REVENUE ENHANCEMENT

Establishing a Firm Foundation for Funding Municipalities

By Anthony Minghine

For Michigan to truly prosper, we need strong communities as our foundation that deliver the services that matter most. To do that, local government needs the ability to ensure stable and adequate revenues. Our current system is not a well thought out revenue system, it is a conglomeration representative of decades of individual changes that now leave local governments economically crippled. State policy incents the abandonment of infrastructure, allows additional revenue only through "new" construction, limits fees, and places the interests of the state government ahead of communities rather than fulfilling their obligation to provide local funding. Worst of all, our system is not built in a way that allows local government to share in the prosperity of a strong economy. It is, in fact, built in a fashion that will keep revenues artificially low indefinitely. Our system is a formula for failure. Left unchanged, every local government is on the same continuum and the question is when, not if, it will begin to degrade their ability to offer a level of services that helps make a strong community and a place people want to live.

So what can we do to improve local government's ability to be properly resourced and funded? Here are a few of our ideas.

Share In The Wealth

Our top priority must be to ensure that, at the local level, municipalities share in the prosperity of a strong economy. They have proven that they can do their part in tough times, but they must have an opportunity to invest and grow in strong times. Our tax system is built in such a way that it is only downwardly mobile. The combination of Headlee and Prop A have created a model that cannot sustain local government. As was demonstrated during the great recession, property values can fall dramatically and become frozen at artificially deflated levels. This limitation is unreasonable. We can easily retain the spirit of these acts, but allow the saw to cut both ways. Roll-ups of millages and maintaining the individual caps at inflation are both reasonable and logical refinements that should occur.

Improve Revenue Sharing

In spite of the tremendous cuts and underfunding that local governments have experienced, revenue sharing is still typically the second-largest revenue stream in a local budget. In addition to a lack of adequate funding, revenue sharing lacks any thoughtful distribution. We continue to use old distribution methods that don't reflect the vital role cities play in our economy. We need to explore distributing revenue sharing in a way that will recognize the super influence core cities have on their regional economies, and invest our state resources accordingly. We must also use revenue sharing to help balance local government's abilities to provide an appropriate level of services. Obviously, in our system the ability of certain communities to generate tax revenue is greater than others. Historically, revenue sharing was the counter balance and we need to ensure that this aspect is restored in the revenue sharing system.

Generate Local Revenue

We need to create new tools that will allow for local government to generate revenue locally. Even with widespread local support, the ability to raise revenue at the local level is significantly restrained. We need to allow local government to raise additional revenue when they have the support of their community. While there are many ways to achieve this, two ideas worthy of exploring are revising PA 33 special assessments for public safety, and creating broader operating special assessment authority outside of normal millages. PA 33 already exists and is a tool available to townships and smaller cities to fund public safety operations. A simple change to remove the population limitations would allow all cities to ask their residents to provide financial support to fund their public safety operations. We also think that this concept merits consideration for other special circumstances. We could create limited operating special assessments that a city could use to meet service demands, provided they obtain voter approval. This could provide the flexibility that recognizes that different communities have different needs. More importantly, it could be an economic development tool to create great places that bolster a community's ability to attract and retain residents and businesses.

Most residents of a community generally pay, either directly or indirectly, their fair share of taxes to support vital public services. I say most, because mobile homes parks have a unique deal that I would venture to say most residents in Michigan are unaware. While the residents of mobile home parks pay fees to occupy space in the park, the park owners pay a pittance for local services. Of the \$36 paid annually by a mobile home park owner, \$6 finds its way to the city in which the park resides. In contrast, a home with a taxable value of only \$10,000 and a millage rate of 15 would pay \$150 in local taxes. How is this equitable? We need to ensure that all

