REPORT | October 2017

RUST BELT CITIES AND THEIR BURDEN OF LEGACY COSTS

Stephen Eide
Senior Fellow

MI

About the Author

Stephen Eide is a senior fellow at the Manhattan Institute. His work focuses on public administration, public finance, political theory, and urban policy. His writings have been published in *Politico*, *Bloomberg View*, *New York Post*, *New York Daily News*, *Academic Questions*, *The Weekly Standard*, *Wall Street Journal*, and *City Journal*.

Eide was previously a senior research associate at the Worcester Regional Research Bureau. He holds a B.A. from St. John's College in Santa Fe, New Mexico, and a Ph.D. in political philosophy from Boston College.

Contents

Executive Summary

The future of America's Rust Belt—urban areas in the Northeast and Midwest hit hard by industrial decline—is now under discussion, for two reasons. First, in the 2016 presidential election, Donald Trump won many of these states by raising hopes that decades of manufacturing-job losses could somehow be reversed. Second, the revival of cities such as Boston, Pittsburgh, and New York has generated interest in whether other distressed cities may replicate their successes.

This report will inform debate about a Rust Belt revival by surveying conditions in major poor Rust Belt cities. Many decisions made at the national level regarding taxes and trade policy may have some bearing on these cities' prospects; but in practice, local officials have been, and will remain, chiefly responsible for trying to revitalize the Rust Belt.

The main obstacle to revitalization that this report highlights is the burden of legacy costs: government debt and retirement-benefit liabilities. Most Rust Belt cities have seen their poverty rates and legacy cost benefits increase over the past half-century.

The data are sobering:

- Of the 96 Rust Belt cities surveyed in this report—all of which have a population of at least 60,000 and a poverty rate above their respective state's average—72, or exactly three-quarters—have less population than their 1900–2010 maximum. Of those that have lost population, half saw their populations reach their highest point in the 1950s or 1960s.

- *All cities* surveyed have seen their poverty rates increase since 1970. All but three have seen their poverty rates increase at a greater rate than that of their state.

- Between 1972 and 2015, the most recent year for which data are available, 71 of the 96 Rust Belt cities surveyed saw their per-capita debt burdens increase in real terms.

- In 46 of the 66 cities surveyed for which data are available, or 70%, retirement-benefit liabilities—pensions and retiree health care—were a larger burden than bonded debt in 2015.

Rust Belt cities' legacy cost burden will continue to weigh on them just as much as will their legacy of industrial decline. Costs associated with both bonded debt and retirement-benefit liabilities will reduce scarce funds available for existing services and future improvements. It is doubtful that Rust Belt cities can grow their way out of their struggle with legacy costs. High debt and retirement-benefit liabilities, as well as shrinking tax bases, spring from and perpetuate a lack of private investment. For these reasons, state governments will have a vital support role to play in ensuring the ability of Rust Belt cities to continue providing basic municipal services.

RUST BELT CITIES AND THEIR BURDEN OF LEGACY COSTS

Population and Poverty Analysis

This report focuses on poor major cities in 11 Rust Belt states: Connecticut, Illinois, Indiana, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and Wisconsin. "Major" is here defined as having a population of at least 60,000 residents, and "poor" is defined as having a higher poverty rate than the state average.

By these definitions, there are 96 major poor Rust Belt cities in America. ("City" here denotes a central city, not a metropolitan area; there are, in total, 135 localities in these 11 states with a population greater than 60,000.) This cohort includes cities famous for their struggles with severe fiscal, social, and economic decline, such as Detroit, as well as a handful of reputed "comeback cities," such as New York, Pittsburgh, and Boston.

In 1950, these 11 states contained 45% of America's population. That figure now stands at 31%. They elected 196 members to the U.S. House of Representatives in 1950; but they elect only 138 today, a 30% decline. Though all 11 states did grow in population from 1950 to today, they did so much more slowly than the rest of America. From 1950 to 2016, the 11 Rust Belt states' population collectively grew 46%; all other states' population grew 169%.[1]

More striking than these states' slow growth relative to the rest of the U.S. has been the absolute decline of many of their urban centers. According to U.S. Bureau of Labor Statistics data, the number of manufacturing jobs in America peaked in June 1979 at 19.7 million, but the decline in the Rust Belt began many years before that.[2] Seventy-two of the 96 cities surveyed have less population today than they did between 1900 and 2010; 36 of these 72 had a maximum population in 1950 or 1960, according to the decennial census.[3] (For 24 cities, their peak population is the present.)

Figure 1 shows the largest historical population figure from the decennial census and 2016 Population Estimates Program, alongside the current population, and the population change from the peak to now, for a sample of cities.[4] Population decline has affected large and midsize cities alike. For the entire cohort of cities studied, the median 2016 population of cities that are currently at a historical peak is 98,352; the size of cities that have less population now than they once had is 94,659.

It is also important to look at recent trends in population, in addition to declines since the World War II era. **Figure 2** examines a sample drawn from the 72 Rust Belt cities whose population is now below their peak. Of the total cohort, only 27 cities experienced population growth between 1990 and 2016: while some cities' population losses have stabilized and even reversed in recent decades, most major poor Rust Belt cities that have less population than their industrial-era peak have continued to lose population in recent decades.

"Shrinking cities" create numerous policy challenges for municipal government, such as blight

FIGURE 1.

Peak Population Years and Change in Population Between Peak and Present, Select Major Poor Rust Belt Cities

	2016 Population	Peak Pop., 1900–2016	Peak Pop. Year, 1900–2016	Pop. Loss, Peak to Present
Detroit	672,795	1,849,568	1950	63.6%
Youngstown	64,312	170,002	1930	62.2%
Cleveland	385,809	914,808	1950	57.8%
Gary	76,424	178,320	1960	57.1%
Buffalo	256,902	580,132	1950	55.7%
Pittsburgh	303,625	676,806	1950	55.1%
Flint	97,386	196,940	1960	50.6%
Erie	98,593	138,440	1960	28.8%
Chicago	2,704,958	3,620,962	1950	25.3%
Philadelphia	1,567,872	2,071,605	1950	24.3%
Cicero	82,992	85,616	2000	3.1%
Lowell	110,558	112,759	1920	2.0%
Waterbury	108,272	110,366	2010	1.9%
Yonkers	200,807	204,297	1970	1.7%
Haverhill	62,873	62,873	2016	N/A
Quincy	93,688	93,688	2016	N/A
Elizabeth	128,640	128,640	2016	N/A
New York City	8,537,673	8,537,673	2016	N/A
Allentown	120,443	120,443	2016	N/A
Janesville	64,159	64,159	2016	N/A

Source: Author's calculations based on data from the U.S. Census Bureau. See endnote 4. For the full data sets for all 96 cities, click on the Excel file link available at this report's landing page.

FIGURE 2.

