Government Finance Officers Association (GFOA) and International City/County Management
Association (ICMA) collect financial data for cities of these scales. Scholars must consider the
possibilities and limitations of these sources for studying fiscal crisis, including whether they
contain large enough samples of control board cities.

Additional Questions

Policy research could further examine a wide variety of potential factors in the fiscal
success of control boards across scales. My case studies suggest links between long-term fiscal
improvement and the dynamics of pre-existing political relationships but do not include any
fiscally unsuccessful control boards. The quantitative analysis of small cities identifies variation
in fiscal outcomes, but I do not claim to reach conclusions about why control boards work in
some places and not others. Just as it offers a structure for governance implications, the IMF
literature introduces possible determinants of success. If control boards mirror IMF agreements,
then local buy-in should strongly contribute to long-term fiscal gains. Extending this logic,
larger fiscal improvement should be expected in municipalities that seek control boards and have
lower conflict during implementation than in cities with state imposed boards. Studies testing
this hypothesis must distinguish voluntary cooperation with the control board from related
factors such as the extent of the crisis. The correlation between voluntary control boards and
early stages of fiscal problems are manifest in Pennsylvania and Ohio, where state legislation
allows local officials to request control boards in early stages of crisis but reserves the state’s
ability to mandate a board when the crisis is fully developed.
The IMF literature suggests not only that voluntary cooperation aids municipal success but also which leaders would most benefit from a relationship with control boards. IMF research raises several questions for the pursuit of control boards: Are officials who enjoy more popular support less likely to request or cooperate with control boards? Are new leaders more amenable to control board implementation? Does the form of interest group influence, political parties, and other coalition building impact the likelihood of a discretionary control board? Answers to these questions could help states identify accommodating local officials for successful interventions; understand the dynamics of the political context of working with an external institution; and begin to alter the aspects of control boards that make them less appealing to particular types of local leaders. In addition, states can use this information to seek out cities in fiscal crisis that are less likely to identify themselves.

This study analyzes control boards as not only a fiscal policy tool but also a real-world response to perceived democracy failure. Control boards, however, are only one potential means of practical identification of local democracy failure. Scholars can enrich this theory by examining other types of on-the-ground reactions. For example, public violence can be understood as a group expression of government failure to negotiate community relationships, often racial. Lieberson and Silverman (1965) attribute riots of the early 1960s to particular municipal government characteristics, including at-large rather than ward elections. Having been shut out of the political process, blacks voiced their discontent through violence. On an individual level, the public choice theory popularized by Tiebout (1956) asserts that residents sort across local governments according to preferences. However, to the extent that individual preferences aggregate into a significant population outflow, these individuals are likely indicating a failure of the government being fled.
Research on other forms of reactions to perceived local democracy failure should consider under what conditions each of these activities successfully achieves its goals. Just as control boards have been more effective in large than small cities, are certain categories of local governments more likely to recognize minority concerns after violence? In addition, the design of the response itself should shape its ability to improve long-term governance. Control boards contribute more with local buy-in and a narrow scope. Do certain patterns of migration facilitate stable government reform? Finally, the responses themselves signal what type of failure has occurred. Control boards seek to correct a lack of management capacity in representative governments. What types of failure do violence, migration, and other actions imply? Studies of the individual, group, and institutional responses serve as a starting point for understanding when and how governments fail their citizenry. Given that patterns of actions can reveal underlying structural failure, local democracy failure models should seek to incorporate urban behavior.

Finally, democracy failure should not be confused with the absence of a democratic system. This study assumes that all local governments are equivalently democratic. However, some cities are much closer to a democratic ideal than others. Democracies require the ability of citizens to shape their government, whether through direct participation, open debate, or a representative electoral structure (Held, 2006). Yet, cities vary along each of these dimensions. For example, large shares of the population in numerous cities cannot formally participate in the democratic process through voting because of voting prohibitions for immigrants and ex-felons. These exclusions are also highly correlated to race and ethnicity, providing some groups greater access to political power. Political scientists, particularly neo-liberals, have developed empirical criteria for an index measuring national democracies. Admittedly controversial, these democracy indices comprise the degree to which the franchise is universal (Dahl, 1989); the
existence of competitive elections; some frequency of political regime change (Marshall & Jaggers, 2005); and metrics of civil liberties (Freedom House, 2007; Kekic, 2007). Political scientists interested in local governments can similarly develop indices of local democratic strength in American cities.
APPENDICES
FISCAL METHODOLOGY

APPENDIX I.
The fiscal analysis in this dissertation relied primarily on a dataset of fiscal, demographic, and policy variables complemented by limited qualitative research. The core source for this information was the Census of Governments (COG) but included a variety of national data sources. The analysis of large cities mirrored the small cities, but the small sample size allowed descriptive research only. I compiled the list of municipalities that have used either a control board or other institutional solutions to fiscal crisis.

