Urban Fiscal Austerity, Infrastructure Provision and the Struggle for Regional Transit in 'Motor City'

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Abstract

Studies suggest that urban fiscal crises trigger the institutional separation of basic services from the delivery of strategic infrastructure. Traditional reformists have highlighted the economic benefits of regional approaches. Global austerity has created fiscal problems for central cities and suburbs alike, transforming the motives for regional solutions. This paper examines how the City of Detroit engineered a new regional arrangement with the surrounding suburbs to raise debt for the delivery of mass transit infrastructure. This represents a dual 'spatial fix' in the form of: (1) a 'state territorial fix' providing fiscally-stressed municipalities access to municipal bond markets; and (b) a 'speculative spatial fix' that benefits the Detroit growth coalition by linking regional mass transit to the prospect of land-use intensification.

Keywords: Fiscal crisis; urban politics; growth coalition; regional transit; Detroit

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Introduction

On 14th March, 2013, Michigan Governor Rick Snyder announced the appointment of Mr. Kevyn Orr – a corporate lawyer experienced in restructuring the debts of global corporations such as Chrysler – as an emergency manager charged with the fiscal restructuring of the City of Detroit. With some US$14 billion in debt liabilities, regular annual deficits and inability to finance essential services, Detroit has been facing bankruptcy for a number of years. The appointment of Orr as emergency financial manager was seen as necessary to promote confidence in the City's finances and secure access to capital markets for essential and strategic services (Davey, 2013). However, negotiations between the City's bondholders and officials from the employee pension fund eventually broke down and, on 13th July, 2013, at Orr's instruction, Detroit formally filed for bankruptcy, making it the largest US city ever to have undertaken such measures (Rushe, 2013). Only months earlier in December, 2012, Governor Snyder signed legislation creating a regional transit authority to serve the Detroit metro area. This represented the 24th attempt to set up a regional transit authority since the early 1970s. Following the 'race riots' of 1967 and Detroit's subsequent long-term fiscal crisis, the City has continued to struggle to secure finance for major projects and provide basic services for its citizens. The creation of a regional transit authority in 2012 can be seen as a decisive moment in the search for a territorial governance solution to Detroit's prolonged fiscal crisis and regime of urban austerity.

The topic of municipal fiscal crisis has provided fertile ground for numerous studies of regime change in US cities (see, e.g., Shefter, 1985; Peccorella, 1987; Swanstrom, 1985; Horan, 1991).

Fiscal crises create opportunities for those business interests responsible for city debts (e.g. banks and municipal bondholders), or in other respects dependent upon municipal expenditures (e.g. members of the urban growth coalition, private contractors, etc.), to usher in institutional and fiscal reforms, such as setting up regional special purpose districts or entering into multi-jurisdictional revenue-sharing arrangements (Hoch, 1984; Piven and Friedland, 1984). The ultimate goal of these state territorial structures is to insulate the more productive urban service functions (i.e. those that attract private investment and underpin capital accumulation) from those that deliver collective consumption and votes for local politicians (Cox and Jonas, 1993). For example, traditional business reform interests have regarded regional approaches as potential solutions to the challenges of delivering infrastructure arising from the metropolitan fiscal disparity problem (Bish, 1971). Historically this problem has referred to observed territorial discrepancies between the fiscal resources of declining central cities and those of the more prosperous surrounding suburbs (Cox, 1973). However, the recent sub-prime mortgage meltdown and its attendant global financial crisis have created profound fiscal challenges for US cities and suburbs alike (Peck, 2012), transforming the political and economic motives for regional solutions. The conjuncture of neoliberal urban fiscal austerity and the decentralised structures of service provision typical of US metropolitan areas make the assembly of new regional governance arrangements around infrastructure a topical focus for contemporary critical urban research (Ward and Jonas, 2004; Jonas *et al.*, 2010; Peck, 2011).

Detroit's predicament attracts our interest here because it has been held up as an extreme case of metropolitan fiscal disparity, racial tension and urban crisis (Hill, 1983, 1984; and see Rusch, 2012). A poster-child of Fordist urban growth in the 1950s and 60s, Detroit has now become a benchmark for urban shrinkage in an age of fiscal austerity (Sugrue, 1996; Peck, 2012). Due to the devastating fiscal impact of the sub-prime mortgage crisis and austerity measures introduced by the State of Michigan, Detroit's surrounding suburbs also confront serious fiscal difficulties. Our present interest is in how a major central city already of the brink of total fiscal collapse has been able to engineer a new regional arrangement with the surrounding municipalities and counties in order to raise additional debt for the delivery of regional mass transit infrastructure. Drawing upon Harvey's (1982) insights into the role of infrastructure in potentially offsetting a crisis of accumulation, we argue that regional transit in Detroit constitutes a dual 'spatial fix' comprised of: (1) a 'state territorial fix' which gives fiscally-stressed municipalities access to municipal bond markets; and (b) a 'speculative spatial fix' that benefits the Detroit growth coalition by linking regional mass transit provision to the prospect of future land-use intensification.