Change in Population for Select Rust Belt Cities Whose Population Is Below Its Peak, 1990–2016

	1990 Population	2016 Population	# Change, 1990–2016	% Change, 1990–2016
Detroit	1,027,974	672,795	-355,179	-34.6%
Gary	116,646	76,424	-40,222	-34.5%
Youngstown	95,732	64,312	-31,420	-32.8%
Flint	140,761	97,386	-43,375	-30.8%
Cleveland	505,616	385,809	-119,807	-23.7%
Buffalo	328,123	256,902	-71,221	-21.7%
Cincinnati	364,040	298,800	-65,240	-17.9%
Pittsburgh	369,879	303,625	-66,254	-17.9%
Camden	87,492	74,420	-13,072	-14.9%
Hartford	139,739	123,243	-16,496	-11.8%
Erie	108,718	98,593	-10,125	-9.3%
Milwaukee	628,088	595,047	-33,041	-5.3%
Chicago	2,783,726	2,704,958	-78,768	-2.8%
Philadelphia	1,585,577	1,567,872	-17,705	-1.1%
Newark	275,221	281,764	6,543	2.4%
Yonkers	188,082	200,807	12,725	6.8%
Lowell	103,439	110,558	7,119	6.9%
Worcester	169,759	184,508	14,749	8.7%
Providence	160,728	179,219	18,491	11.5%
Cicero	67,436	82,992	15,556	23.1%

Source: Author's calculations based on U.S. Census Bureau data. See endnote 4. For the full data sets for all 96 cities, click on the Excel file link available at this report's landing page.

and poverty. Economic decline moves formerly middle-class families into the lower class; it prompts affluent families to move away because of a perceived lack of opportunity; and it tends to draw in more poor residents because of a low cost of living.

Figure 3 presents a sample of current and historical poverty rates for Rust Belt cities. All have seen their poverty rates increase since 1970; 67 also had a higher poverty rate than their state average in 1970. All but three (Haverhill and Lowell in Massachusetts; and New York City) saw their poverty rates increase faster than their state as a whole. More often than not, it seems, cities that are poor stay poor.

Often, if not always, deep population losses correspond with extremely high current poverty rates. **Figure 4** presents two lists of cities selected from the 96 surveyed: the 10 poorest and the 10 with the sharpest population losses. These lists share six out of 10 members.

Fiscal Analysis

City-level data can mask important changes and disparities at the neighborhood level. In the 1970s, the population of one South Bronx neighborhood fell by almost two-thirds (slightly more than Detroit's decline from 1950 to 2016), while the city's population as a whole fell by only 10%.[5] Cleveland lost more than 100,000 residents between 1990 and 2010, but its downtown population nearly doubled during the same span.[6] Still, measures of citywide economic health are important to monitor because they show the ability of the whole city's tax base to fund the cost of city government and to pay debt and liabilities.

The "official" poverty rate documented by the census—and used in the calculations above—has been criticized as an imperfect measure of economic distress. The poverty rate considers cash income but ignores the value of noncash benefits, such as Medicaid, as well as

changes over time to, and geographical disparities in, the cost of living. Nevertheless, as the Heritage Foundation's Robert Rector and Jennifer Marshall explain, the census poverty rate remains "a good measure of the number of Americans who are self-sufficient."[7] By the same token, a city's poverty rate is critical in assessing a city's self-sufficiency and ability to support the cost of local government. Many states take the local poverty rate into account when deciding how much of a community's educational expenses should be paid by state taxpayers.

FIGURE 3.

Change in Poverty Rates, 1970–2015, Rust Belt States and Select Cities

	1970 Poverty Rate (%)	2011–15 Poverty Rate (%)	Percentage Point Change	% Change
CONNECTICUT	7.2	10.5	3.3	45.8
Waterbury	9.5	25.1	15.6	163.2
ILLINOIS	10.2	14.3	4.1	40.2
Chicago	14.3	22.3	8.0	55.9
Cicero	6.2	21.4	15.2	242.7
INDIANA	9.7	15.4	5.7	58.8
Gary	13.8	37.1	23.3	168.6
MASSACHUSETTS	8.6	11.6	3.0	34.9
Haverhill	9.2	12.2	3.0	33.0
Lowell	11.3	14.0	2.7	24.2
Quincy	6.8	18.6	11.8	172.4
MICHIGAN	9.4	16.7	7.3	77.7
Dearborn	5.5	28.9	23.4	423.2
Detroit	14.6	40.3	25.7	176.2
Flint	12.2	41.2	29.0	238.7
NEW JERSEY	8.1	10.8	2.7	33.3
Elizabeth	11.4	19.0	7.6	66.5
NEW YORK	11.1	15.7	4.6	41.4
Buffalo	14.8	31.4	16.6	112.1
New York City	14.6	20.6	6.0	41.3
Yonkers	7.2	16.7	9.5	132.6
OHIO	10.0	15.8	5.8	58.0
Cleveland	17.1	36.2	19.1	112.1
Youngstown	13.8	38.3	24.5	177.4
PENNSYLVANIA	10.6	13.5	2.9	27.4
Allentown	9.3	26.5	17.2	185.3
Bethlehem	8.7	17.5	8.8	101.2
Philadelphia	15.1	26.4	11.3	75.4
Pittsburgh	15.0	22.9	7.9	52.6
WISCONSIN	9.8	13.0	3.2	32.7
Janesville	5.6	15.2	9.6	170.6

Source: Author's calculations based on U.S. Census Bureau data. See endnote 4. For the full data sets for all 96 cities, click on the Excel file link available at this report's landing page.

High poverty creates revenue problems for Rust Belt city budgets. An additional source of budget pressure, on the spending side, is their substantial legacy costs associated with debt and retirement-benefit burdens. In total, in 71 of the 96 Rust Belt cities surveyed, the inflation-adjusted per-capita debt burden increased from 1972 to 2015. **Figure 5** presents census data on outstanding debt totals for a sample of cities.[8]

It is unclear how much of this debt should have been issued. Whether they are growing or not, old cities do have many capital needs for which they sometimes need to take on long-term spending commitments. But the census figures in Figure 5 also include "private purposes," a category that includes debt issued to fund economic-development efforts, such as sports stadiums and convention centers.[9] Nationwide, according to the most recent census data, $210 billion of the total $1.8 trillion in outstanding local government long-term debt is for "private purposes."[10] But in the case of four Rust Belt cities—Kalamazoo, Albany, Aurora (Illinois), and Syracuse—debt for private purposes constitutes more than half of the total outstanding public long-term debt.

What is clearly of concern is the growth of debt burdens as poverty rises and population declines. Per-capita debt calculations understate the problem's severity: in all cities surveyed in this report, residents were more likely to be poor in 2015 than in 1972 (Figure 3). Since the early 1970s, Cleveland has lost almost half its residents and seen its poverty rate more than double; yet

FIGURE 4.