**Dataset**

The variables in my dataset represented common factors identified by the literature as causes of fiscal crisis (Table A1-1). Several critical variables, such as corruption, union and interest group strength, and regional cooperation could be tested because they were not available on a national level. The impact of deindustrialization and factory closings were accounted for only to the extent captured by higher unemployment and lower incomes, which also have their own value as socioeconomic indicators. This analysis was not attempting to reshape the literature on causes of fiscal stress or crisis. Rather, it used that literature as a starting point to understanding the degree to which control boards improve the finances of fiscally troubled municipalities. Thus, to the extent that findings on fiscal crisis using this dataset matched the existing literature, this dataset adequately identified cities with severe fiscal problems a poor market position despite the absence of other variables that could contribute to fiscal instability.
The quantitative analysis relied on a dataset compiled from several sources. Fiscal attributes for small municipalities were taken from the COG (COG 2006), which collects data on all local governments in the country every five years. The universe was municipalities with populations below 25,000 from 1977 until 2002. The analysis was restricted to small municipalities because, in addition to dynamics differing by city size, the data source constrained the potential universe. The COG’s broad definition of government includes semi-autonomous commissions, and so their definition of large cities differs from common, legal conceptions. Small cities rarely have a complex governance structure that includes these commissions. The variables measuring local fiscal health were total cash and securities funds, revenues, expenditures, and debt.

