FIFTEEN SHADES OF GRAY

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Fixing the Future of Municipal Finance in Michigan

By Steve M. Duchane

Over the last decade, communities across the state have had to drastically cut services due to massive revenue losses attributed to reductions in state shared revenue, property taxes, and the suit elimination of the personal property tax. Future declines are inevitable and threaten the ability to provide vital services long-term. While some communities have identified short-term fixes by increasing millage rates, implementing cost-saving initiatives such as labor and benefit economies, pursued innovative service sharing concepts, and eliminated investment in infrastructure or capital projects, they are not long-term solutions to revenue base erosion that is both substantial and widespread. Michigan should have the best local governments to provide safe havens for place-making, education and business growth.

During the past year many public officials have focused and spent significant time strategically viewing the options for providing public services in the neighborhoods of Cities such as Eastpointe and communities across Michigan. By any metric, a state that has political subdivisions in fiscal failure or about to fail working within the current state funding systems cannot be termed successful.

The poor showing of emergency managers and the limited options of bankruptcy for a few have driven many groups to research and write many summaries about managing local government in Michigan. Including, the current challenges and how it affects all the people that live in the municipalities.

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Persons that have spent their careers in this non-profit service field of endeavor and came to several conclusions:

1. Revenue losses are substantial and widespread as 78% of cities lost revenue from 2005 2012.
2. Revenue losses have hit all areas of the state local governments.
3. Local property tax in taxable value and revenue-sharing drove the loss.
4. The state has shifted and increased the burden of taxation to local government.
5. Due to Headlee and Prop A local governments cannot grow their way out of the loss.
6. 23% of governments having increased sharing of services however in a majority of cases this shifts costs or has resulted in minimal cost reductions as local government services does not respond to quantity cost reduction. Being larger is not necessarily less costly.
7. 29% of cuts were to general government services, 20% of cuts to public safety, public works recreation and culture for 12% of the cuts.
8. Quality analysis of local government has been replaced by one-dimensional metric value summaries or a race to the bottom in services to meet a mythical bottom line.
9. The operation of law pertaining to millage caps and implementation of the property tax programs are imperfect, and unbalanced in serving taxpayer needs.

To paraphrase several articles in the major newspapers it is clear that it will have to be the legislative leaders that need to confront what local elected appointed municipalities and county officials have known about the true reality for our Michigan cities. That being that our cities increasingly lack the tools to provide even the minimum standards of public safety and functions with no exceptions, unlike the state and federal government.

Michigan will not be successful when state government believes that running fiscal emergency rooms is equal to having a sustainable proper fiscal health care system.

As the editorials state, setting aside miss-management and unsustainable debt loads there are additional problems related to the way Michigan funds its cities and allows them to raise revenue locally. Property tax is based on property values and the economic reductions have eliminated nearly half of the major source of income to our public corporations. Some Michigan local governments have crushing legacy costs, some have compounding infrastructure and personnel costs, some have lost taxable value in double digit losses and some have taken all the steps with revised financial strategies but are crippled now by the limits on property value rebuilding and cannot recover, ALL have received less funding from state collected and locally shared revenue programs.

The focus has been far too great on municipal governance and transparency in useless EVIP programs and all of that is meaningless unless it yields results in measurable improvements in the lives of the residents in each community.

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No emergency manager for the state has done, and none have even been successful in finance plans that make the success sustainable. What is done by the state and how it "rescues" cities is less important than devising a system that provides for adequate police and fire protection, public transportation and maintenance of public facilities.

Simply stated, municipal government in the State of Michigan is in a state of crisis. Nothing less than a profound change in our State's municipal finance model will resolve this crisis in the long term. We require a complete overhaul of how we finance municipal government in order for Eastpointe and other municipalities to thrive, and to continue to offer the services that our essential for our residents. These services, such as police and fire protection, road maintenance, water and sewer services, and garbage pickup are critical necessities for the daily quality of life in our communities. For our best investment we can make in Michigan is municipal government, and it is time that investment was properly and adequately accomplished in Lansing.