Ten Poorest Major Rust Belt Cities vs. Ten Major Poor Rust Belt Cities with the Deepest Population Losses

Highest Poverty Rates		Deepest Pop. Losses	
City	2011–15 Poverty Rate	City	Pop. Loss, Peak to Present
Flint	41.2%	Detroit	63.6%
Detroit	40.3%	Youngstown	62.2%
Camden	39.9%	Cleveland	57.8%
Reading	39.6%	Gary	57.1%
Youngstown	38.3%	Buffalo	55.7%
Gary	37.1%	Pittsburgh	55.1%
Cleveland	36.2%	Flint	50.6%
Dayton	35.5%	Dayton	46.4%
Syracuse	34.8%	Scranton	46.1%
Kalamazoo	33.9%	Cincinnati	40.7%

Source: Author's calculations based on U.S. Census Bureau data

FIGURE 5.

Change in Per-Capita Long-Term Debt Burdens, Select Major Poor Rust Belt Cities, 1972–2015

	1972 Per-Capita Long-Term Debt Outstanding (Real 2015 $)	2015 Per-Capita Long-Term Debt Outstanding (2015 $)	$ Change in Per-Capita Debt Burden	% Change in Per-Capita Debt Burden
Connecticut				
Waterbury	$1,624	$4,342	$2,718	167.3%
Illinois				
Chicago	$1,782	$7,490	$5,708	320.4%
Cicero	$377	$1,027	$650	172.2%
Indiana				
Gary	$1,151	$272	-$879	-76.4%
Massachusetts				
Haverhill	$1,195	$1,417	$221	18.5%
Lowell	$1,076	$2,019	$943	87.7%
Quincy	$1,656	$1,895	$239	14.4%
Michigan				
Detroit	$2,419	$11,015	$8,596	355.3%
Flint	$1,238	$1,343	$105	8.5%
New Jersey				
Elizabeth	$1,032	$1,262	$230	22.3%
New York				
Buffalo	$2,537	$1,690	-$847	-33.4%
New York City	$5,363	$13,489	$8,126	151.5%
Yonkers	$1,705	$2,454	$749	43.9%
Ohio				
Cleveland	$2,187	$5,111	$2,924	133.7%
Youngstown	$834	$199	-$636	-76.2%
Pennsylvania				
Erie	$1,296	$1,693	$397	30.7%
Philadelphia	$2,922	$3,275	$353	12.1%
Pittsburgh	$1,025	$1,746	$722	70.4%
Wisconsin				
Janesville	$2,866	$1,691	-$1,175	-41.0%
Milwaukee	$1,666	$1,175	-$491	-29.4%

Source: Author's calculations based on U.S. Census Bureau data. See endnote 4. For the full datasets for all 96 cities, click on the Excel file link available at this report's landing page.

its total long-term debt load grew, in real terms, by over $300 million (from $1.6 billion to close to $2 billion).[11]

Of further concern are retirement-benefit liabilities: long-term spending commitments that city governments assume when they promise their employees defined-benefit pension and retiree health-care plans. Data for Rust Belt cities' retirement-benefit liabilities are not as comprehensive as for their bonded debt burdens. But 46 of the 66 cities for which full data were available, or 70%, owed more for retirement benefits than for government debt in 2015. **Figure 6** presents a sample from this data set.[12]

The numbers in Figure 6 rely on cities' reported liabilities, which are estimated using assumptions that many financial economists consider excessively optimistic. All pension systems "discount" their long-term liabilities in order to express them in meaningful, present-value terms. State and local government pension systems rely on their assumed rate of return on investments (7% or higher) to discount their liabilities, whereas systems in the private sector as well as other nations use interest rates for corporate or government bonds (6% or lower).[13] The lower the discount rate, the more underfunded a system appears and the more onerous future obligations appear. Thus, public pension systems' use of high discount rates makes their unfunded liabilities—the debt-like obligations composed of the gap between assets on hand and the value of benefits promised—smaller than they otherwise would be. It is therefore all the more striking that retirement-benefit liabilities computed with the conventional discount rate exceed bonded debt totals in most cities surveyed in this report.[14]

Responsibly managing a defined-benefit retirement system requires a willingness to fund the system adequately as well as the ability to do so. Many plan sponsors, such as the New Jersey, Illinois, and Connecticut state governments, have developed deep pension underfunding problems because they failed to contribute enough into their systems during the "good times." They possessed the ability to pay for their pension commitments but not the willingness to do so. A weak tax base, however, is just as harmful to a public pension system as weak management. Even if a city is willing to pay its pension liabilities, it may be financially incapable of doing so.

Hartford, Connecticut, for example, has made 100% of its actuarially recommended pension contributions for many years. Nonetheless, Hartford's poor economic track record over recent decades (about one-third of its population lives in poverty)[15] should raise concern about how much its tax base is likely to grow in future decades, which, in turn, should raise concerns about whether Hartford should be making multigenerational spending commitments. Hartford's ability to issue debt is limited by state law and by its below-investment-grade, or "junk," credit rating.[16] Yet Hartford continues to accrue pension and retiree health-care liabilities at the same rate as healthy, AAA-rated cities.

FIGURE 6.

Retirement Benefit Liabilities vs. Debt Burdens, Select Rust Belt Cities, 2015

	Unfunded Pension Liability (2015)	Unfunded Retiree Health-Care Liability (2015)	Long-Term Debt Obligations (2015)	Total	Retirement Benefit Share of All Long-Term Spending Commitments
Connecticut					
Waterbury	$180,258,000	$987,693,000	$472,309,000	$1,640,260,000	71.2%
Illinois					
Chicago	$33,846,168,000	$802,571,000	$20,324,194,000	$54,972,933,000	63.0%
Indiana					
Indianapolis	$977,830,000	$166,390,000	$5,032,062,000	$6,176,282,000	18.5%
Massachusetts					
Boston	$1,311,055,000	$2,053,132,000	$1,569,878,000	$4,934,065,000	68.2%
Haverhill	$141,269,878	$270,890,482	$88,689,000	$500,849,360	82.3%
Lowell	$203,753,583	$496,236,125	$223,455,000	$923,444,708	75.8%
Quincy	$328,393,427	$655,435,122	$177,112,000	$1,160,940,549	84.7%
Michigan					
Detroit	$2,866,353,052	$2,415,363	$7,449,832,000	$10,318,600,415	27.8%
Flint	285,358,365	$240,596,130	$131,845,000	$657,799,495	80.0%
New York					
Buffalo	$15,847,118	$1,428,412,000	$436,721,000	$1,880,980,118	76.8%
New York City	$51,998,987,000	$85,484,552,000	$114,878,857,000	$252,362,396,000	54.5%
Yonkers	$31,363,099	$751,600,000	$491,651,000	$1,274,614,099	61.4%
Ohio					
Akron	$192,179,073	$182,820,000	$640,667,000	$1,015,666,073	36.9%
Cincinnati	$1,312,452,000	-$116,057,000	$918,231,000	$2,114,626,000	56.6%
Pennsylvania					
Allentown	$68,502,450	$79,819,800	$92,924,000	$241,246,250	61.5%
Erie	$109,834,188	$14,469,580	$168,386,000	$292,689,768	42.5%
Philadelphia	$5,904,205,204	$1,732,100,000	$5,124,495,000	$12,760,800,204	59.8%
Pittsburgh	$851,295,404	$564,111,000	$530,652,000	$1,946,058,404	72.7%
Rhode Island					
Providence	$900,782,000	$980,674,000	$679,076,000	$2,560,532,000	73.5%
Wisconsin					
Janesville	-$6,922,131	$34,300,425	$108,272,000	$135,650,294	20.2%

Source: Author's calculations based on U.S. Census Bureau data. See endnote 4. For the full data sets for all 66 cities, click on the Excel file link available at this report's landing page.