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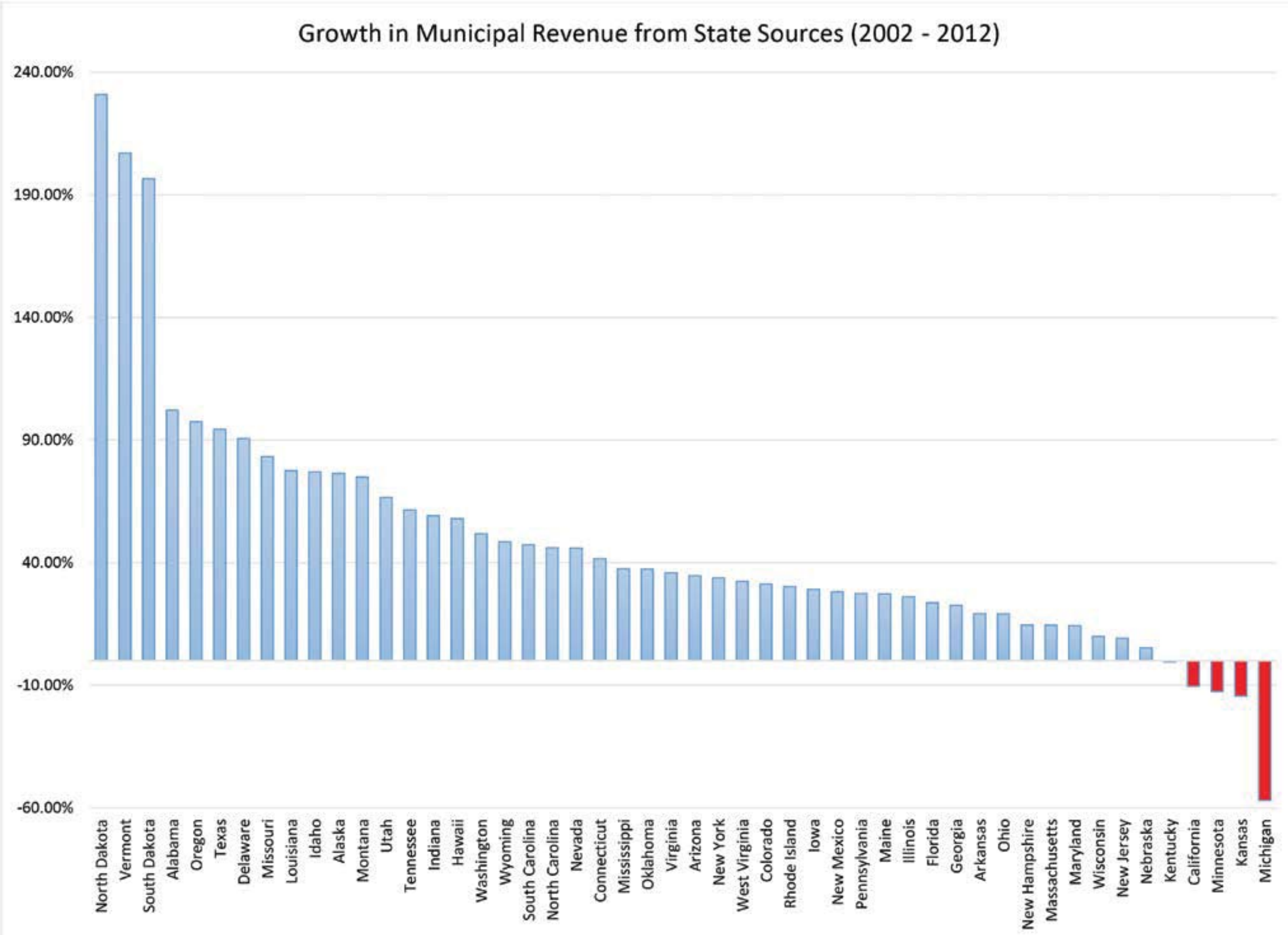

Source: U.S. Census Bureau, 2002 Census of Governments and 2012 Census of Governments: Finance - Surveys of State and Local Government Finances.

residents and business owners are treated fairly and do their part to support local services.

This is a sampling of policy ideas that we think will help to move Michigan forward. It is time that we have an open dialogue and move ahead with policy that will sustain Michigan and its communities well into the future. We can all see what our current system has provided: a Michigan that lacks the necessary financial resources to invest in our economic future. We need strong communities with good services and robust infrastructure, and the first step forward is providing proper and sustainable funding for local government. We welcome your thoughts and ideas. Send comments and suggestions to municipalfinance@mml.org

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