Because of the unusual Census definition of large cities, fiscal variables for the large city analysis were taken from the “Statement of Revenues, Expenditures, and Changes in Fund Balances (Governmental Funds)” in the city’s Comprehensive Annual Financial Reports (CAFRs) rather than the COG. The universe for this analysis was the 65 cities that have among the 75 largest populations between 1980 and 2000. I requested CAFRs for the COG years between 1982 and 2002 and had a response rate of 75 percent. All of the cities that have had fiscal control boards provided their CAFRs for all five observation years, as required to observe the effects of control boards over time. The large city fiscal variables were general fund revenue, general fund expenditures, and general fund net change. The large city analysis preceded the chapter on small cities because control boards in large cities attract the most popular attention and have shaped their usage elsewhere.
<table>
<thead>
<tr>
<th>Causes of Fiscal Crisis</th>
<th>Literature that considers these factors</th>
<th>Variable included in this study OR Reason not included</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Surplus or deficit</td>
<td>Groves &amp; Valente, 1994; Pagano, 1993; ICMA’s “Financial Trend Monitoring System”; Brown, 1993; Benson et al., 1988; R. M. Stein, 1984</td>
</tr>
<tr>
<td></td>
<td>Short and long-term debt</td>
<td>Groves &amp; Valente, 1994; Pagano, 1993; ICMA’s “Financial Trend Monitoring System”; Brown, 1993; Benson et al., 1988; R. M. Stein, 1984; Hendricks, 2004; Kloha et al, 2005;</td>
</tr>
<tr>
<td></td>
<td>Cash or general reserve fund balance</td>
<td>Groves &amp; Valente, 1994; Pagano, 1993; ICMA’s “Financial Trend Monitoring System”; Brown, 1993; Benson et al., 1988; R. M. Stein, 1984; Hendricks, 2004; Kloha et al, 2005;</td>
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<tr>
<td></td>
<td>Revenue</td>
<td>Brown, 1993; Hendricks, 2004;</td>
</tr>
<tr>
<td></td>
<td>Expenditures</td>
<td>Brown, 1993; Hendricks, 2004; Kloha et al, 2005;</td>
</tr>
<tr>
<td>Socioeconomic</td>
<td>Population</td>
<td>Cahill et al., 1994; Johnson et al., 1995; Pagano, 1993; Rubin, 1982</td>
</tr>
<tr>
<td></td>
<td>Population change</td>
<td>Benson et al., 1998; R. M. Stein, 1984; Kloha et al, 2006;</td>
</tr>
<tr>
<td></td>
<td>Local service needs</td>
<td>Hendricks, 2004; Kloha et al, 2005;</td>
</tr>
<tr>
<td></td>
<td>Taxable property value</td>
<td>Kloha et al, 2005;</td>
</tr>
<tr>
<td></td>
<td>Poverty rate</td>
<td>Pennsylvania Economy League, 2007; Joassart-Marcelli, Musso, &amp; Wolch, 2005; Pack, 1998; Dye, 1984</td>
</tr>
<tr>
<td></td>
<td>Education rates</td>
<td>Education rates</td>
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<td></td>
<td>Homeownership rate</td>
<td>Dye, 1984</td>
</tr>
<tr>
<td></td>
<td>Median income</td>
<td>Honadle, 2003; Honadle et al., 2004</td>
</tr>
<tr>
<td></td>
<td>Elderly as share of population</td>
<td>Pennsylvania Economy League, 2007</td>
</tr>
<tr>
<td></td>
<td>Children as share of population</td>
<td>Honadle, 2003; Honadle et al., 2004;</td>
</tr>
<tr>
<td></td>
<td>Female headed households as share of population</td>
<td>Honadle, 2003; Honadle et al., 2004;</td>
</tr>
<tr>
<td></td>
<td>Nonwhites as share of population</td>
<td>Dye, 1984</td>
</tr>
<tr>
<td></td>
<td>Crime rates</td>
<td>Rubin, 1982</td>
</tr>
<tr>
<td></td>
<td>Suburban migration</td>
<td>Kamer, 1983; Oliver, 2001;</td>
</tr>
<tr>
<td></td>
<td>Deindustrialization</td>
<td>Beckett-Camarata, 2004; Bluestone &amp; Harrison, 1982; Chernick &amp; Reschovsky, 2001; Wu &amp; Korman, 1987; Friedrichs, 1993</td>
</tr>
<tr>
<td>Causes of Fiscal Crisis</td>
<td>Literature that considers these factors</td>
<td>Variable included in this study OR Reason not included</td>
</tr>
<tr>
<td>------------------------</td>
<td>----------------------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>Political Structure</td>
<td>Personnel and union costs: Dye, 1984; Kamer, 1983; M. P. Smith, 1988; Wallin, 2005; Inman, 1995; Rae, 2006; Rubin, 1982; Clark and Ferguson, 1983</td>
<td>Not included: I did not access the historical data for the Census of Governments public employment and payroll data. Future research could develop a measure of full-time employees or payroll per capita based on this file.</td>
</tr>
<tr>
<td>Tax structure</td>
<td>Mullen, 1990; Misiolek &amp; Elder, 1988; Edgerton et al., 2004;</td>
<td>Not included: This could be constructed from the Census of Governments. I did not break down by revenue source out of a concern for too many degrees of freedom. In addition, this research focuses on economic vulnerability, not the rate of crisis at a particular moment.</td>
</tr>
<tr>
<td>Poor management</td>
<td>Mullins &amp; Pagano, 2005; Pennsylvania Economy League, 2007; Rae, 2006</td>
<td>Not available</td>
</tr>
<tr>
<td>Presence of planning expertise</td>
<td>Mattson, 1994</td>
<td>Not available</td>
</tr>
<tr>
<td>Progressive structure vs strong mayor</td>
<td>Fuchs, 1992; Honadle et al., 2004; Schragger, 2006; French, 2004; D. R. Morgan &amp; Kickham, 1999; D. R. Morgan &amp; Watson, 1995; Sass, 1991; Inman, 1995; Rubin, 1982; C. Clark &amp; Walter, 1991</td>
<td>Dummies for whether the municipality has a mayor or chief accounting office; whether the mayor prepares the budget; whether council members have party affiliations; and the share city council members elected by ward included for all cities with populations of at least 2,500 for 1988-1997, taken from the International City/County Management Association.</td>
</tr>
<tr>
<td>Corruption</td>
<td>Cahill &amp; James, 1992; Mullins &amp; Pagano, 2005; Pennsylvania Economy League, 2007</td>
<td>Not available</td>
</tr>
<tr>
<td>Residential political participation</td>
<td>Shefter, 1985; Wallin, 2005</td>
<td>Share of residents that are registered voters and share that voted in 1986 taken from the International City/County Management Association. Proxy of share qualified to vote, measured through felony restrictions (product of crime rate and 0-4 scale of felony voting restrictions) and percent population foreign born. Taken from ACLU Voting Rights Project, 2007, King, 2006, Yoshinaka and Grose, 2005, and Uniform Crime Reporting file.</td>
</tr>
<tr>
<td>Strong interest groups interaction with state politics</td>
<td>Gramlich, 1976; Tabb, 1982</td>
<td>Not available</td>
</tr>
<tr>
<td>Region</td>
<td>General government fragmentation: Kamer, 1983; Rusk, 2003; Chemick &amp; Reschovsky, 2001; Honadle et al., 2004; Johnson et al., 1995; M. Schneider, 1986; D. R. Morgan &amp; Mareschal, 1999</td>
<td>Municipality’s share of regional population; municipalities per 1,000 residents taken from Decennial Census</td>
</tr>
<tr>
<td>State and Federal</td>
<td>Presence of special districts: Fuchs, 1992; Ladd &amp; Yinger, 1989</td>
<td>Special districts per 1,000 state residents taken from Census of Governments</td>
</tr>
<tr>
<td>Federal aid</td>
<td>Caraley, 1992; Chemick &amp; Reschovsky, 2001; D. C. Morgan, Jr., 1974; Wallin, 2005; Weir, 1996; Cahill &amp; James, 1992; National League of Governmental Affairs, 2003</td>
<td>Not included: intergovernmental revenue available but does not control for general government aid or funds dedicated to particular services or based on socioeconomic characteristics.</td>
</tr>
<tr>
<td>State aid</td>
<td>Kicha et al., 2005; Chemick &amp; Reschovsky, 2001; D. C. Morgan, Jr., 1974; Wallin, 2005; Weir, 1996</td>
<td>Not included: intergovernmental revenue available but does not control for general government aid or funds dedicated to particular services or based on socioeconomic characteristics.</td>
</tr>
<tr>
<td>State centralization of expenditures</td>
<td>Warner, 2001</td>
<td>Not available: could possibly be adapted from Census of Governments for future research, but likely to encounter definitional problems for large city local spending.</td>
</tr>
<tr>
<td>Local revenue constraints</td>
<td>ACIR 1993; Mullins &amp; Pagano, 2005; ACIR, 1983; Cigler, 1993; Honadle, 2003; Ladd &amp; Yinger, 1989; R. M. Stein, 1984</td>
<td>0-3 scale of audits (0=no; 1=counts only; 2=cities file; 3=state conducts) and 0-2 scale (0=no; 1=help with audits; 2=yes) of technical assistance provision taken from Share of most common spending - for highways, police and fire, sanitation, parks and recreation, and financial administration - and least common spending - for education, health and hospitals, and public welfare - taken from Census of Governments.</td>
</tr>
<tr>
<td>Growing service costs National economy</td>
<td>Gramlich, 1991; Honadle et al., 2004; Krame, 2003; Honadle et al., 2004; Park, 2004; Clark &amp; Walter, 1991; Ladd &amp; Yinger, 1989; Pennsylvania Economy League, 2007; Pagano, 1993; Edgerton et al., 2004;</td>
<td>Proxy through year.</td>
</tr>
</tbody>
</table>
Fiscal information was merged with municipal level data. COG observations were matched to the closest Decennial Census (1980; 1990; 2000) year for demographic and regional information. Regional variables used in either the analysis of large or small municipalities included whether a municipality is in a Metropolitan Statistical Area (the Census definition of an urban region); the number of jurisdictions in that MSA and per capita; central city population as a share of the MSA; and a special district rate for state residents per capita that was derived from the COG. The International City/County Management Association (ICMA, 1986-1996) provided data on political structures for cities with at least 2,500 residents, merged with the subsequent COG year. This dataset included dummies for whether the municipality has a mayor or chief accounting officer and if the mayor prepares the budget as well as the share city council members elected by ward. However, the only statistical significant variable in the study was whether council members have party affiliation, and so many variables were excluded from regressions to maintain sufficient degrees of freedom. The shares of residents that were registered voters and voted in the last election are available for 1986. Regressions both included and excluded these variables, because these data were limited and concentrated on larger cities than many in fiscal crisis.