Eds and Meds

It is difficult to predict the future of the Rust Belt economy. After the "Black Monday" of Sept. 19, 1977,[17] when thousands of steelworkers in Ohio's Mahoning Valley were laid off virtually overnight, few would have predicted that nearly 40 years later, the Youngstown Business Incubator would gain recognition as one of the leading business incubators in the world.[18] Pittsburgh is now home to Ace Hotel and corporate branches of Facebook, Apple, and Google. Thirty years ago, most discussion of economic policy in Pittsburgh focused on the terminal decline of the steel industry.[19]

In 1950, more than one-third of all jobs were in manufacturing in 67 of the 93 cities for which data were available.[20] **Figure 7** shows how vital manufacturing used to be in a sample of Rust Belt cities' economies. At least in terms of their job markets, Rust Belt cities' economies are more diversified than they were during their industrial era. In 90 of 96 cities, the largest census-designated job category is now "educational services, and health care and social assistance" (see **Figure 8** for a set of sample cities). In only eight cities (New Haven, Champaign, Bloomington, Cambridge, Ann Arbor, East Orange, Rochester, and Syracuse) does this category—sometimes referred to as "eds and meds"—comprise one-third or more of the total civilian jobs.

FIGURE 7.

Manufacturing as Share of Total Jobs in Select Rust Belt Cities, 1950, 1980, and 2015

	Percent Employed In Manufacturing, 1950	Percent Employed In Manufacturing, 1980	2011–15 Percent Employed in Manufacturing
Connecticut			
Waterbury	55.0%	40.6%	14.6%
Illinois			
Chicago	36.7%	26.6%	8.9%
Cicero	53.9%	36.2%	20.4%
Indiana			
Gary	54.2%	42.9%	15.0%
Massachusetts			
Boston	23.7%	14.3%	4.4%
Lowell	46.5%	41.6%	16.4%
Quincy	30.4%	15.3%	5.6%
Haverhill	53.5%	40.3%	11.9%
Michigan			
Detroit	46.0%	28.6%	13.6%
Flint	56.3%	42.3%	15.0%
New Jersey			
Elizabeth	51.7%	38.6%	11.0%
New York			
Yonkers	32.5%	19.2%	4.1%
New York City	28.0%	17.4%	3.7%
Ohio			
Youngstown	46.2%	30.6%	14.1%
Cleveland	42.4%	33.2%	12.9%
Pennsylvania			
Pittsburgh	28.2%	14.6%	5.5%
Erie	47.7%	34.0%	14.9%
Philadelphia	35.2%	20.9%	6.7%
Allentown	42.6%	35.8%	14.3%
Wisconsin			
Green Bay	27.1%	25.1%	18.9%

Source: Author's calculations based on U.S. Census Bureau data. See endnote 4. For the full data sets for all 96 cities, click on the Excel file link available at this report's landing page.

It was fortuitous that higher education and health care began to grow as manufacturing declined during the later decades of the 20th century. In addition to providing many jobs, medical centers and colleges boost local economies through philanthropy, through investing in city downtowns, and in many other ways. But Rust Belt cities' reliance on "eds and meds" raises serious questions about whether they can be expected to grow their way out of their legacy-cost challenges.

One major downside of relying on eds and meds, which are generally nonprofit institutions, has been the growing share of many cities' tax bases that is exempt from property taxes. Thirty percent of the tax base of Erie, Pennsylvania, is tax-exempt; half or more of the tax bases of Hartford (Connecticut), Harrisburg (Pennsylvania), and Camden (New Jersey) are tax-exempt.[21] This is the result of stagnation in local for-profit industries and expansions by governments and large nonprofit colleges and hospitals. Sometimes, nonprofits or governments directly reduce local property tax revenues by purchasing formerly taxable properties.[22] Property taxes are a significant source of local revenues throughout the Rust Belt (**Figure 9**). Thus, the more of a city's property tax base is tax-exempt, the less fiscal flexibility it has.

Additionally, some have questioned how much growth local economies can expect from higher education and health care when these two industries are facing sustained pressure from the public and government to keep consumer costs down.[23] In the aggregate, this pressure may not significantly reduce the total number of health-care and higher-education jobs in America. (The Bureau of Labor Statistics predicts that health-care jobs will grow more than any other field in coming years.)[24] But it could prompt changes harmful to certain Rust Belt cities.

For example, many expensive but nonselective private colleges are located in Rust Belt cities (**Figure 10**). This is a higher-education model that could face considerable strain in future years. Nationwide, the average net price (tuition and fees after financial aid) at a nonprofit, four-year private college is $25,400, compared with $13,200 for in-state tuition at a four-year public institution.[25] Private, regional schools located in areas with declining populations will face intensified competition among themselves and with cheaper state schools. According to a 2016 report by the Western Interstate Commission for Higher Education, the Midwest's and Northeast's shares of America's high school graduates will likely decline over the next 15 years, from a combined share of 40.7% in 2013 to approximately 35% in 2030.[26] Having to compete for a reduced number of incoming freshmen will increase pressure on college endowments. The closure of even a small college could cost a local economy more than a thousand well-paying jobs.

The larger lesson that the rise of eds and meds should hold for policymakers is that, at the city level, economic-development policy often has little effect on economic development. The expansion of health care and education throughout heavy manufacturing's decline was not the result of urban-policy decisions.

During the "urban renewal" era immediately following World War II, though Rust Belt city officials debated urban policy extensively, they focused mainly on

strengthening downtown retail and commercial corridors (such as by building urban freeways and subsidized parking garages), addressing "slum" conditions, and stabilizing manufacturing (such as by encouraging the development of industrial parks). The parts of the urban economy where Rust Belt city officials concentrated their efforts during the 1950s and 1960s have weakened, and the areas that they overlooked have strengthened in the late 20th and early 21st centuries.

Lowell, Massachusetts, whose population peaked in 1920, before the textile industry moved south (Figure

FIGURE 8.