What follows is a detailed context of the problems associated with providing mass transit infrastructure in Metro Detroit and Southeast Michigan (see Figure 1). The analysis is based on 14 semi-structured interviews carried out with elite actors in the region in May of 2012, fiscal data collected from published sources, and local and national media coverage. The interviews investigated how fiscal austerity and financial crisis have shaped the actions, strategies and discourses of the Detroit-based growth coalition and other regional actors. This approach is coupled with analysis of default ratios and time series data of municipal accounts for a four-county Metro Detroit area. Historical documentation and media analysis enable key points of contention and consensus to be placed within the wider shifting geographies of capital investment, fiscal austerity and infrastructure provision across the Detroit region.

*****Figure 1 about here*****

The paper proceeds as follows. Section one outlines a theoretical approach which addresses how the challenges of financing infrastructure in an age of neoliberal austerity underpin the urban growth coalition's search for a 'spatial fix' to the crisis of accumulation. Subsequent sections examine how the Detroit-based growth coalition acted to engineer a deal with surrounding municipalities and counties to create a regional transit authority, secure further access to capital markets, and speculate against future returns on land-use intensification resulting from transit-corridor development. This combination of forces underpins ongoing efforts – as yet unrealised – to engineer one of the "greatest turnarounds" (Davey, 2013) in the fiscal fortunes of an American city. In our discussion and conclusion we reflect on the implications of urban fiscal austerity for contemporary modes of infrastructure provision and question the long-term sustainability of regional governance vehicles operating beyond local municipalities in the delivery of highly speculative debt-financed infrastructure.

Neoliberal fiscal austerity, the urban growth coalition and infrastructure provision

The theoretical context for the present study is the role of urban growth coalitions in securing the infrastructural conditions of growth in an age of neoliberal fiscal austerity (see Jessop *et al.*, 1999; Kirkpatrick and Smith, 2011). As originally portrayed by Molotch (1976), the urban growth machine describes a putative coalition of private and public sector players based in the city, which holds sway over processes of capital accumulation via land-use intensification. The precise configuration of the actors in the growth coalition varies from city to city but usually its recruits are drawn from banks, utilities, developers, contractors, and other locally dependent businesses (Cox and Mair, 1988), as well as the local state and various ancillary players such as labour unions, universities and sports franchises (Logan and Molotch, 1987). With the growth machine thesis continuing to attract critical interest (Jonas and Wilson, 1999; Kimelberg, 2011; Terhorst and van de Ven, 1995; Wood, 2011), attention has recently turned to understanding how the infrastructural conditions of economic growth can be sustained in contemporary capitalist cities under conditions of neoliberal fiscal austerity (Gotham, 2012; Jessop *et al.*, 1999; Jonas *et al.*, 2010; Hackworth, 2007; Kirkpatrick and Smith, 2011). Some historical context is necessary in respect of why the financing and delivery of infrastructure on a metropolitan or regional basis has become a strategic goal of the urban growth coalition.

In Europe and North America, the 1970s marked a transition away from traditional national level programmes of Keynesian provision of urban infrastructure to entrepreneurial modes, which might be characterised by *inter alia* downscaled national investment and responsibility for competitiveness placed on urban and regional state spaces (Harvey, 1989; MacLeod, 2001). Hitherto the US federal government invested directly in urban infrastructure (e.g., urban freeways) and regulated the regional housing market, resulting in decentralised urban forms which were conducive to post-war corporate investment decisions (Althuser and Luberoff, 2003). By the 1980s, the Keynesian state-centric model of financing urban infrastructure was waning due to various factors, including stagflation, environmentalism, and declining rates of productivity. The scaling back of national Keynesian-style infrastructure stimulus has led to today's highly fragmented metropolitan and local arrangements for delivering basic urban services such as roads, utilities and urban mass transit systems (Florida and Jonas, 1991; Graham and Marvin, 2001).

If metropolitan areas in the US were already known for the proliferation of local governments, special purpose vehicles and other agencies responsible for delivering basic services, the further fragmentation of such hybrid local state entities makes the present context of urban austerity especially fascinating for research on the metropolitan politics of service provision (Cox and Jonas, 1993; Peck, 2011). Urban growth coalitions have pursued new state territorial orderings (often at the wider scale of the city-region) in order to secure the conditions of growth under reduced state infrastructural subsidies (Brenner, 2002, 2004). In light of this, David Harvey's (1982) notion of the 'spatial fix' offers a prescient argument about the relationship between the crisis of capital accumulation, investment in urban infrastructure, and the search for a 'spatial fix'.