The final local level variable was a measure of voting restrictions on ex-felons to help capture the share of residents who could vote. Voting levels provided an indication of the degree of local participation in city governance. The proxy for felony restrictions comprised a categorical variable with higher values equaling more disenfranchisement interacted with per capita arrests for major crimes in the county. The measure for felon voting laws were based on the ACLU Voting Rights Project (2007), King (R. S. King, 2006), and Yoshinaka and Grose (2005). The crime rate was taken from COG observation years of the Uniform Crime Reporting
Fiscal Methodology


State level political variables were merged onto each municipality. The National Governor's Association website (2008) provided how many of the last five years that the Governor was a Democrat. Unfortunately, the political party of local executive officials was unavailable. Categorical variables collected from state websites and emails from state agencies indicated whether and to what extent the state audited or provided technical assistance to municipalities. Dummy variables related to tax and expenditure limitations (TELs) placed on local governments by the state based on an ACIR report (1995) included whether there was a general limit on property tax rates; a limit on specific property tax rates; a limit on total property tax revenue; an overall limit on tax revenue or spending; or no restrictions.

The list of control boards was compiled from Ohio and Pennsylvania state lists, internet and Lexis-Nexis searches, and newspapers. Dummy variables for three alternatives to control boards were included: Chapter 9 municipal bankruptcy filings were compiled from Lexis-Nexis, reports by the ACIR, calls to individual district courts, and a list by James Spiotto (2008). Increased intergovernmental revenue was defined as an intergovernmental revenue increase in the COG of at least one-third as a share of total local revenue. Finally, dissolution data were from a COG identification file and Census Boundary files for 1990 and 2000. State agencies or research bureaus in every state except Illinois confirmed control boards, bankruptcy filings fiscal emergency legislation, and the state agency in charge of local fiscal oversight. Each city was assigned a dummy variable equal to one if it implemented a control board in the five year span after a COG year (i.e., the dummy equaled one for 1992 if a board is created between 1993 and 1997).
Appendix I

Analysis

Small and large cities were analyzed separately because 1) they relied on different fiscal data sources and variables; and 2) they have quite distinct structures of local government, interaction with other jurisdictions, and power relative to the market. The quantitative analysis for small cities began by applying a uniform definition of crisis to municipalities. This study used a dichotomous crisis variable rather than treating fiscal conditions separately, because the impact of crisis differs from strain. Based on the COG, a small city was in crisis if any of the following is true: no cash funds or securities; cash funds that were below five or ten percent of the city’s revenue and 1) expenditures that exceeded revenue by at least five percent or 1/6, respectively or 2) a decrease in cash funds over the past five years of at least five percent or 1/6 of revenue, respectively; expenditures that exceeded revenue by at least five percent currently and five years prior, coupled with a total decrease in cash funds of at least 1/6 of revenue; or expenditures that exceeded revenues by at least two-thirds. This complex definition reflected the combination of current conditions and recent spending patterns found in control board legislation in Ohio, Pennsylvania, Florida, and Nevada. I adapted this definition to large cities using general fund variables from the CAFR. Although I used a parallel definition of crisis for municipalities of both scales, the large city chapter also discussed the implications of more restrictive definitions of crisis.
I tested the measure of fiscal crisis in small municipalities against Kloha, Weissert and Kleine’s (2005) ten point measure of local fiscal stress that comprehensively combined short and long-term measures. In adapting the index to available data for my study, I shifted the focus from indicators of underlying capacity to short-term fiscal realities. This adjustment was appropriate given my focus on crisis rather than stress. Applied to my dataset, the index had a maximum municipal stress level of eight out of ten with a mean value of 2.0, close to the authors’ approximate mean value of 1.5. My measure of fiscal crisis strongly correlated to this measure of stress such that higher index values corresponded to greater crisis rates (Table A1-2). Thus, my measure of fiscal crisis in small cities appeared valid.