Select Rust Belt Cities' Labor Markets by Industry, 2011–15

	Percent Employed in Construction	Percent Employed in Manufacturing	Percent Employed in Retail	Percent Employed in Transportation and Warehousing, and Utilities	Percent Employed in Finance and Insurance, and Real Estate and Rental and Leasing	Percent Employed in Professional, Scientific, and Management, and Administrative and Waste Management Services	Percent Employed in Educational Services, and Health Care and Social Assistance	Percent Employed in Arts, Entertainment, and Recreation, and Accommodation and Food Services	Percent Employed in Other Services, Except Public Administration	Percent Employed in Public Administration	Other
Connecticut											
Waterbury	5.2%	14.6%	12.8%	4.5%	4.6%	6.9%	28.0%	8.9%	5.3%	4.8%	4.6%
Illinois											
Chicago	4.0%	8.9%	9.2%	6.1%	8.2%	15.5%	22.8%	11.2%	5.2%	4.2%	4.9%
Cicero	8.3%	20.4%	10.6%	6.3%	4.6%	11.1%	11.7%	15.2%	4.4%	2.1%	5.1%
Indiana											
Gary	3.2%	15.0%	10.9%	6.9%	4.5%	7.2%	27.4%	13.1%	4.8%	5.1%	1.9%
Massachusetts											
Lowell	5.0%	16.4%	10.5%	4.0%	4.0%	11.9%	25.9%	10.2%	4.0%	4.0%	4.2%
Quincy	4.5%	5.6%	10.1%	4.4%	12.0%	13.1%	24.1%	13.4%	4.2%	4.0%	4.6%
Michigan											
Detroit	3.6%	13.6%	10.3%	5.8%	4.8%	11.4%	24.8%	11.9%	5.3%	4.5%	3.8%
Flint	4.1%	15.0%	12.2%	4.1%	3.2%	7.6%	27.3%	12.0%	6.2%	4.0%	4.2%
New Jersey											
Elizabeth	7.1%	11.0%	11.7%	13.6%	3.8%	11.1%	17.0%	9.4%	6.7%	2.2%	6.3%
New York											
Buffalo	3.3%	8.9%	10.5%	4.5%	6.9%	11.0%	30.9%	12.1%	4.1%	4.0%	3.9%
Syracuse	3.9%	6.4%	11.7%	4.4%	4.6%	9.4%	35.3%	11.7%	4.9%	3.3%	4.5%
New York City	4.9%	3.7%	9.9%	5.9%	9.7%	13.0%	26.4%	10.9%	5.5%	3.7%	6.2%
Ohio											
Youngstown	4.3%	14.1%	12.3%	4.8%	3.0%	8.6%	26.6%	13.7%	5.8%	3.6%	3.2%
Cleveland	4.0%	12.9%	10.7%	5.0%	5.5%	10.1%	26.2%	11.7%	4.5%	4.9%	4.4%
Pennsylvania											
Pittsburgh	3.8%	5.5%	10.1%	3.6%	7.5%	11.8%	33.0%	11.5%	4.4%	4.3%	4.4%
Erie	3.9%	14.9%	12.1%	3.0%	5.7%	6.8%	28.2%	13.3%	5.2%	3.3%	3.6%
Philadelphia	4.0%	6.7%	10.7%	5.3%	6.1%	11.6%	30.3%	10.1%	4.8%	6.3%	4.2%
Rhode Island											
Providence	4.0%	12.0%	10.9%	2.8%	4.6%	10.1%	32.1%	12.1%	4.9%	2.1%	4.3%
Pawtucket	5.0%	14.3%	13.5%	3.5%	5.5%	9.4%	25.0%	10.7%	4.9%	3.6%	4.5%
Wisconsin											
Janesville	5.1%	21.2%	13.5%	4.6%	3.9%	6.8%	22.2%	8.8%	4.6%	2.8%	6.5%

Source: Author's calculations based on U.S. Census Bureau data. See endnote 4. For the full data sets for all 96 cities, click on the Excel file link available at this report's landing page.

FIGURE 9.

Property Taxes as a Share of Local Government General and General Own-Source Revenues in Rust Belt States, 2015

	Property Tax as Share of Total General Revenues	Property Tax as Share of General Own-Source Revenues
Connecticut	58.7%	84.8%
Illinois	40.3%	60.3%
Indiana	23.9%	38.7%
Massachusetts	50.6%	76.7%
Michigan	27.3%	51.8%
New Jersey	57.5%	79.7%
New York	29.4%	43.1%
Ohio	27.5%	43.4%
Pennsylvania	31.4%	50.8%
Rhode Island	56.2%	80.2%
Wisconsin	35.0%	63.4%

*The census defines general revenue as 'all revenue except that classified as liquor store, utility, or insurance trust revenue.' 'Own-source' revenues are raised from individuals or corporations within a city's borders.

Source: Author's calculations based on U.S. Census Bureau data

1), is said to have been "too poor in the 1950s and 1960s to undertake urban-renewal programs."[27] This enabled the city, in more recent years, to take old mill buildings along the Merrimack River and rehab them as housing. Cities that moved aggressively, in the 1970s and 1980s, to build urban malls to counteract the movement of retail to the suburbs met with mixed results.[28] At present, though, cities without much downtown retail may lack for vitality but are also less exposed to the threat of the "retail apocalypse," through which more commerce is expected to move online and away from malls and other brick-and-mortar stores.[29]

Conclusion

Rust Belt cities have long been trying to respond to social and economic decline. Some officials continue to pursue a revival of manufacturing.[30] Academics and, to a lesser extent, policymakers have tried to develop "shrinking city" agendas that start by recognizing that postindustrial cities are not likely to return soon to postwar economic health.[31] But political necessity forces most city officials to focus more on revitalization than on how to manage decline. Furthermore, aside from some obvious areas, such as blight removal, it can be just as difficult to measure whether "shrinking city" policies are working as it is to gauge whether local economic-development policy is working.[32]

It's fair to say that most city officials believe that the federal government can and should take more responsibility for urban revitalization. During Democratic presidential administrations, the focus tends to be on more federal funds for infrastructure and social programs. The Trump administration's protectionist rhetoric has raised hopes that industrial and/or trade policy might restore prosperity in the Rust Belt. Even in cases where their population decline may have leveled off, many Rust Belt cities are likely to remain in a vicious cycle—where low levels of growth as well as high debt and retirement liabilities push up tax burdens, causing inadequate government investment, which, in turn, discourages outside private investment, thereby further dampening growth and keeping tax bases weak.

It is difficult to reduce taxes when debt and retirement-benefit liabilities are high. Any policy designed to revive the Rust Belt must come to terms with the deep fiscal challenges faced by these city governments. Despite steadily weakening tax bases, Rust Belt local officials have continued to increase debt and retirement-benefit burdens. The result is tremendous strain on city budgets.

