

Case Study: City of East St. Louis

East St. Louis is one of 185 suburban municipalities in Metropolitan St. Louis, which has a total population of 2.4 million. In 1990, East St. Louis had a population of 40,000 and a budget of about \$6 million- about 40 percent of what one would expect from a government with that many residents. Its assets were frozen three times between late 1987 and 1988 due to default on a lawsuit payment, overpayment of federal grants to the city, and breach of a union contract. Each time assets are frozen, employees paychecks are threatened by the diversion of funds to the debtor, and the city failed to issue paychecks to its employees between 1988 and 1990 on numerous occasions. In the case of the unpaid lawsuit, city funds were so constrained that a judge offered a tract of land containing the city hall in lieu of payment.

By 1990, the city was on the brink of bankruptcy with shortages of gasoline for city vehicles, piles of garbage that it could not dispose of, an unreliable dispatch system, 2,000 abandoned properties waiting to be torn down, and \$50 million in debt. It was penalized that year by the IRS for illegal arbitrage profits from a 1985 bond deal of \$473 million that was supposed to finance three construction projects that never materialized. To make matters worse, the city had the highest murder rate in the nation that year, and a county judge found the city criminally negligent for not properly equipping its police officers.

Then, at the urging of East St. Louis' neighbors including the City of St. Louis, the State of Illinois passed the Financially Distressed Cities Law in 1990 (65 ILCS 5/Art. 8 Div. 12), which established a means of assisting East St. Louis that was unavailable to any local government in the state prior to date. In the event that the law is applied to a municipal government (home rule only), it provides them with financial assistance in the form of loans and state bonding authority, and the law gives the state authority to oversee municipal fiscal affairs through the creation of a financial oversight board.¹ However, the act also stipulates that the government must request such assistance via an ordinance before the state can implement these measures. The state cannot assume oversight of municipal governments or offer aid unilaterally

Because the mayor and council of East St. Louis did not want to pass such an ordinance at the time the state law was being considered, it was unclear whether the law could be applied to

¹ The state also passed the Local Government Financial Planning and Supervision Act (50 ILCS 320/) at the same time, which provides similar assistance to non-home rule governments. School districts are covered under the School District Financial Oversight Panel and Emergency Financial Assistance Law (105 ILCS 5/) passed in 1994.

the city. However, just prior to the law being adopted on August 30, 1990, the mayor and council dropped their opposition and passed the required ordinance in July 1990. The ordinance then allowed the East St. Louis Financial Advisory Authority as an agency of state government to provide financial oversight of the city and assist with its financial management and achievement of long-term financial sustainability (City of East St. Louis Financial Advisory Authority, 2005). In April 1991, Carl Officer, who was the mayor of East St. Louis for 12 years and was considered by some to have contributed to the city's poor financial condition, was easily defeated by Gordon Bush. Also in the same election in 1991, the citizens of East St. Louis passed a referendum that changed the form of government in the city from council-mayor to council-manager.

The financial future looked more promising for East St. Louis in the next six years as the state legislature granted the city one of four highly coveted riverboat gambling licenses, which precipitated some economic development in the immediate area of the riverboat, employed about 300 from the city, and doubled the city's general fund revenues to 12 million by 1996. During this time, the city benefited from numerous state and federal economic and community development initiatives, including \$21 in debt restructuring revenue bonds issued by the state, and technical assistance from the Governor's Office and the University of Illinois. All of this set the stage for what some claimed to be a recovery and a dramatic improvement in the financial health of the city (Reardon, 1997; Ward, 1995).

The future looked less bright, however, by 1998 when the city began to experience a decline in gambling revenues, which represented about half of their total revenues, due to market saturation and an increase in competition from other gambling enterprises. City officials also began to dispute more openly with the financial oversight board about how to balance their budget, the lack of sound accounting procedures, and the delivery of a long-range financial plan. Although some claimed that Bush was committed to good government and municipal reform, a total of eight city managers were fired or forced out between 1991 and 1998, financial audits were always late, and budgets were not passed on time. By 2000, the financial oversight board was complaining of sloppy record keeping, unreconciled bank accounts, and money deposited in the wrong accounts. Its auditors noted that "the city performed virtually no balance sheets, journal entries, or proper accounting" (5/22/2000).