The essence of Harvey's argument is that capital deploys various territorialised strategies in order to prevent or postpone the periodic devaluations to which it is prone as a result of over-accumulation (see Harvey, 1982; 1985). Some involve expanding the terrain for accumulation by penetrating new regional markets or shifting production geographically to low-cost locations. Others involve *in situ* urban and regional investments: for instance, sinking surplus capital into the built environment and/or investing in transportation and associated infrastructure, i.e. the 'secondary circuit' of capital (see Gotham, 2012; Hudson, 2011). In the latter case, built environment investments involve speculation on anticipated future returns arising from the further intensification of local land use; returns which may not be forthcoming due to the spatial mobility of capital vis-à-vis the fixity of place-specific investments. As Harvey (1982: 378; emphasis in original) puts it:

> As space relations alter in response to transport (and related infrastructural) investment, so do the relative fortunes of capitalists in different places. Some suffer devaluation of labour power, their fixed capital and consumption fund (housing, etc.) while others enjoy, temporarily at least, excess profits and upward revaluation of available means of production and consumption. An important conclusion then follows …: *devaluation, arising for whatever reason, is always particular to a place, is always location specific.*

State expenditures can offset some of the risk of future devaluations arising from infrastructural investment (Graham and Marvin, 2001; O'Neill, 2013). But in the absence of such expenditures, finance capital must work in partnership with the local state (i.e. special districts, counties and municipalities) in the financing and delivery of urban infrastructure, thereby exposing such local state entities to potential future devaluations. Private financing arrangements have been set up locally in order to leverage private investment with the promise of a profitable rate of return over the medium-to-longer term (Torrance, 2009; Graham and Marvin, 2001). However, such investment might be forthcoming only when a specific rate of return can be guaranteed from the operation of the infrastructure in question, perhaps from predictable user/access fees or other forms of public payment for the service (Inderst, 2010; Brookfield, 2012; Preqin, 2013). Given that the mobility requirements of global capital are at odds with the revenue expectations of local state entities responsible for providing the infrastructure in question, the potentially conflicting expectations of local jurisdictions, service providers and investors must be brokered via new urban and regional coalitions and networks (Torrance, 2009).

Viewed at an abstract level, Harvey's ideas about the 'spatial fix' are provocative. Yet when re-examined concretely, and in the cold light of the current crisis, they require further elaboration. We propose that there can be two quite distinctive elements of the 'spatial fix' involved in the delivery of regional transit investment. Firstly, there is a 'state territorial fix' in the form of regional transit authority having appropriate revenue-raising and borrowing powers, which can stand apart from the municipalities, to fund and deliver transit infrastructure at an appropriate geographical scale. Second, there is a 'speculative spatial fix' in which a coalition of private investors endeavours to secure future revenues from real estate portfolios located in close spatial proximity to the proposed transit corridors. With respect to the latter element of the spatial fix, the growth coalition comes into its own in terms of preparing the ground – perhaps quite literally in the form of investing in new transit corridors – in advance of a process of land-use intensification. The underlying motive is speculation against the anticipated spill-over effects of investment in transit-oriented real estate developments. As we now suggest, in the case of Metro Detroit these two elements of the 'spatial fix' are further premised upon a metropolitan fiscal disparity problem created, in part, by the sub-prime mortgage crisis.

Financing infrastructure and the jeopardy of 'multiple austerities' in Metro Detroit

Despite significant revenue diversification, most municipalities in the US are fiscally dependent on the property tax and other local revenue sources for basic services (Pagano and Perry, 2008). With demands for basic services and infrastructure outstripping local fiscal capacities, municipalities have turned to increasingly complicated and risky financing mechanisms to meet such demands, including the municipal bond market (Hackworth, 2007). Broadly speaking, two kinds of municipal bonds can be issued: general obligation bonds; and revenue bonds. General obligation bonds are issued on the "full faith and credit" pledge of a municipality, county or state government. Prior to the crisis of 2007-8, these bonds were considered a strong form of security for lenders because of the power of municipalities to service bond debt from general taxation (Lemov, 2009). By the end of 2006, the municipal bond market had become the third largest debt market in the US and more than US$2.4 trillion was outstanding against municipal bonds (Chan *et al.*, 2009).

Revenue bonds, on the other hand are backed by a pledge of revenues forthcoming from operating a specific service or infrastructural investment such as an airport, toll road or hospital (Appleson *et al.*, 2012). Most of the infrastructure projects undertaken by state and local governments in the US are financed partially or in whole with tax-preferred bonds, which are then repaid with general tax receipts, tax-increment revenues or, in the case of revenue bonds, fees collected directly from users of the infrastructure (CBO, 2009). Revenue bonds now account for some 70 per cent of annual municipal bond issues (Chan *et al.* 2009). Accordingly, states, counties and municipalities are heavily exposed to fluctuations in bond market prices, unpredictable local revenue streams, and the willingness of finance capital to invest in urban infrastructure.