Eighteen Pennsylvania municipalities are in the state "Act 47" program, designed to alleviate "severe financial difficulties" at the local government level.[33] The Pennsylvania state auditor classifies 13 local pension systems that are less than 50% funded, including Philadelphia's and Scranton's, as "severely distressed" in the state's 2016 Municipal Pension Reporting Program Report.[34] Scranton's Firemen's Pension Plan is only 20% funded.[35] In Michigan, nine localities (five cities and towns and four school districts) are classified by the state treasurer as in a state of "financial emergency" under the state's Local Financial Stability and Choice Act.[36]

In the most recent updates of his "Fiscal Stress Monitoring System," New York State comptroller Thomas DiNapoli found 59 school districts and 27 municipalities (counties, cities, and towns) to be in a state of "fiscal stress."[37] Buffalo has been under a state-imposed control board, the Buffalo Fiscal Stability Authority, since 2003.[38] Ohio's state auditor classifies two school districts and 21 local governments (cities, villages, and townships) as being in a condition of "fiscal emergency."[39] During the summer of 2017, Indiana appointed emergency managers to oversee both the Gary and Muncie public school systems.[40]

The Connecticut Department of Economic and Community Development includes 25 cities in its official tally of "distressed municipalities."[41] Connecticut state government was forced to place Waterbury and Bridge-

FIGURE 10.

Rust Belt-Based Expensive, Nonselective Private Colleges

College	City	Employees	Student Population	Acceptance Rate, 2016-17	Average Net Price, 2015–2016	Endowment
Cardinal Stritch University	Milwaukee	1,443	2,464	82%	$17,289	$15,077,732
Alverno College	Milwaukee	1,235	2,017	80%	$18,861	$25,317,427
Assumption College	Worcester	1,492	2,607	78%	$29,387	$100,767,112
Canisius College	Buffalo	2,265	3,734	78%	$20,767	$104,580,533
Gannon University	Erie	2,136	4,343	78%	$22,003	$56,142,327
Mercyhurst University	Erie	2,554	2,784	75%	$21,648	$31,007,765
Xavier University	Cincinnati	3,042	6,509	69%	$27,757	$153,477,802
American International College	Springfield, MA	915	3,377	69%	$20,362	$14,592,231
Springfield College	Springfield, MA	3,368	3,144	66%	$28,368	$65,321,741
Cedar Crest College	Allentown	522	1,669	66%	$19,231	$25,979,759
Le Moyne College	Syracuse	1,760	3,549	65%	$23,361	$144,832,607
Mount Mary University	Milwaukee	689	1,404	56%	$16,576	$14,734,692

Source: Form 990s and National Center for Education Statistics

port under formal state control in recent decades; Bridgeport tried unsuccessfully to file for bankruptcy in 1991.[42] For over a year, the possibility of municipal bankruptcy has been debated for Hartford, which recently retained an outside financial restructuring firm.[43] New Jersey installed an emergency manager in Atlantic City in fall 2016.[44]

Lawrence, Massachusetts, has been under a state-imposed "fiscal overseer" since 2010.[45] Springfield, Massachusetts, whose finances were directed by a state-imposed Finance Control Board from July 2004 to June 2009,[46] has a pension system that is only 25.7% funded.[47] The struggles of Chicago, which Moody's Investor Services rates below investment-grade (Ba1), or "junk,"[48] have been well chronicled; East St. Louis was under state oversight from 1990 to 2013.[49] In Rhode Island, Providence's pension system is funded at 25.3%, and Central Falls was in bankruptcy from August 2011 to September 2012.[50]

Municipal fiscal distress in the Rust Belt is pervasive and structural. Rust Belt cities' fiscal challenges are exacerbated by recessions; but they persist during economic expansions, too. Whatever else "urban revitalization" may mean, it must mean solvency. A city that cannot balance its budget and fund its debt and liabilities cannot provide police and fire protection or maintain its infrastructure. The ability of cities to deliver such services is increasingly in question during the current era of diminished municipal self-sufficiency due to increased legacy burdens and weakened tax bases.

This report has tried to show that, as bad as other times have been for cities, such as the 1970s, the threat to insolvency is *greater* now. Many state governments are active, and have been for decades, in dealing with fiscal distress in various ways. But further adjustments to the traditional relationship between state and local governments may be necessary. State governments are the only entities in a position to ensure that cities remain solvent and that basic services are delivered.

A small number of cities have recently pursued bankruptcy in order to restore solvency: Vallejo, San Bernardino, and Stockton in California; Central Falls in Rhode Island; and Detroit. Bankruptcy provides a city with the authority to reduce its legal debt and retirement-benefit obligations and the protocol through which to do so. Though there have been dozens of fiscally distressed localities since the 1970s, fewer than 10 major cities have gone bankrupt during that same span.

Municipal bankruptcy is likely to remain a rare event because federal law makes it difficult for cities to qualify, far more than for private corporations. Even for cities that have gone bankrupt, the process has yielded mixed results. Stockton and Vallejo saw their pension costs *increase* in the years following their exit from bankruptcy.[51] Cities whose bankruptcies were directed by state appointees, such as Central Falls and Detroit, came to a somewhat more favorable result.[52]

Local officials often call for more state aid to forestall insolvency. But unless accompanied by a strong oversight program, such as a control board or even a receiver, state aid risks squandering state taxpayers' funds. Fiscally distressed cities will always have their advo-

cates. But their claim on limited state revenues, against advocates for safety-net or other programs, is rarely obvious. Pairing serious oversight, which local officials typically object to, with state aid is one way to curb the risk of moral hazard for local officials who want a solution to fiscal distress that involves no sacrifice.

Alternatives to bankruptcy and state aid include state government offers of technical advice or quasi-consultancy programs, promoting more fiscal transparency for city finances, and facilitating collaboration between "stakeholders."[53] But the most serious cases of structural fiscal distress do not emerge by surprise, and local stakeholders, such as city council members and government union officials, may not be amenable to proportionately serious policy solutions.

In issuing his ruling about Detroit's eligibility for bankruptcy, Judge Steven W. Rhodes found that the state-appointed emergency manager had failed to negotiate in good faith with creditors before filing the bankruptcy petition.[54] Yet Detroit is generally considered to have been one of the more successful municipal bankruptcies. It could be argued that inordinate deference to stakeholders—government unions—is what prevented Stockton and Vallejo from seeking pension cuts in bankruptcy.

In short, state oversight is going to be required regardless of whether the approach is bankruptcy, increased financial assistance, or a further alternative. No two cities' fiscal crises are identical. For instance, addressing deeply underfunded retirement-benefit programs will require different approaches, depending on whether a city participates in a state-run system (the case with Rust Belt cities in Ohio, New Jersey, and New York) or operates its own independent system (the case with Rust Belt cities in Massachusetts, Pennsylvania, and Michigan).

The current landscape of fiscal distress is not so diverse as to frustrate at least a general policy approach, if not a specific and universal one. All roads lead to extensive and increasingly assertive forms of state involvement in Rust Belt cities.

Endnotes

The author thanks the Manhattan Institute's Connor Harris for assistance with fact-checking and data compilation and analysis.