Three series of regressions evaluated the fiscal impact of control boards on small cities in fiscal crisis. First, a logit in which the dependent variable was whether the municipality was in

Table A1-2. Correlation between Kloha et al’s fiscal stress index and fiscal crisis

<table>
<thead>
<tr>
<th>Index measure according to Kloha et al</th>
<th>Rate of fiscal crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0.015</td>
</tr>
<tr>
<td>1</td>
<td>0.050</td>
</tr>
<tr>
<td>2</td>
<td>0.151</td>
</tr>
<tr>
<td>3</td>
<td>0.212</td>
</tr>
<tr>
<td>4</td>
<td>0.345</td>
</tr>
<tr>
<td>5</td>
<td>0.588</td>
</tr>
<tr>
<td>6</td>
<td>0.780</td>
</tr>
<tr>
<td>7</td>
<td>0.946</td>
</tr>
<tr>
<td>8</td>
<td>1.000</td>
</tr>
<tr>
<td>All</td>
<td>0.157</td>
</tr>
</tbody>
</table>

1 Kloha et al assign ten possible points for population loss; decrease in taxable value; decrease in taxable value greater than 1.5 standard deviations from mean; a ratio of general fund expenditures to taxable value greater than 0.5 standard deviations from the mean; a difference between expenditures and revenues greater than one percent of revenues; a prior operating deficit (two points for two years); a ratio of general fund balance to general fund revenue that is less than 0.5 standard deviations below the mean; any negative fund balances in the past two years; and a ratio of long-term debt to taxable value greater than one standard deviation from the mean. This index is adapted to my dataset by substituting tax revenue for taxable values and cash and securities for the general fund balance.
fiscal crisis tested that my dataset matched the municipal fiscal literature. Second, fiscal crisis became an independent variable and a rare events logit analysis developed by King and Zeng (2001) examined where control boards were implemented. This method reduced the bias in traditional regressions that understate the likelihood of the rare event’s occurrence. This regression was restricted to the universe of Ohio and Pennsylvania, which have created the majority of small city control boards. The logit provided the basis for a national variable defined as the probability of getting a control board based on local attributes. Finally, regressions with dependent variables of long-term fiscal outcomes measured the impact of control boards. For large cities, I relied on descriptive analysis to observe the outcomes of cities with fiscal control boards relative to other cities in fiscal crisis.

Qualitative Research

This section supplemented the quantitative analysis of fiscal control boards with qualitative research to contextualize the control boards; describe the mechanisms through which they are intended to improve municipalities; and compare my findings to existing perceptions of particular control boards. The powers and role of each control board were collected from their enabling legislation. The prevalent view of each of the nation’s largest-city control board’s fiscal success was compiled from newspapers, federal reports, expert testimony during Congressional hearings, academic analyses of New York City, and interviews with key actors in Washington, DC and Miami. The experiences of small municipalities in fiscal crisis, particularly those using control boards, were drawn from newspaper coverage. I identified articles through Lexis-Nexis, which misses small local newspapers. While these papers might cover some control boards that were missed by Lexis-Nexis are more likely to provide in-depth coverage, the
articles in this study included stories of towns as small as 225-person Corwin, Ohio. Thus, this was not a major limitation for my findings.

**Limitations**

The fiscal research of control boards had several limitations. This study revealed a primary methodological problem regarding the reliability of municipal financial data. Cities approaching crisis were more likely to have messy financial records that either intentionally or accidentally failed to disclose the city’s true financial situation. For example, Miami’s crisis surprised city officials and its fiscal records only reflected its deficit and general fund problems after external intervention had begun. Thus, the city initially appeared worse financially after began improving. In contrast, Washington, DC’s fiscal problems developed slowly and publicly. Thus, records prior to the control board were more reliable, and the city records properly tracked local improvement. Both the CAFRs, which are city documents, and the COG rely on city data. Over the past several years, the COG has begun to compile its own financial records for the largest cities. However, the benefits of this change are minimized by the COG’s large city definition varying from a city’s own definition.

The potential uncertainty of municipal fiscal data’s accuracy and its correlation to crisis limited the reliability of my findings, which should be understood as an exploratory first step in examining the impact of control boards. In addition, the problems faced during this research introduced the methodological challenge to future researchers of how to compare fiscal outcomes across cities when the cities themselves fail to provide proper accounting. Interpretations of my findings were constrained by relatively limited qualitative research. A case study of a large city that recovered from financial crisis without a control board could
provide insight into alternatives to control board intervention. San Francisco provides a useful comparison, as a city with a series of annual deficits such that the city both spent its reserve and had a general fund balance of almost zero in 1992 before rebuilding its fiscal health. Comparisons between this city and my case studies on Washington, DC and Miami could provide insight into both paths to fiscal improvement and governance implications.

Additional qualitative research on small municipalities would enrich the fiscal analysis on the selection of individual control board cities, the potentially unique challenges they face, the quality of control board implementation, and the role of these institutions in each place. The current research helped describe what is happening in small municipalities without explanations for how or why. The addition of case studies of successful and failed small city control boards would complement this study with a deeper understanding of the nuances of control board usage and some causes for and barrier to fiscal improvement.