A further factor is the uneven impact of the sub-prime mortgage crisis on local property tax receipts, which is reshaping the metropolitan geography of fiscal disparity. Up until the mid-1990s, securities were bundles of prime loans which lenders sold to consumers. However, in the late 1990s lenders began bundling together ‘subprime’ loans (in this case residential mortgages) into new financial vehicles which did not have federal backing (Chomsisengphet and Pennington-Cross, 2006; Gotham, 2012). The securitization of such mortgages led those businesses traditionally involved in insuring municipal bonds (i.e. guaranteeing payment to bond investors should municipalities default) to identify a gap in the market and provide insurance to the sub-prime mortgage securitisation vehicles. The same businesses that were insuring municipal bonds were now exposed to risk in the sub-prime securities market (Lemov, 2009; Martell and Kravchuck, 2012). When the rate of mortgage defaults escalated, the status of the municipal bond insurance also suffered. Without the protection of triple A-rated insurance, municipal debt became more expensive; yet property tax revenues fell due to substantial reductions in rateable property values. Consequently, the subprime crisis placed municipal finances in a ‘double jeopardy’ comprised of declining tax receipts and increasing costs of issuing debt. Rather than a problem of fiscal disparity between the central city and surrounding suburbs, municipalities throughout an entire metropolitan area could face severe fiscal stress.

In examining the spatial pattern of subprime lending in US cities, Wyly *et al.* (2012) refer to the complex connections between race, class, local jurisdiction and mortgage default rates. Southeast Michigan Council of Governments (SEMCOG) has recently mapped the spatial effects of the subprime crisis in Metro Detroit and discovers that, though there have been high rates mortgage default in predominantly Black neighbourhoods within the City of Detroit with some 1 in 25 homes defaulting, mortgage default rates throughout the three county area of Wayne, Macomb and Oakland averaged 1 in 39 houses (SEMCOG, 2013), significantly surpassing the US average for the same period of 1 in 45 houses (see Realtytrac, 2010). The mainly White suburbs of Oakland and Macomb counties saw average foreclosure rates of 1 in every 49 and 41 homes, respectively, with some municipalities suffering default rates of 1 in 17 (SEMCOG, op. cit.). Declines in taxable property values (as opposed to absolute defaults) have been steepest in Wayne, Macomb and Oakland counties, and significantly much steeper than those in the City of Detroit. When the subprime bubble burst, property values plummeted, wiping out prior gains and leaving local municipalities over-exposed to debt.

The property value crisis has greatly eroded the local tax base, not just of the City of Detroit but also that of the surrounding suburbs and counties. This is shown in Figure 2, which uses time series data gleaned from the aggregate financial reports of all the municipalities in each county to chart recent trends in property tax revenues. After a peak in 2007-2008, there was an average 24.4% reduction in property tax revenue across the Metro Detroit area up until the end of 2011. The property crash had an especially deleterious impact on the aggregate municipal budgets of Oakland and Wayne counties because the property tax comprises a higher proportion of these two counties' general revenue capacity (circa 60%). In the City of Detroit the property tax revenue crisis was more muted, in part, because the City's prolonged fiscal crisis had already led to a pre-crash restructuring of the tax base; despite high per capita rates only 13% of Detroit's revenues come from the property tax (CRCM, 2013). This is not to downplay Detroit's recent fiscal predicament; the City remains in extreme fiscal stress due to a combination of low property tax revenue base, state-imposed budget austerity, union benefit legacies and increased borrowing costs. However, with media attention focused on Detroit's bankruptcy, the corresponding fiscal plight of surrounding municipalities has been overlooked.

Throughout Metro Detroit, the capacity of municipalities to raise more debt in capital markets to pay for infrastructure is degraded to such an extent that the idea of setting up a new governance body detached from municipal crisis to deliver essential infrastructure could at last be seriously entertained. We now examine how the Detroit growth coalition worked with local authorities in a four-county region to engineer a 'spatial fix' to urban austerity and the crisis of regional infrastructure provision.

*****Figure 2 about here*****

Race, religion and regionalism: building a transit coalition for Metro Detroit

On December 19th, 2012, Act 387 of 2012 was passed by the State of Michigan and ratified by Governor Rick Snyder. This legislation replaced an earlier law, Act 204, which was passed in 1967; it represented the 24th occasion since 1967 that Southeast Michigan had attempted to create a statutory authority with revenue generating and bond issuing powers intended to deliver some form of regional transit infrastructure. As of July, 2013, the newly-created Regional Transit Authority of Southeast Michigan (hereafter referred to as the RTA) had begun its formal meetings and at the time of writing is seeking to appoint a Chief Executive Officer. Figure 3 shows the major proposed elements of the regional transit system for Metro Detroit. From 1967 to 2012, there had been 23 attempts to bring a rationalised mass transit system to the Detroit Metro region, all of which failed. Various factors can be put forward to explain these failures including the metropolitan fiscal disparity problem, the legacy costs of providing mass transportation as a public service throughout the region, and race. We reflect on each of these factors briefly and offer some supporting evidence from our research