[1] Source for figures in this paragraph: author's calculations based on data from the U.S. Census Bureau and Office of the Historian, U.S. House of Representatives.

[2] "Employees on Nonfarm Payrolls by Industry Sector and Selected Industry Detail," U.S. Department of Labor, Bureau of Labor Statistics.

[3] Mergers and annexations might account for some Rust Belt cities' increase in population over the decades. Fifteen of the 24 cities whose population is currently at a historical peak have seen an increase in land area since 1950 of more than 100 percent: Aurora, Champaign, Rockford, Springfield, and Waukegan in Illinois; Bloomington, Fort Wayne, Indianapolis, and Lafayette in Indiana; Ann Arbor, Michigan; Columbus, Ohio; and Green Bay, Kenosha, Madison, and Oshkosh in Wisconsin.

[4] The source for all data in this report on population, poverty, and employment is, ultimately, from the U.S. Census Bureau. Historical data were derived from the decennial census program, and data from more recent years were derived from the American Community Survey (poverty and employment) and the Population Estimates Program (population). Data from the latter two programs are available at the Census Bureau's American FactFinder website. The main electronic source for the historical data was the University of Virginia Library. When necessary, this source was supplemented by, and checked against, physical copies of the "County and City Data Book" and pdf versions of decennial census reports.

[5] "Table PL-P1 CD: Total Population New York City Community Districts 1970, 1980, 1990, 2000 and 2010," New York City Department of Planning.

[6] Richey Piiparinen, "Not Dead Yet: The Infill of Cleveland's Urban Core," Center on Urban Poverty and Community Development, Research Summary No. 12-02, Apr. 2012.

[7] Robert Rector and Jennifer A. Marshall, "The Unfinished Work of Welfare Reform," *National Affairs* (Winter 2013).

[8] The debt totals in Figures 5 and 6 and accompanying analysis are drawn from the Annual Survey of State & Local Government Finances, which has been conducted since the early 1950s. Though the U.S. Census Bureau collects more than one figure for debt commitments through this survey, the figure used in this report is "Net Long-Term Debt Outstanding," meaning "net" of any assets kept on hand specifically to offset the debt commitments in question. It consists of the sum of item codes 44T ("Long-Term Outstanding—Private Purposes") and 49U ("Long-Term Outstanding—Unspecified Public Purposes"), less unit code W01 "Offsets to Debt (Debt Service or Sinking Funds)." The more recent data were drawn from the 2015 survey hosted on the Census of State & Local Government Finance's homepage, and the historical data were accessed through the file "_IndFin_1967-2012.zip" hosted here.

[9] "Public debt for private purposes comprises credit obligations of a government or any of its dependent agencies for the purpose of funding private sector activities, including debt that is backed solely by the private organization(s) whose activity is being financed." "Government Finance and Employment Classification Manual," U.S. Census Bureau, Oct. 2006, section 6.4.1, p. 6-17.

[10] Author's calculations based on U.S. Census Bureau data.

[11] Author's calculations based on data from the U.S. Census Bureau and U.S. Bureau of Labor Statistics.

[12] Thirty cities from the original 96 cities surveyed in this report were not analyzed for this section because they did not report pension and/or retiree health-care liabilities in their 2015 financial statements or because those statements were unavailable. Historical data on cities' retirement-benefit liabilities are difficult to obtain, especially for a broad, multistate cohort. The only two potential data sources are city financial reports and data from the U.S. Census Bureau's survey of state and local pension systems. The latter source is relevant only for cities that operate their own independent pension system (as opposed to participating in a statewide system, which is the case with a number of cities surveyed in this report). But while the Census Bureau has collected historical data on many features of local government pension systems, it has never collected information on their unfunded liabilities. "The Census Bureau intentionally excludes several important accounting measures from its statistics. One example involves public employee retirement systems, which exclude measures of future liability, future revenue streams, and all related measures of future solvency (such as the potential amount of unfunded liabilities). These cannot be calculated from Census Bureau statistics." See "Government Finance and Employment Classification Manual," U.S. Census Bureau, Oct. 2006, p. 3-13.

With regard to cities' own financial reports, only within the past 10 years have cities been required to report liabilities related to retiree health care and, in the case of participants in statewide systems, pensions. In addition, cities rarely post on their websites financial reports more than 10 years old. Six cities (Kalamazoo, Eau Claire, Green Bay, Janesville, Oshkosh, and Racine) reported overfunded pension systems—assets in excess of benefits promised—based upon conventional actuarial assumptions. In two cases, Green Bay and Oshkosh, the estimated amount by which their pension system was funded exceeded the amount of their unfunded retiree health-care liabilities. This made it impractical to express their retirement-benefit liabilities as a share of the combined long-term debt and retirement-benefit obligations. That is the reason for the "N/A" listed for these two cities in the column denoting retirement-benefit liabilities as a share of the combined long-term debt and retirement-benefit obligations.

[13] Andrew Biggs, "The State of Public Pension Funding: Are Government Employee Plans Back on Track?" American Enterprise Institute, Sept. 2015, pp. 3–5.

[14] In his most recent estimate of state and local governments' unfunded pension liabilities, Joshua Rauh of the Hoover Institution cites, for 2015, a figure of $3.8 trillion for the nation as a whole. See Joshua Rauh, "Hidden Debt, Hidden Deficits: 2017 Edition," Hoover Institution, Table 1, p. 11; according to the Federal Reserve, state and local governments' bond obligations in 2015 totaled $3 trillion. See "Financial Accounts of the United States, Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts, First Quarter 2017," Board of Governors of the Federal Reserve System, June 8, 2017, Table L.107, p. 84.

[15] 2011-15 American Community Survey, accessed through the American FactFinder website.

[16] "Moody's Downgrades Hartford, CT's GOs to Ba2 from Baa1; Outlook Remains Negative," Moody's Investors Service, Oct. 7, 2016.

[17] Salena Zito, "The Day That Destroyed the Working Class and Sowed the Seeds for Trump," *New York Post*, Sept. 16, 2017.

[18] Marcia Pledger, "Youngstown Business Incubator Tops University-Affiliated Business Incubator List: UBI," *Cleveland Plain Dealer*, Dec. 17, 2015.

[19] John Hoerr, *And the Wolf Finally Came: The Decline and Fall of the American Steel Industry* (University of Pittsburgh Press, 1988).

[20] Data were not available for Vineland, New Jersey; Taylor and Warren, Michigan; and Danbury, Connecticut, as they were not listed in the 1950s editions of the U.S. Census Bureau's "County and City Data Book" or in the 1950 census.

