



MUNICIPAL

FINANCE

REFORM

League Campaign Aims to Reset State Policies

By Anthony Minghine

Lao Tzu said, “The journey of a thousand miles begins with one step.” Over the last year, we have taken many steps towards reforming our municipal finance system, but a long journey still awaits us. We have travelled around the state creating awareness and trying to get outside the local government sound box, and our message is resonating. We’ve visited over 30 communities, and have seen about 150 articles written on this issue since last March.

Our message, focusing on “hitting the reset button” on the state’s long-time disinvestment in our communities, is being heard. Our research, detailed reports, and statistics illustrating the diversion of more than \$7.5 billion in revenue sharing away from our communities are strong and convincing. For example, when we show the chart depicting Michigan as the **ONLY** state in the nation that has experienced a decline in municipal general revenue since 2002, the audience is universally stunned (insert gasp here). We must change

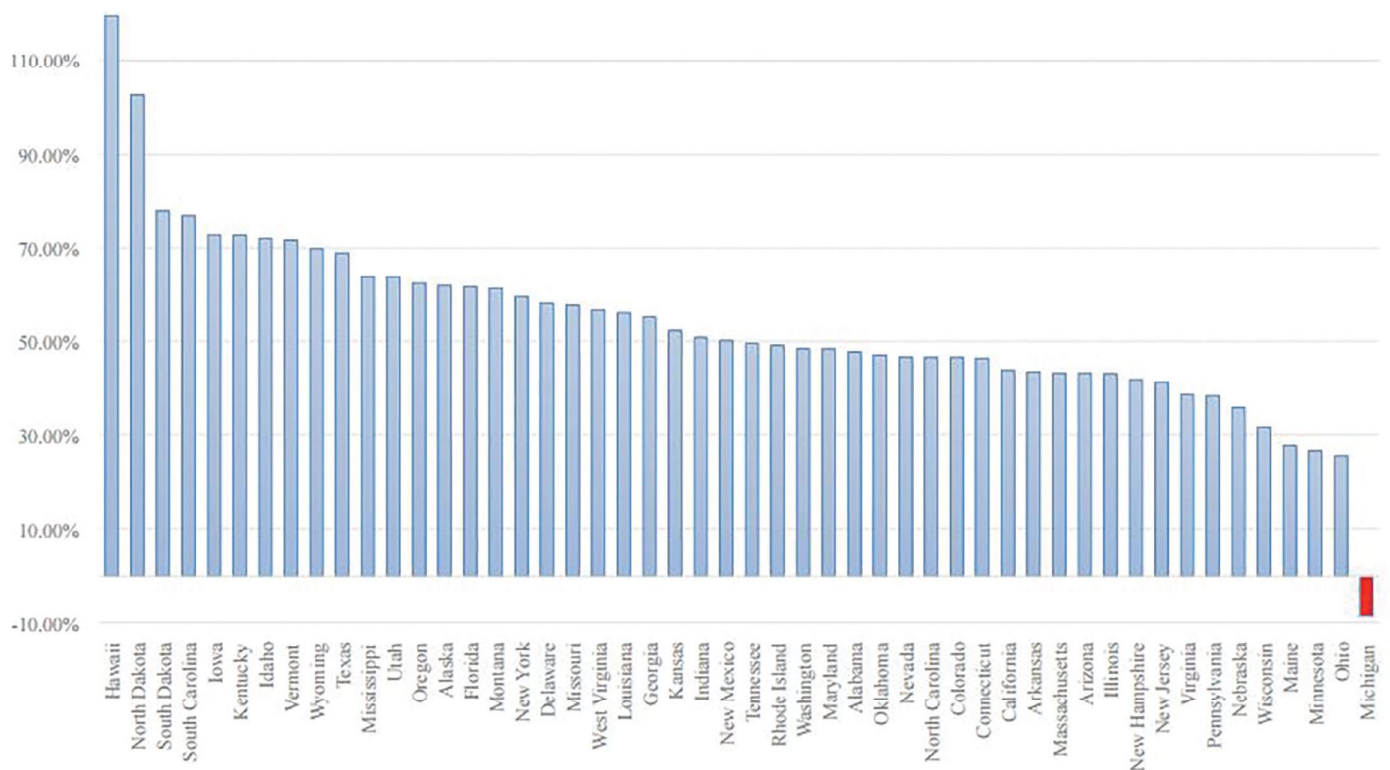
Michigan’s municipal finance system, and we must do it now.

The League continues to advocate on a three-pronged agenda of costs, structure, and revenues as the way forward. To ignore any of the areas will leave open pitfalls that can undermine the future of Michigan’s communities. There are a number of potential ideas out there, but let’s look at a few specific ideas under the broader three headings.