*****Figure 3 about here*****

The creation of Southeast Michigan Transport Authority (SEMTA) in 1967, with representation from a seven-county region and the City of Detroit shown in Figure 1, did in principle facilitate integration of all providers of surface transportation in the suburban counties but crucially did not include the City of Detroit's Department of Street Railways (DSR). Between 1967 and 1980, successive attempts to merge the provision of surface transportation were plagued by unrealistic transit plans and failed to incorporate the demands of the elected representatives of all seven counties. On the one hand, the growth of surrounding counties had outstripped the level of federal funding already available to the region (Nelles, 2012). On the other, the City of Detroit argued that the formula-based federal grants passed down to SEMTA disproportionately funded suburban services. Such references to the metropolitan disparity problem at the time highlighted the differences between Detroit and its surrounding suburbs in respect of levels of federal funding and service provision. However, due to the governance structure of SEMTA and its parent body, SEMCOG, the City of Detroit was – and to a degree still is – unwilling to lose control of its own transit system to a body with an overwhelming suburban focus:

> *So at SEMCOG every jurisdiction gets a vote.... [V]otes are weighted based on population so you have to have a majority of the population supporting the proposal as well as a majority of the number of communities supporting a proposal, which gives rural areas an enormous amount of power over urban areas so urban investments get de-prioritised at SEMGOG in order to win the 'number of community' vote.* (Interview, County Political Leader, Southeast Michigan, 2012).

For its part, SEMTA was unwilling to take on legacy costs of the DSR system, which had prevented full integration of the City and suburban bus systems. A factor preventing merger at the time was the escalating costs of funding Detroit transportation workers' pension scheme:

Detroit is ... the epicentre of the union movement in America. The Amalgamated Transit Union (ATU) started in Detroit in 1935 somewhere thereabouts. ....Their contract with the city was considered the model contract for the country for transportation workers. It has over time left the City with a legacy of about six hundred million dollars. (Interview, State Transit Strategist, Michigan, 2012)

An equally divisive issue facing integrated mass transit in the region has been and remains race. Racial segregation within Metro Detroit is deeply rooted, reflecting decades of civil unrest, capital disinvestment, and the workings of the regional housing market. After the 1967 race riots, what had once been a trickle of migration to the suburbs suddenly became a flood, resulting in the City of Detroit losing nearly a million residents (mainly White households) to the suburban counties of Macomb and Oakland in less than a decade. One of our interviewees characterised the current issue in these terms:

So we have been very racially polarised here in Detroit. After the 50s we weren't integrated but we had a lot of different races living in the City and after, during the 50s, started this explosion of outlying suburbs. And everybody developing their own everything ... like ... to just cut themselves off from the City. And so a lot of these communities are 80% or higher White and the City is 80% or so Black.

(Interview with Governance Actor, Southeast Michigan, 2012)

The metropolitan politics of race has shaped all efforts to secure a regional mass transit system for Detroit and its suburbs between 1967 and 2012.

Tensions within SEMTA further influenced the federal government's willingness to fund mass transit in the region. Throughout the 1980s, Detroit Mayor Coleman A. Young remained vociferous in support of a light rail/subway line in the central city's main commercial corridor (Woodward Avenue) (Neill, 1988); but suburban authorities threatened to withdraw from SEMTA's plan for light rail. Without suburban backing, the plan was simply unaffordable especially given Detroit's fiscal circumstances. The inability of SEMTA to construct meaningful regional collaboration and secure US$600mn of federal funds earmarked for the project meant that only the downtown circulator portion of the entire proposed system (the 2.9 mile People Mover in downtown Detroit shown in Figure 3) was eventually built. Responsibility for this portion of the system was handed over to DSR's successor, the Detroit Department of Transportation (DDOT).

In 1988, Public Act 204 was amended to restructure SEMTA from a seven-county authority to a three-county agency including Wayne, Oakland and Macomb counties. This effectively excluded the City of Detroit, which continued to run DDOT. SEMTA was renamed the Suburban Mobility Authority for Regional Transportation (SMART). In 1989, the Mayor of Detroit and the leaders of Macomb, Wayne and Oakland counties formed the Regional Transit Coordinating Council (RTCC) in an effort to sustain some level of regional coordination, albeit at a diminished territorial scale. Nevertheless, from 1990 until 2000 a regionally fragmented transport system persisted with two bus operators, SMART serving the suburban counties and DDOT serving the City of Detroit.

It was at this point that the Detroit growth coalition – in this case represented by the Detroit Regional Chamber of Commerce (DRCC) – began to lean heavily on Southeast Michigan Council of Governments to resurrect regional transit collaboration. During the 1980s and early 1990s, Mayor Young's administration had drifted apart from the City's corporatist pro-growth regime (Neill, 1995). The administration's increasing hostility both to the downtown Detroit private sector and suburban municipalities led to a failure to capitalise on redevelopment opportunities following the completion of the downtown Renaissance Centre. However, the election of Mayor Dennis Archer (1994-2001) led to a more conciliatory attitude to suburban municipalities and the reactivation of the DRCC (Digaetano and Lawless, 1999).