[21] Mike Maciag, "Tax-Exempt Properties Rise as Cities Cope with Shrinking Tax Bases," *Governing*, Nov. 2012; idem, "Why Camden, N.J., the Murder Capital of the Country, Disbanded Its Police Force," *Governing*, June 2014; "City of Hartford, Connecticut Comprehensive Annual Financial Report for the Fiscal Year July 1, 2015 to June 30, 2016," City of Hartford Department of Finance, Table 5, p. 156; Rich Lord and Sean D. Hamill, "Who Decides Who Doesn't Have to Pay Taxes?: Ten Counties Have Hosted Tax-Exemption Fights Since 2012," *Pittsburgh Post-Gazette*, Feb. 8, 2015.

[22] Christopher Scott, "UMass Lowell Acquires Two More Privately Owned Buildings," *Lowell Sun*, June 29, 2016.

[23] Aaron K. Chatterji, "The Bad News for Local Job Markets," *New York Times*, Oct. 24, 2013.

[24] "Employment Projections—2014–24," U.S. Bureau of Labor Statistics, Dec. 8, 2015.

[25] "The Condition of Education 2017," National Center for Education Statistics, U.S. Department of Education, May 2017, pp. 278–79.

[26] Peace Bransberger and Demarée K. Michelau, "Knocking at the College Door: Projections of High School Graduates," Western Interstate Commission for Higher Education, Dec. 2016.

[27] Torey Hollingsworth and Alison Goebel, "Revitalizing America's Smaller Legacy Cities: Strategies for Postindustrial Success from Gary to Lowell," Lincoln Institute of Land Policy and Greater Ohio Policy Center, 2017, p. 38.

[28] Rhode Island's Providence Place Mall and Pittsburgh's Waterfront shopping mall are examples of successful urban malls. Less successful examples include Massachusetts's Worcester Center Galleria and Buffalo's Main Place Mall.

[29] Jason Bram and Nicole Gorton, "How Is Online Shopping Affecting Retail Employment?" Liberty Street Economics, Oct. 5, 2017.

[30] Sandra Tan and Jonathan D. Epstein, "Erie County Is Betting Big on Bethlehem Steel," *Buffalo News*, July 23, 2017.

[31] Alexia Fernandez Campbell, "Do Parts of the Rust Belt 'Need to Die Off'?" *The Atlantic*, July 20, 2016.

[32] Richey Piiparinen, " 'Smart Decline' Is Dumb," Citylab, Mar. 5, 2017; Russell Weaver et al., *Shrinking Cities: Understanding Urban Decline in the United States* (Routledge, 2016), chap. 7.

[33] "Act 47 Financial Distress," Pennsylvania Department of Community and Economic Development.

[34] "Reports: Municipal Pension Reporting Program," Pennsylvania Department of the Auditor General; "2016 Distress Scores," Pennsylvania Department of the Auditor General.

[35] "City of Scranton, Pennsylvania Financial Statements Together with Report of Independent Public Accountants for the Year Ended December 31, 2016," SB & Company, Dec. 31, 2016, p. 65.

[36] "Municipalities and School Districts in Financial Emergency," Michigan Department of Treasury.

[37] "State Comptroller DiNapoli Announces Latest Fiscal Stress Scores," Office of New York State Comptroller, Sept. 27, 2017; "DiNapoli: 59 School Districts in Fiscal Stress," Office of New York State Comptroller, Jan. 25, 2017.

[38] "Public Input," Buffalo Fiscal Stability Authority.

[39] "Fiscal Distress," Ohio Auditor.

[40] "Distressed Unit Appeal Board," Indiana State Department of Local Government Finance.

[41] "Publications," Connecticut State Department of Economic and Community Development.

[42] Stephen Eide, "Connecticut's Broken Cities: Laying the Conditions for Growth in Poor Urban Communities," Yankee Institute for Public Policy, Jan. 2017.

[43] "City of Hartford Retains Greenberg Traurig, LLP as Restructuring Counsel," Office of the Mayor, Hartford, Connecticut, July 6, 2017.

[44] "DCA Announces Designee to Oversee Atlantic City's Financial Recovery," New Jersey Department of Community Affairs, Nov. 14, 2016.

[45] "An Act Providing for the Financial Stability of the City of Lawrence," Massachusetts General Laws, Ch. 58; "City of Lawrence, Massachusetts Report on Examination of Basic Financial Statements Year Ended June 30, 2016," Lawrence City Government, Dec. 9, 2016.

[46] "City of Springfield, Massachusetts Comprehensive Annual Financial Report," Comptroller's Office of the City of Springfield, Massachusetts, Dec. 20, 2016, p. 6.

[47] Ibid, p. 80.

[48] "Moody's Places Chicago, IL's GO and Related Ratings Under Review for Possible Downgrade," Moody's Investors Service, July 7, 2017.

[49] "East St. Louis Financial Advisory Authority," Illinois Auditor General.

[50] "City of Providence, Rhode Island Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016," City of Providence Finance Department, Dec. 29, 2016, p. 49; "Basic Financial Statements and Supplementary Information with Independent Auditors' Report for the Year Ended June 30, 2016," City of Central Falls, Jan. 31, 2017, p. 54.

[51] Daniel DiSalvo and Stephen Eide, "When Cities Are at the Financial Brink: The Case for 'Intervention Bankruptcy,' " Manhattan Institute, Jan. 2017, Figures 4 and 5, pp. 12–13.

[52] Ibid.

[53] "The State Role in Local Government Financial Distress," Pew Charitable Trusts, July 2013.

[54] "Opinion Regarding Eligibility," U.S. Bankruptcy Court, Eastern District of Michigan, Southern Division, Dec. 5, 2013, sec. XV.


UPMC
K&L GATES
Hilton

Abstract

Rust Belt cities have long been trying to respond to social and economic decline. Some officials continue to pursue a revival of manufacturing. Academics and, to a lesser extent, policymakers have tried to develop "shrinking city" agendas that start by recognizing that postindustrial cities are not likely to return soon to postwar economic health. But political necessity forces most city officials to focus more on revitalization than on how to manage decline.

Any policy designed to revive the Rust Belt must come to terms with the deep fiscal challenges faced by these city governments. Despite steadily weakening tax bases, Rust Belt local officials have continued to increase debt and retirement-benefit burdens. The result is tremendous strain on city budgets.

Municipal fiscal distress in the Rust Belt is pervasive and structural. Rust Belt cities' fiscal challenges are exacerbated by recessions; but they persist during economic expansions, too. Whatever else "urban revitalization" may mean, it must mean solvency. A city that cannot balance its budget and fund its debt and liabilities cannot provide police and fire protection or maintain its infrastructure. The ability of cities to deliver such services is increasingly in question during the current era of diminished municipal self-sufficiency due to increased legacy burdens and weakened tax bases.

As bad as other times, such as the 1970s, have been for Rust Belt cities, the threat to insolvency is *greater* now. Many Rust Belt state governments are active, and have been for decades, in dealing with fiscal distress in various ways. But further adjustments to the traditional relationship between state and local governments may be necessary. State governments are the only entities in a position to ensure that cities remain solvent and that basic services are delivered.

MANHATTAN
INSTITUTE