Costs

Under cost reform, we have identified the reform of other post-employment benefits—commonly known as OPEB—as a necessary consideration. Our goals for any proposed reforms have been 1) a good benefit for retirees, 2) sustainable costs, and 3) a benefit that would allow cities to attract and retain employees. During Michigan’s 2016 lame duck legislative session, the legislature took a crack at a fix that actually did try to address those points. Ideally, this is a conversation that would have occurred over several months,

Growth in Municipal General Revenue (2002 - 2012)



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

bringing together all sides that have a real interest in solving a real problem to craft a solution.

Unfortunately, that didn't happen in lame duck, but that does not change the need for meaningful OPEB reforms. Cities, villages, townships and counties face an unfunded obligation of over \$11 billion, and it is affecting the ability of many communities to provide services. Our current model is unsustainable.

The cost of providing OPEB benefits has skyrocketed, and the benefits that retirees receive are not necessarily what was promised. Medical advances, while amazing, have driven costs up exponentially. Those "benefits" were not available to someone that retired long ago so they could not have been "promised," but they are expected as part of modern healthcare. My point is not to deprive someone of modern medicine or technology, but the knife needs to cut both ways. We need modern healthcare design and cost sharing if we are going to be expected to provide modern healthcare benefits.

Structure

When we speak to structure, we are referencing "how" we provide services. We think it is fiscally advantageous for us to fully utilize existing infrastructure rather than expanding it unnecessarily. For too long, we have built new infrastructure to foster development because it's across a border. WHY? Let's fully utilize the assets that already exist before permitting the construction of new facilities.

For example, cities with excess sewer treatment capacity should be allowed to extend their service area to facilitate development before we allow new construction. That would maximize our investment in that asset rather than creating new capacity that isn't needed. We must recognize that asking essentially the same number of Michigan residents to support our ever-expanding infrastructure is unsustainable.

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Revenue

Any conversation about reforming municipal finance has to include revenue. Local government in Michigan has been horribly underfunded, and our system is built in a way that will prevent our recovery. In short, our revenues do not track with the broader economy. There are several steps we could take to help improve this issue, but let’s focus on two: revenue sharing and Headlee/Proposal A reform.

Revenue sharing has been the most talked about issue in local government for the last 15-plus years. We all know the reality of what has happened to this funding source. To the tune of \$7.5 billion since 2002, the state has diverted dollars intended for local services to fund the state bureaucracy, and it has had a devastating impact. The annual diversion is in excess of \$600 million annually and is felt the hardest by communities with the least ability to absorb the effects.

The reality is that we won’t see an additional \$600 million in next year’s budget, but we can begin to restore revenues over a multi-year period. It is important that we reinvest in our communities. Over 80 percent of gross domestic product happens in our cities, yet we are starving them. It’s bad business. The states that are fostering strong communities are experiencing real growth and we need to recognize that if our communities aren’t thriving, then neither can our economy.

The great recession exposed how flawed our property tax system is and its desperate need for reform. The good news is there are some simple, common sense fixes that would not in any way hinder the spirit of either Headlee or Prop A. Our system only works in a downward direction, and that is without limitation. In theory, upward mobility is limited to inflation, but in reality it’s actually less. A couple key fixes can be accomplished legislatively. We need to allow tax rates



1. Anthony Minghine discusses municipal finance reform with participants at a saveMIcity event in Adrian

under Headlee to move in both directions. In other words, in a declining market the rate could go up to offset decline. Secondly, we need to adjust how we are calculating Headlee roll backs to exclude pop-ups from sales. This will allow full inflationary growth.

In the coming legislative session, we will be advocating for the legislature and administration to “hit the reset button” and reform our municipal finance system. To achieve this goal, we will continue our outreach and education efforts, as well as look for the introduction of reform legislation aimed at changing our current system.

At the end of the day, we must create a solid financial foundation for our communities. Our current system is horribly flawed and we must begin to take measures that are not a quick fix, but put our cities on a new trajectory. Would our cities survive another recession with this model? I would think not. We must rethink our vision for Michigan, and that must start with strong communities.

Anthony Minghine is associate executive director and COO for the League. You may contact him at 734-669-6360 or aminghine@mml.org.



2. U.S. Representative Dan Kildee, Pontiac Mayor Deirdre Waterman, and Ypsilanti Councilmember Lois Allen-Richardson participated in a saveMIcity event in Flint

3. Adrian City Administrator Shane Horn shares his thoughts on municipal finance reform with attendees at the Adrian saveMIcity event.