The DRCC mobilised a broad community-based regional coalition made up of Transportation Riders United Inc. (TRU), faith-based Metropolitan Organizing Strategy for Enabling Strength (MOSES), and the Archdiocese of Detroit. This represented recognition on the part of the DRCC and other business advocates of new regionalist thinking that a grassroots coalition of interests spanning racial, religious and above all local jurisdictional divides would be required to secure regional collaboration around investment in mass transit infrastructure (for further details, see Rusch, 2012; Alliance for Regional Stewardship, 2003). DRCC successfully co-opted the region's church groups, which viewed mass transit provision as "critical for people without other means of transportation, the elderly, people with special needs, as well as those who ride by choice. Improving our mass transit is an issue of justice" (Archdiocese of Detroit, 2003). One of our interviewees remarked on the growing link between race, religion and regionalism in Detroit:

> *The political power in Detroit is vested largely in the churches. Detroit ... has more churches per capita than any other city in America. .... and the ministers are very powerful and there is a group of them called MOSES ... they are the core sort of political driver in the City.* (Interview, State Transit Strategist, Michigan, 2012)

In 2001, the DRCC brought together the tri-county leaders along with the Mayor of Detroit to introduce a package of bills to the Michigan State legislature (HBs 5467, 5468, and 5523) reforming regional transit and replacing the RTCC with a new Detroit Area Regional Transportation Authority or DARTA (Nelles, 2012). Although successful in terms of bringing regional transit to the State's legislative agenda, the coalition's regional initiatives were eventually vetoed by Republican Governor John Engler (1991-2002) in one of his last acts in office on December 30th, 2002. A further attempt was blocked by DDOT employees represented by American Federation of State County and Municipal Employees (AFSCME), which feared a merger of the respective systems would impact on existing benefits secured under the DDOT and SMART work rules and benefits scheme. The new RTA was forced to cease recruiting new employees, and was left with $850,000 in unspent federal funds.

In 2008, RTCC published its Comprehensive Regional Transit Service Plan for the Tri-County region which proposed $10.5bn of investments in a comprehensive transport network to 2035. This proposal far outstripped any potential funding available and lacked a governance structure capable of delivering the project. It did however continue to include a light rail option along Detroit's main arterial route Woodward Avenue. Figure 4 depicts how the governance model and funding streams for regional transit in Southeast Michigan had evolved by the end of 2012. We now examine how regional transit in Metro Detroit has evolved into two distinct elements of a 'spatial fix': (1) a 'state territorial fix'; and (2) a 'speculative spatial fix'. Our focus turns to the M1 Rail project for Southeast Michigan.

*****Figure 4 about here*****

RTA and M1 rail: private capital and future speculation on urban infrastructure

Whilst there had been much talk of regional collaboration between Detroit and surrounding counties, in reality this led only to partial moves towards the formal creation of corresponding state territorial structures. However, momentum gathered in the wake of the global financial crisis and began to shift towards even more speculative regional ventures. Between 2007-2009 the key members of the Detroit Downtown Business Partnership (DDBP) – a growth coalition operating on a more spatially circumscribed scale than DRCC but which has overlapping board members and directors – began developing what was to become the M1 Rail project as a reaction to the continued failed attempts to bring regional transit infrastructure to ground in the wider Metro Detroit region. By 2009 the project had raised $102m from institutional and individual private sources plus $35m from philanthropic sources and was moving towards implementation.

M1 Rail was not set up as a conventional public-private partnership; instead the M1 rail improvements were solely private-sector led, neither commissioned nor subsidised by the state (federal or local). This immediately produced different visions for the project within the region. In Detroit, the proposed 3.1 mile route along Woodward was conceived as a way to make the real estate investments of members of the downtown partnership more profitable by further intensification of land use. By the end of 2008, however, fiscal collapse caused by subprime mortgage lending had driven a return to the logic of Keynesian-style stimulus spending, and an opportunity arose to draw down federal funding for the project. Following the election of Barack Obama as President, the American Recovery and Reinvestment Act (ARRA) was passed in 2009 and included $105.3bn for infrastructure spending, $8.3bn of which was earmarked for urban mass transit. In late 2009, on the back of the M1 Rail plans and motivated by the expanding funds for federal transit under the Transportation Investment Generating Economic Recovery (TIGER) programme, the City of Detroit unilaterally moved forward with a plan for a light rail project along 9.3 miles of Woodward Avenue:

...the City ... kinda jumped up and decided that they were goanna also attempt to run a project. Their project was a much larger scope than ours [the MI project] along a much larger corridor. We subsequently transitioned from a lead role into a support role, okay? To support the City. (Interview, M1 Rail Officer 2012)

In early 2010, the US Department of Transportation (USDOT) announced that it would award a $25 million TIGER grant to Detroit to begin construction on a new light rail line along Woodward. Familiar problems soon began to arise in that Detroit had secured the funds for a section of line stopping at the City limits (along 8 Mile Road) as opposed to continuing North into Oakland County along Woodward (as in the original 2008 plan). Much of the City's decision to forge ahead with a light rail system stopping at 8 Mile Road was driven by the historic inability on the part of regional authorities to reach a consensus over the preferred mode for financing across municipal boundaries. Such local fiscal concerns were further compounded by historic regional divisions over race:

