

# CEDAR RAPIDS GAZETTE

## Financial Insolvency Devastating

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Financial insolvency. We all know it's devastating to a business or a family. But how about to a municipality? Can a city go broke?

The answer is a resounding "yes!"

All told, hundreds of cities have filed for bankruptcy protection. Although state laws usually restrict municipalities from using the protections of the bankruptcy court, the impact of insurmountable debts is the same with or without a formal bankruptcy application.

The most recent cities to experience a financial meltdown are Central Falls, R.I.; Harrisburg, Penn., and Stockton, Calif. When a city becomes financially insolvent, public services come to a screeching halt. Just like with a business, cities in financial trouble experience widespread layoffs and serious pension cuts. Once a city steps off the financial cliff, any routine municipal challenge can become impossible to handle.

Even though the details of each situation are different, there are a number of common factors leading to municipal insolvency. For all their differences, the most important thing these cities have in common is that they have no way of delivering on their financial obligations. Whether the trouble comes from unfunded pension plans or tax increment financing (TIF)-funded development, the result is unmanageable debt.

Other common factors are a lack of public input and oversight, reckless involvement in high-risk ventures, unrealistic plans for debt management, and a mentality that there is no other choice but to continue on the set path.

Coralville offers a classic example of a city headed toward a fiscal cliff. According to the Iowa Treasurer's Office, Coralville's total municipal debt is already \$278,895,982. With a population of 19,219, this debt amounts to \$14,511 per resident.

Just to give this a larger context, consider the 430 children attending Coralville Central Elementary School; their collective share of the city debt is \$6,239,730.

These grade schoolers might well be advised to forget about education and just concentrate on fundraising.

The debt per resident is higher by far in Coralville than in any other city in the state — seven times higher than Iowa City or Des Moines. Even Cedar Rapids, after coping with the devastating flood of 2008, carries only \$3,366 debt per resident, although there are recent indications that some city leaders are eager to follow Coralville down a financial path of no return.

As signs of a financial disaster worsen for Coralville, City Hall is working hard to bury the red flags and minimize concerns about the unmanageable debt underlying the city's many high-risk projects. The city-owned hotel, operated by Marriott Corporation, loses more than a million dollars per year. Like other city-owned properties, these losses are not shown on Marriott's books because they belong to the taxpayers of Coralville and Johnson County.

Credit downgrades from Moody's, an independent rating company, have been dismissed by city officials as irrelevant. These reports will not be so easily dismissed by the lenders who support Coralville's mountain of debt.

#### WEDNESDAY MEETING

Citizens for Responsible Growth and Taxation has organized a public meeting on these issues scheduled for 5:30 p.m. Wednesday at Brown Deer Golf Club in Coralville. For more information, visit [www.responsiblegrowth.net](http://www.responsiblegrowth.net).

We all agree, there is an exciting story unfolding at the Iowa River Landing. You owe it to your family and to yourself to find out the story behind the story.

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