Given the limitations of this fiscal analysis, these findings were not meant to be definitive. Instead, they were intended to indicate whether control boards in large and small cities seem to provide enough fiscal benefit to pursue such a solution. A finding that they can contribute to fiscal crisis recovery warrants an examination of their potential governance implications.
Governance Methodology
My analysis of the local governance implications of control boards relied on two case studies: the control boards of Miami, Florida and Washington, DC from 1996 and 1995, respectively, to 2001. These studies comprised qualitative research on both the local and state or federal perspective on the board. Data for each included archival research on financial statements, newspapers, and public records complemented by recent semi-structured interviews of key actors.

Case selection

In selecting cases, I sought two cities of comparable population size; demographic composition similarly divergent from the government overseeing them; and a shared timing of control board implementation. I also looked for variation in the extent of Home Rule in the cities prior to their fiscal crises. Moreover, I wanted to study Washington, DC, because the city’s Control Board introduced me to this type of institution and my familiarity with the city made research easier and more reliable. Among the seven control boards used in large cities since the mid-1970s, Miami best paired with the District according to my selection criteria.

I limited my qualitative research to the fifty most populous cities in the country, because cities at this scale differ from smaller municipalities in their social, economic, and political structures. Miami has been among the country’s largest cities for over sixty years, and the District has been for many decades beyond that. At the time of the control board in the mid-
1990s, Miami had about 360,000 residents while the District population was slightly below 600,000. Both cities follow a larger pattern of population decline, particularly among the white middle-class, in major central cities since the 1960s. These cities have both not only shrunk in terms of residential population relative to their growing metropolitan areas, but also lost their regional share of commercial activities and jobs. Cleveland was closer in size to the District while also recently declining, but its control board occurred in the 1970s, during a different economic era. Moreover, the reception of Cleveland’s board may have been uniquely impacted by its status as one of the first modern control boards, making lessons difficult to generalize.

The vast majority of large control board cities differed dramatically in their racial and ethnic makeup from their state, or the federal government in DC’s case. Both Miami and the District fit this dynamic, and race and ethnicity played similarly important roles in the political and social structures of these cities. Miami’s Cuban residents have dominated the ethnic change in the city and become increasingly central to its leadership. The city had a majority Latino population with significant white and black minorities. The District has had a stable black majority since the 1960s, with significant white and Latino populations. Race and ethnicity permeated the democratic discourse in these cities as well as most large cities, including those that have been assigned control boards.

The shared timing of the control boards in Miami and the District was useful for this research. Control periods spanning the mid-1990s to 2001 contributed to my research in two ways. First, the control boards ended early enough to observe their longer-term impact. Second, the boards were recent enough to allow primary research such as access to key actors. The late 1990s were generally good for urban economies, and this was true for both case study cities. In Miami, the population actually grew in this period, while the flight from DC almost halted.
Philadelphia's control board was introduced in 1991, only slightly earlier than in my case studies. However, this timing coincided with an early-1990s recession rather than the start of the healthy national urban economy several years later. By using coincident case studies, I was able to control for economic strength as a contributor to the control board's reception by the community and interaction with local democracy. A separate study would be needed to determine how recessions or economic growth impact control board governance, and the case selection would need to control for other factors such as the strength of Home Rule. The disadvantage to analyzing control boards during a strong economy would be that the timing would obscure their fiscal impact. While control boards appeared to improve the fiscal health of Miami and DC as with other large control boards, the growing economies were likely to improve these cities' budgets anyway.

The primary divergence between Miami and Washington, DC that contributed to their selection as case studies was their power relative to larger units of government prior to entering fiscal crisis. These two cities represented two ends of the spectrum of Home Rule strength, with Florida's particularly strong Home Rule tradition and Congress' unique power over the District with which it rarely chose to grant significant local autonomy. Miami was also large relative to the state and enjoyed significant representation in the state legislature. In contrast, the District composed a small share of the national population and had no voting members in the federal legislature. Comparing two different types of city-state/federal relationships was useful because this power dynamic should have a significant impact on local input in the development of solutions to crisis and control board design, the community perception of the intent behind the intervention, and other governance interactions.
The District’s unique status as lacking a state and instead having a direct relationship with Congress requires some explanation. The Constitution grants Congress complete authority over Washington, DC, creating a federal governance relationship with the city that has undergone several transformations and provided occasional moments of local control. In 1967, a long-standing three person commission appointed by the President was replaced by a mayor-commissioner and city council, again appointed by the President. This system was again replaced in 1974 with the District of Columbia Home Rule Act, allowing the city to elect its own mayor and council. While details of this legislation have been amended, the current era of Home Rule has been fundamentally unchanged since coming into effect in 1974.

Despite this unusual structure, governance lessons from the District could be generalized to other cities. The Courts have widely granted a legal authority to states over municipalities that is equivalent to Congressional power over the District. While states tend to respect the tradition of Home Rule, they could exercise greater oversight and intervention at their discretion ("Democracy or Distrust? Restoring Home Rule for the District of Columbia in the post-Control Board Era," 1998). Tensions have often emerged between states and their largest cities when states have interfered with local autonomy. Similarly, Congress could choose to decrease its local oversight of the District, and the Home Rule Act was a significant step towards granting local autonomy. Thus, while not typical, the District provided an example of the potential governance outcomes of state governments in local fiscal crisis.