In reversing examination of the same concepts expounded upon by state officials, it is the time to streamline and reduce the expanded state government and return funding directly to municipalities and its officials. Instead of State Police providing symbolic troopers, the state should sign collaborative service agreements with County and local law enforcement providing resources and duplicative functions. An established local officer has more effectiveness than a small smattering of troopers into a township, city or village for show.

More importantly, the state could follow its own plans by reducing and eliminating the funded, yet unfilled positions and redirect a significant portion of that funding to a variety of duplicative services. These services being roads, health, and workplace safety, which can be achieved through the implementation of consolidate and collaborative approach with the locally controlled service providers within our Counties, townships, and cities.

The State could also eliminate costly duplicative "reporting" programs that are ineffective. Local government has to file reports with a number of state agencies in different forms and formats costing time and money with little effect. Thus begging the question, can anyone really say the state has been effective in is reporting requirements when late audits and the fouled up management of several local units was not stopped before a crisis began? What was the cost vs. the results of mandatory state reports? Clearly the well managed majority of local governments did not need state intervention as "monitors" and the ones that did, the state of Michigan failed miserably.

No partisan agenda is the appropriate agenda for local government services. It is time that the state government and officials of the executive and legislative branch set aside the ideology agenda and structure all conversations to this same objective. There is a need for to address the new governance model to serve a new Michigan.

The discussion needs to immediately turn to the reason we have cities and all local governments, why Michigan needs them, and how they can be retooled for local sustainable success. The State of Michigan should follow its leading principals, streamline its duplicative services and give municipalities the tools for success instead of a shaft that stifles growth and guarantees failure.

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What follows is summary of some of the future focused initiatives and a compilation and a key listing of steps that help in some way to restore local government to operating in the black. As each one in itself does not fully accomplish this or may be more supported or less by the citizens they are all “Shades of Black”.

There are several groups and organizations that have been formed and since 2012 to specifically study alternatives and recommendations to fix the future of musical finance in Michigan in addition to the relentless positive dialogue of our long-serving organizations such as the MML, MTA and SEMCOG. These interim reports of task force study groups and organizations comprised of local government membership conclude that amending and modernizing existing systems and fixing but is been known for decades as the “broken financial model” is priority one for the future of our communities and their safety and livability.

Just as clear as there is a crisis it is clear there is no single solution that will provide the new revenue and reforms necessary to solve either short-term or long-term problematic conditions. It is through and acting by state legislation a series of reforms and improvements in our municipal financing structures that will again focus Michigan local government on providing excellence in services to support excellent community life and recognize those places of public safety and community development and improvement as places made for current and future Michigan residents.

Contributing Reports and Recommendations

- Local Government Task Force formed in August 2013 teen representing legislature, Department of treasury, Gov.’s office, cities across the state and universities.

- Michigan Municipal League partnership for place: an agenda for a competitive 21st Michigan

- SEMCOG revenue task force

- Macomb Area Communities for Regional Opportunities, University of Michigan – Dearborn, citizens research Council of Michigan: MACRO Study

- Michigan Public Policy Survey the center for local state and urban policy CLOSUP, University of Michigan, Gerald R. Ford school of public policy.

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1. Expand the sales tax to services, with a portion dedicated to local governments or added to an improved formula for constitutional revenue sharing. When sales tax structures were being developed, services were a much smaller portion of the economy. Today, however, many economists argue that as the service sector has grown, states and local communities are leaving a significant portion of revenue off the table, while clinging to a model that IS continually shrinking. Former Michigan Treasurer and economist Robert Kleine estimates Michigan could be currently leaving nearly $2 billion in sales tax revenue off the books as much as is currently collected on goods (New York Times article "States Seeking Cash Hope to Expand Taxes to Services," May 27, 2011J.

2. Alternatively, increase the sales tax by one cent and dedicate all of the new revenue to local governments via a new constitutional revenue sharing formula. Increasing the sales tax by one cent would bring in over $1 billion annually.