You will hear this thing about 8 Mile Road, that's the Northern citylimit, OK? It is also a metaphor for everything that divides this region. It divides rich from poor, White from Black, suburbanite from city dweller, Republican from Democrat, OK? This 8 Mile divide is a metaphor for all these things that divide the City from its suburbs and from the outlying areas. (Interview, Governance Actor 2012)

Tensions soon loomed around the capacity of the City to move forward with the light rail project on its own:

"So we [Federal Transit Authority] were very committed to preserving 60% funds for the project but they [Detroit] could not generate the local match and even with the federal dollars because they are so dependent on... and in fact wanted to use their federal formula funds to meet that 20% difference and we said 'no you need those just to recapitalise your buses'....... So the Mayor rightfully pulled the plug and he did; he felt comfortable doing that because of the Governor's plan.

(Interview, Federal Transit Authority Representative, 2012)

It was at this point that Michigan Governor Rick Snyder expressed a preference for a regional Bus Rapid Transit (BRT) system servicing the tri-county area, which would have to be funded though an RTA. Crucially, the submission of bills that eventually became Act 387 (2012) provided any such RTA with the ability to seek voter approval for locally generated revenues through a vehicle registration tax. In other metropolitan areas, such as Denver, the regional sales tax had been the preferred method of raising local revenue for regional infrastructure. But in Michigan this would have required an amendment of the State Constitution as the full allowable rate of 6% is already levied by the State. Moreover, further increases in gasoline taxes were deemed unlikely to gain voter approval and were already being used for road infrastructure. The rationale for Governor Snyder's preference for a BRT system was summarised by a State strategist:

That light rail system wholly contained within the city was gonna cost $550 million.... For that same price, about five hundred million dollars, we can provide *rather than 9.3 miles of service, 110 miles of service that reaches 36 communities, and connects them to the city... Versus having 9.3 miles that run from a city core out to the city limit and about five of those nine miles is a total... I don't know... wasteland, there's nobody there.* (Interview, State Strategist, Michigan, 2012)

Equally significant, proponents of the proposed legislation had learnt from previous failures and proposed a regional governance structure that the three counties, the City of Detroit and executives of adjacent Washtenaw County, whose leadership also professed strong support for a regional solution, were resolved to support in the legislature. Any light rail proposal would need unanimous approval of these suburban counties, which otherwise would not derive a benefit from the large capital allocation required from bonds financed against a vehicle registration tax levied by the counties. Crucially the new proposals were not designed to assume the legacy costs of SMART and DDOT but to simply replace RTCC in funnelling federal and state subsidies at least until a more technologically-advanced regional transit system could be delivered:

> *There have been numerous efforts to try to improve DDOT and SMART both individually and sort of from a combined situation that just have not seemed to work. This is a different approach this is an approach that is rather than trying to merge the two, we are going to create a brand new entity and that entity is going to have the responsibility, primary responsibility for building and operating a higher level transit service and it is going to be able to go out and get money from the people in order to do that* (Interview, Governance Professional, Southeast Michigan, 2012)

When the City of Detroit pulled back from its light rail proposal in favour of the BRT system, the FTA cancelled the $25m TIGER grant that had supported the project. At this point the M1 rail coalition assembled their leadership team and:

> *...actually brought to bear with all of our congressional delegation, right? And the Mayor the Governor and the USDOT Secretary La Hood a meeting in January this year where we brought everybody together and we said, you know: 'with all due respect folks okay, we are not as dead as you think we are'.* (Interview, M1 Rail Officer, 2012)

After reviewing proposals for a privately-funded 3.1 mile downtown system, the FTA concluded in June 2012 that in order for the project to move forward there needed to be agreement on an RTA to assume control of the project once the period of private operation ceased. The initial ambition by the M1 rail promoters was to build the system, operate it for ten years and then pass it to a public sector body to operate. If the project could have proceeded without the TIGER grant, the body which was to assume responsibility would not have needed specifying at this stage. However, the FTA viewed the as-yet-unrealised RTA as the only reasonable vehicle to assume the future operating subsidies which would inevitably be incurred. The creation of an RTA to assume the M1 rail project was therefore a major barrier to the M1 project, encouraging the downtown members of the growth coalition to lend their support to the RTA legislation. The eventual creation of the RTA led to a decision on the part of the FTA in 18th January, 2013, to award $25M as part of TIGER IV grants to the M1 rail (Helms, 2013).