The major drawback to this case selection was that neither city was typical in terms of its service responsibilities. The city of Miami had an unusually small municipal role because many local functions fall to Miami-Dade County. In contrast, Washington, DC had to provide both state and county services because these levels were absent. Thus, the District’s per capita budget
in 1995 exceeded Miami’s by slightly over a factor of ten (City of Miami, 1995; District of Columbia, 1995). Most large cities had a municipal role in between these two cases. This difference in service responsibility and budget scale was not directly addressed in the analysis of these two cases, but should be noted. I expected the budget variation to more significantly impact fiscal than governance change under a control board. However, Miami’s limited scope of city government may have lowered residents’ resistance to change, while the District’s expansive responsibilities may have been the cause of residents’ more fervent attempt to protect their democratic leadership.

**Miami**

My archival research of Miami’s control board spanned newspaper articles, transcripts of city commissioner meetings, annual Comprehensive Financial Annual Reports (CAFRs), and a variety of documents in the state archives. Newspaper articles were obtained from Lexis-Nexis and hard copies in the office of Rip Colvin, a legislative analyst with the Joint Legislative Auditing Committee during Miami’s Oversight Board. Of the hundreds of relevant articles, many were excluded that echoed the information and viewpoints of the articles in the references used. The transcripts of city commissioner meetings were available on microfiche in the Miami City Clerk’s office. Transcripts were selected by reading everything related to the fiscal crisis or Oversight Board based on agenda titles for all meetings between September 1996 and December 1997 as well as items found by Todd Hannon of the City Clerk’s office for the remainder of the oversight period. This search method may have missed discussion of the Oversight Board embedded within specific budget items titled differently on the agenda, particularly for items such as fire fees that were contentious between the commission and the Board. I used the
introduction, management letter, and statement of revenue and fund changes for governmental funds from each CAFR since 1990, plus 1982 and 1987. These CAFRs were available in the city’s Finance department.

The state archives in Tallahassee provided the most comprehensive collection of documents related to Miami’s Oversight Board. The ten archival boxes included financial and management reports; the intergovernmental agreement establishing the Board; correspondence between the Board, community and union leaders, bond rating agencies, and the state and local governments; and meeting agendas, minutes, and transcripts. Most of the records were collected while Charles Wolfe was the executive director of the Board. I focused on the items revealing resident interactions or illustrating the governance decision making process, but information was also available on the details of financial plans and government reforms. The state archives were the best source for additional documentation of the Oversight Board, reports generated, and other financial and management research.

This case study also incorporated fourteen interviews with elite actors who had a wide variety of roles related to the Oversight Board. Interviewees comprised members of the Board itself, the legal counsel and executive director for the Board, state employees who served as Board staff, city managers at the time of crisis, a union leader, leaders of concurrent grassroots movements, and an academic who researched the fiscal crisis (Table A2-1). This sample lacked locally elected officials, in part because both mayors during the Oversight Board were known for being secretive and could not be located. No individuals that I contacted declined an interview. These semi-structured interviews (Table A2-2) were conducted in person in February 2008 and lasted between 45 minutes and an hour. Each interview included some additional questions based on the respondent’s answers and prior interviews. Questions for Gene Stearns and Reverend
Interviewees are listed with information about their role during the control board era

**Miami**
Robert Beatty, Oversight Board member
Bob Bradley, Director, Florida Office of Planning and Budgeting (OPB)
Robert Brochin, General Counsel for the Oversight Board
William “Shorty” Bryson, President of the local firefighter’s union
Rip Colvin, Analyst for the Florida Joint Legislative Auditing Committee
Reverend Dunn, Community leader and City Commissioner, 1995
Howard Frank, Professor at Florida International University, School of Public Administration
Buddy MacKay, Lieutenant Governor of Florida, Oversight Board Chairman, 1995
Ed Marquez, City Manager
Terry Shoffstall, Director of the Florida Joint Legislative Auditing Committee
Gale Sittig, Chief of Staff of Oversight Board, Deputy Director of Florida OPB
Gene Stearns, Community leader
Merrett Stierheim, Interim City Manager, 1995
Chuck Wolfe, Executive Director of Oversight Board, Director of External Affairs for Governor

**Washington, DC**
Andrew Brimmer, Chair of Control Board, 1995-1997
Kevin Chavous, Council member of the District of Columbia
Bernard Demczuk, Director of the Office of Intergovernmental Relations for Mayor Barry
Edward DeSeve, Controller for the Office of Management and Budget
Edward Lazere, Executive Director of the DC Fiscal Policy Institute (begun in 2001)
Constance Newman, Control Board member
Eleanor Holmes Norton, District Delegate to the House of Representatives
Franklin Raines, Director of the Office of Management and Budget (OMB)
Daniel Rezneck, General Counsel for the Control Board
Alice Rivlin, Director of the OMB, Chair of Control Board, 1997-2001
Jonnetta Barras, Journalist for Washington Times and other local newspapers
Sam Smith, Journalist and founder of the Progressive Review
Robert Watkins, Control Board member, 1997-2001

Table A2-1. List of Interviewees
Because the interviews were semi-structured, the questions were not asked in this order and additional questions were specific to each interview.