3. Add a sunset provision of 18 months to mitigate the effect of large and unbudgeted repayments following tax appeals.

4. Revise constitutional revenue sharing for new revenues to reflect service demands as well as population totals. The state needs to be a true partner with local communities to help support the economic strength of our regions. In order to do this, the relationship must deepen beyond an annual appropriations battle that benefits no one. The percentage of shared revenues should be increased or service taxes included, and dedicated to communities based on a combination of population and service provision. The existing per capita requirement fails to recognize the massive differences in economic activity and service levels among communities. Michigan should invest its limited resources wisely and invest in the places where the economy can grow. The focus must be on the places which will lead to economic prosperity-that metric is not defined by simply the number of households.

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5. Amend Act 33 of 1951 to allow any size local government to approve a special assessment for Police and Fire services. Currently this option is available to townships and cities with a population of less than 15,000 in counties with populations of up to 250,000.

6. Modify Act 312 to exempt pension and retiree health care from binding arbitration so reforms can be implemented at the local level. Or, create PA 312 benchmarks to minimize the risk of litigation.

7. Advocate for the creation of an optional State OPEB Pool, which would be bonded. Local communities could select to have their OPEB liability assumed by the pool and would make payments therein.

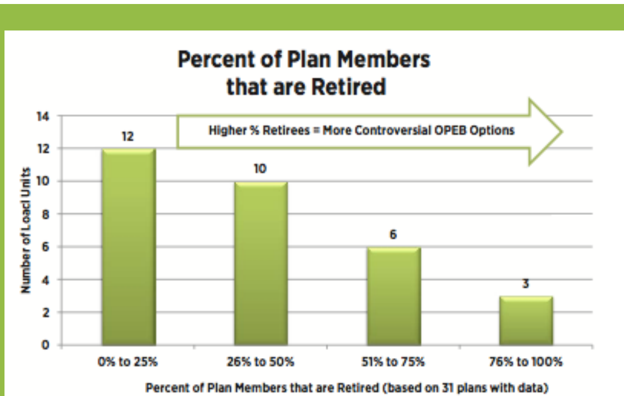

Figure 26. Percent of Plan Members that are Retired.

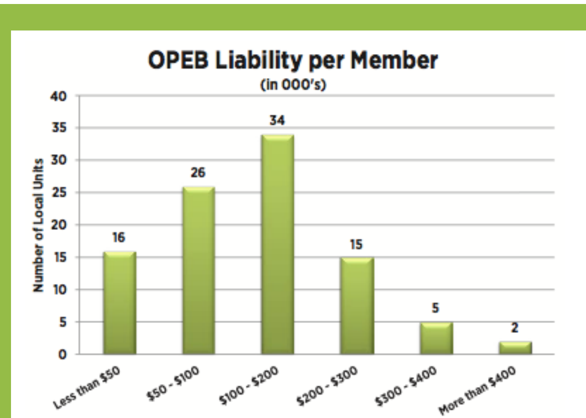

Figure 25. Average OPEB Liability per Member.

Michigan State University Extension "Funding the Legacy: The Cost of Municipal Workers' Retirement Benefits to Michigan Communities" 2013

8. Create community growth or "Right to Consolidate" legislation to make Michigan laws more growth friendly for cities.

9. Allow local governments to exceed the 20 mill property tax limit, as a mill now generates much lower tax revenues due to the housing decline. Define the new limit, include a sunset provision, and allow municipalities of different population sizes to participate.

10. Provide "piggyback" optional collection of an additional 1 percent sales tax on the state income tax to be collected and distributed by the state to communities that have experience a taxable value decline of greater that the rate of inflation for two or more years.

11. Strengthen support for Section 29 of Article IX of the 1963 Michigan Constitution, which prohibits the state from mandating local governments to provide new services or activities without proper funding. This concept is currently addressed in Senate Bills 495, 496, 497, and 498.

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12. Modify General Property Tax Act to allow increases in taxable values following the transfer of property to be exempt from the Headlee millage rollback requirements.

13. Amend PA 152 of 2011 to allow for an 80/20 cap for new retirees.

14. Eliminate needless requirements and programs from the EVIP program and return revenue sharing to the principals of the revenue sharing act and distribution models that treat all communities based on need.

15. Permit regions the option to levy a local sales tax with no corresponding reduction in revenue sharing, subject to approval of the local electorate.