Bush retired shortly after these revelations, and a new mayor was elected in 2000 who openly supported and facilitated placing a referendum on the ballot in 2002 to move the city back to a council-mayor form of government. He claimed that the city-manager form leaves “the people and voters powerless in selecting its’ leaders” and controlling city services (Massey, 2002). Although the referendum was soundly defeated, it did not discourage Carl Officer, who was reelected in 2003, from attempting to put the same referendum up for a vote in 2004. (It was denied on a technicality.) Carl Officer, who presided over the city’s financial collapse in the 1990’s, was described in one local newspaper as “the brash talking mayor who had machine-gun toting bodyguards and was once pulled over for speeding 105 mph in a Jaguar owned by an imprisoned drug dealer” (Luke, 4/3/03). Despite his reputation and his record of past fiscal leadership, the voters returned him to office.

By the end of 2003, the chair of the oversight board quit because he believed East St. Louis officials would never make any real effort to balance their budget. He felt that nine years on the board had made him too jaded, so it was time to move on. Although the financial oversight board was scheduled to relinquish control back to the city in mid 2005, its financial condition was worsening and its fiscal practices were not engendering confidence from the board or investment groups (City of East St. Louis Financial Advisory Authority, 2005). In 2004 the oversight board prevented the city from awarding \$750,000 to a nonprofit group whose president had served time in prison 1991 for “looting” a federal poverty program. Later that year, the FBI seized documents and computers from City Hall because of missing grant funds, and two years of scheduled audits were late, incomplete, or showed deficit spending. As a result, East St. Louis was back under control of the financial oversight board three months after they regained their independence. The chair of the oversight board noted at that time that “city services are barely adequate at best and poorly managed” (Fitzgerald, 7/21/2005).

As of 2008, nothing much has changed for East St. Louis since the oversight board regained control of the city in late 2005, and it appears to be at the same level of insolvency it faced in the early 1990’s. The city has met none of the deadlines for passing a budget as established by the oversight board, and the city allowed their contract with the firm that provides most of the cities financial management services to lapse. In early 2006, they were also required to pay penalties to the IRS for non-payment of employee withholding taxes, and were again rationing gasoline to city vehicles. The city had five city managers in a year and a half, in 2005 and 2006, and the

chief of police and head of regulatory affairs were arrested in early 2005 on a series of unrelated federal crimes, including bribery and plotting to kill a witness. Both were convicted of their crimes in early 2006. One of the city managers during this time period, who was fired by Mayor Officer after four months in office, subsequently ran against Officer in the 2007 election and won. Shortly after this election, the new mayor appointed his sister as his executive assistant, his brother-in-law as the director of Emergency Services, and his cousin as head of the Department of Regulatory Affairs.

Although extreme, many of the city's financial problems and the actions of East St. Louis officials fit two patterns seen in many small and very poor local governments. First, events in East St. Louis demonstrate a perfect storm of structural insolvency, low internal capacity, poor political leadership, and bad financial choices that often occur in such governments. The city's structural insolvency, which is extreme by any standards, developed over many years of decline in its economic base. This trend is difficult for any city government to change as its causes and solutions are often beyond the direct control of its officials, and maintaining financial condition in this situation through fiscal policies and practices implemented by that government alone can be close to impossible. However, the story of East S. Louis clearly demonstrates how officials' policies and practices can exacerbate current structural deficits and lead to more serious financial trouble.²

To some extent, the city's bad financial choices and poor leadership can be attributed to their governance system, which is more inherently political than many other types of systems found in suburban governments. Although the city has a council-manager form statutorily, its history of machine-style politics based on an aldermanic structure with separate wards promotes a very political approach to policy making that most often associated with older and larger central cities (Theising, 2003). Such cities also tend to be more partisan, patronage-based, and conflict laden.

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² Close examination of events in San Diego and Miami also show how government fiscal policies and practices can lead to severe financial problems even in cities with highly levels of structural solvency.

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