**Narrative**
1. When were you first aware of a fiscal crisis in the city?
   a. When were you first aware of an oversight/control board as the likely solution?
   b. What other solutions to the crisis were discussed at that time?
2. What did you initially perceive the role of oversight board to be and did it change during its operation?
3. What were the advantages and disadvantages of the oversight board structure in helping the local government?
4. Do you think the oversight board achieved its goals, and were those goals beneficial to the city in the long-term?
5. [Miami only] Did the aftermath of Hurricane Andrew contribute to Miami’s fiscal crisis?

**Resident involvement**
1. Who were the individuals or groups in favor of and opposed to implementing an oversight/control board?
2. In what ways did residents primarily voice concerns to the local government before, during, and after the implementation of the oversight board?
3. Did the oversight/control board explicitly consider how to involve local elected officials or residents in the decision making process?
4. [Miami only] How did Miami’s electoral changes or other changes in local governance relate to the oversight board?
   a. Were you aware of the ballot efforts to disincorporate Miami or to switch from at-large to district commissioner elections?
   b. If so, did the Oversight Board explicitly address these issues?
5. [District only] Were there any electoral changes or other changes in local governance in DC during the control board era?
6. Did the efforts surrounding these changes interact with the control board?

Table A2-2. Interview Questions
Appendix II

Dunn, leaders of grassroots efforts, largely overlapped with the others but focused on their efforts.

Washington, DC

Archival research in the District paralleled Miami with newspaper articles, financial reports, Congressional testimony and legislation, Control Board press releases and resolutions, and public correspondence. The newspaper articles were located through Lexis-Nexis and in Control Board Chair Brimmer's personal archives. As in Miami, many articles beyond the approximately 175 detailed in my research notes were excluded because of overlap with the articles used. Financial records used included each District CAFR since 1990 plus 1982 and 1987, available in the District's Office of Budget and Planning; the 1990 report by the Commission on Budget and Financial Priorities for the District of Columbia, commonly known as the Rivlin Commission; and other nonprofit and consultant reports from the 1990s on the District's finances. Congressional testimony for 24 hearings related to the District between 1994 and 2001 were obtained online through the Government Printing Office website.

Records particular to the Control Board included the Board's enabling legislation, subsequent Congressional legislation expanding its powers; and the federal Revitalization Act of 1997. In addition, my sources included all of the resolutions, orders, and acts passed by the Control Board, which remain on file in the Corporation Counsel for the District, and Court opinions and related motions for many of the lawsuits against the Control Board, which were available in the current office of Daniel Rezneck, the Board's legal counsel. Brimmer shared all of the Control Board press releases for 1995 and 1996 from his personal archives and the first few chapters of a manuscript in progress about his Control Board experiences. Additional
documentation from the Control Board was available on its website (http://www.dcfra.gov/) including all press releases since the beginning of 1997, the Board’s bylaws, Congressional and Council legislation, annual reports, commissioned reports by consultants, summaries of major service issues it addressed, and biographies of Board members. I accessed saved versions of this website from December 1998 through the end of the Control Board using the Internet Archives (http://web.archive.org) in May 2008.

The District Archives have catalogued almost two hundred boxes of Control Board records. The collection is expansive because the Board oversaw almost all aspects of local governance for part of their term. This research was constrained to the twelve boxes of incoming correspondence issues, because those boxes were most likely to include public reactions to and interactions with the Board. The archives were my source for letters and letter campaigns addressed to the Control Board in 1997, 2000, and 2001. The other categories of records in the District Archives largely overlapped with my other documentation such as General Counsel and financial reference files.

My research on the District also consisted of semi-structured interviews with thirteen key actors and questions that closely matched those for Miami. In attempting to represent the various constituencies related to the Board, I interviewed four control board members, the Board’s legal counsel, Representative Norton, Clinton Administration members responsible for designing the Board, two journalists largely critical of the Board, a District councilmember, an aide to Mayor Barry, and the executive director of a local fiscal watchdog group (Table A2-1). I did not interview union leadership or the most active protestors against the Board. Representatives of Marion Barry and Anthony Williams declined my requests for an interview. Questions for Franklin Raines, the designer of the Revitalization Act, were similar to other interviews but
focused more on the development of the Revitalization Act. In addition, one of my interviewees, Alice Rivlin, is a member of my dissertation committee and was interviewed on multiple occasions. Rivlin’s participation on my committee may have also impacted my analysis, although I was not aware of her experience as chair of the District Control Board or outlook influencing my research. These 45-minute to one-hour interviews were in person except one phone interview and occurred between November 2007 and August 2008.
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*Public meeting October 1*, Miami City Commission (1996h).

*Public meeting October 6*, Miami City Commission (1996i).

*Public meeting October 7*, Miami City Commission (1996j).

*Public meeting September 12*, Miami City Commission (1996k).

*Public meeting April 2*, Miami City Commission (1997a).

*Public meeting April 8*, Miami City Commission (1997b).
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- 361 -