Four elements of the new RTA are designed to militate against any further failure of regional transit in the Metro Detroit region. Firstly, the current governance arrangements largely exclude a light rail option so as to allay suburban fears of funding capital intensive project on an undeveloped transit corridor wholly contained within the city limits of Detroit. Secondly, the Detroit growth coalition ~~supports the RTA as a vehicle capable of delivering the M1 rail project because its members have committed large amounts of private capital~~ actively supports the RTA as a vehicle capable of assuming the M1 rail project, essential to the viability of a project its members have committed large amounts of private capital to in the form of a 'speculative spatial fix'. This fix is, in turn, premised upon the principle that members of the growth coalition seek to capture real estate revenues from any subsequent land use intensification associated with transit corridors. Thirdly, suburban municipalities are further motivated to collaborate on an RTA as it can separate their transit activities from future fluctuations in property tax revenues. The RTA lays the foundations for a multi-county vehicle registration tax, which separates transit infrastructure from competition with other essential services *and* creates the conditions for a revenue-based bond issue set apart from the credit woes of Detroit. The efficacy of this 'state territorial fix' is demonstrated by the fact that immediately after the bankruptcy announcement key regional officials argued it would have 'no immediate impact' or 'minimal effect' on the RTA. Fourthly and finally, without a collaborative regional structure in place the Detroit Metro area would not qualify for any federal funds available for rail transportation demonstration projects (USDOT, 2013). This is crucial given that Detroit's bankruptcy is unprecedented in its scale and respondents from adjacent local governments remain wary of its potential long-term effects on the cost of regional services.

Discussion and conclusions

This study of regional transit in Detroit offers several new insights into urban service provision under neoliberal conditions of fiscal austerity. Firstly, revisiting the metropolitan fiscal disparity problem in an era of global austerity broadens and deepens our understanding of the circumstances under which the urban growth coalition secures regional infrastructure investments. We have chosen to emphasise the growing connection between central city and suburban municipal budget crises, the subprime mortgage crisis and the raising of infrastructure capital, thereby highlighting the ‘multiple jeopardy’ faced by all kinds of ‘subprime cities’ (Albers, 2012). Urban austerity had led to drastically reduced revenues and liquidity in many Southeast Michigan municipalities. The effect on Detroit has been a further decimation of an already weak tax base from which to leverage liquidity from bond markets. Thus, despite the previous failures of participating municipalities to cooperate around regional transit, urban austerity has created political space for the Detroit growth coalition to lobby successfully for a ‘state territorial fix’ in the form of an RTA that would set it apart from the credit woes of the City of Detroit, the declining revenue capacity of the suburbs, and longstanding tensions around the regional provision of infrastructure. The RTA has the power to raise capital in bond markets and is backed by taxation on vehicle registration subject to popular referenda.

Secondly, our analysis of urban austerity in Detroit augments our understanding of the role of Keynesian-style urban infrastructural investment in securing a ‘spatial fix’ to the crisis of accumulation. In the case of Detroit historic racial divisions have compounded central city-suburban tensions to the point where federal infrastructure spending was not forthcoming. In an extremely rare – if not entirely unprecedented – instance the M1 Rail private investors stepped in to provide upfront capital, investing speculatively in infrastructure with no prospect of recouping the initial capital outlay either from user fees or state subsidies; instead they have relied upon the speculative returns from land-use intensification along a corridor on which they owned significant assets. We have chosen to describe these actions by the Detroit growth coalition as a kind of ‘speculative spatial fix’, one which could be pursued by growth coalitions in other cities where regional transit investment is linked to land use zoning and smart growth. Nevertheless, the case of M1 Rail in Detroit is unique in that it involves members of a growth coalition applying their own capital speculatively in transit infrastructure as opposed to corralling state resources. It thus extends our knowledge of the activities of the urban growth coalition by revealing the extent to which, under conditions of urban fiscal austerity, local growth interests are prepared to speculate on future transportation and related urban infrastructural investments.

Finally, we briefly reflect on the long-term sustainability of these arrangements. In Southeast Michigan the response to urban and suburban fiscal austerity has caused transit provision to be relocated from municipal control to regional governance. Given increasing retrenchment of the state, and given the lengths to which municipalities and private actors in the growth coalition can go to secure infrastructure investment, it is reasonable to suggest the likelihood of a further 'splintering' of productive (infrastructural) state functions and territorial structures. This not only poses questions for accountability and transparency but also risks further leveraging of the local tax base by ever-diversifying (and rescaling) governance actors and special purpose entities. Could this presage an overleveraged infrastructure asset bubble characterised by securitised, off balance-sheet public finance? Does this in turn expose municipalities and other public debt-holders to further rounds of devaluation rather than delivering the public benefits upon which these speculative schemes are legitimised? Only time will tell.

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Useful Links

The Transport Politic on Detroit:

http://www.thetransportpolitic.com/category/places/detroit/

Regional Transport Authority:

http://www.semcog.org/RTA.aspx

Michigan Suburbs Alliance Metropolitan Mobility Program:

http://www.michigansuburbsalliance.org/programs/metro-mobile/

MOSES on Transportation:

http://www.mosesmi.org/transportation.html

Transportation Riders United:

http://www.detroittransit.org/

M1 Rail

http://m-1rail.com/

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