Fixing Municipal Finance

By Elizabeth Philips Foley

Surviving. Not thriving.

Is that the best that Michigan can do for its cities and villages?

"No municipality has come out of the Great Recession unscathed. We have depleted our reserves and made deep cuts into services our citizens need. We are at a stage now where we are not thriving but simply surviving," said Wakefield Mayor Pro Tem and League President Richard Bolen. "It is time to take control of our future! We must fight the good fight and win the battle of securing a municipal finance system that actually works for all of us. We need the governor and Legislature to fully understand how the broken system has affected every community from Ironwood to Detroit."

The Revenue Crisis

Throughout the decade-long economic downturn, the state has balanced its budget on the backs of its communities. From 2001 to 2014, local units of government lost a total of $6.2 billion in revenue sharing cuts. East Lansing, for example, received roughly $7 million in total revenue sharing payments in 2001. In 2015, the city is projected to receive only $5.2 million.

"While constitutional revenue sharing has grown slightly over the course of the last 14 years, today we are receiving less than 40 percent of what we did in statutory revenue sharing in Fiscal Year 2001," said East Lansing Mayor and League Vice President Nathan Triplett. "In short, the city is now receiving $1.8 million less per year in revenue sharing and that reduction is entirely due to discretionary cuts made by the Legislature."

Then the unthinkable happened: taxable value collapsed in the wake of the foreclosure crisis of 2008. Even with today's improved economy, those lost property tax revenues aren't being recovered since the interaction between the Headlee Amendment and Proposal A keeps growth in taxable value capped at the rate of inflation or lower.

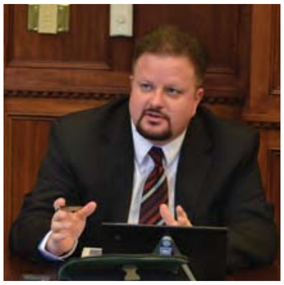
"It will take over 20 years for taxable value to recover in Hazel Park. Add to that mix the deep cuts in municipal revenue sharing over the last dozen years, and you have a recipe for disaster," said Hazel Park City Manager Ed Klobucher.

East Lansing lost nearly $115 million of taxable value in the recession, resulting in roughly $670,000 less annually in property tax revenue for the city. Combined with revenue sharing losses, the city is working with $2.5 million less in revenue annually.

"We anticipate that it will take an additional five to seven years for the city's tax base to reach 2009 levels," said Triplett. "Property taxes and intergovernmental revenues—primarily state revenue sharing—make up 67 percent of our city's general fund revenue."

Most inner-ring suburban communities are fully built-out, making it nearly impossible to grow the tax base. "The argument that municipalities can 'grow' their way to prosperity is a

Nathan Triplett: Mayor, City of East Lansing; Vice President, MML Board of Trustees



Ed Klobucher: Manager, City of Hazel Park; Boardmember, MML Board of Trustees

Dick Bolen: Mayor Pro Tem, City of Wakefield; President, MML Board of Trustees

Shea Charles: Manager, City of Howell; Chair, MML Finance Committee

Joe Valentine: Manager, City of Birmingham

fallacy under the current funding structure," said Howell City Manager and League Finance Committee Chair Shea Charles.

Legacy Costs and Alternative Funding

Meanwhile, the financial drain worsens as cities struggle to maintain services critical to every community's health and well-being. Personnel services tend to be the largest general fund expense. Older inner-ring cities in particular often have huge legacy costs for retirees and aging infrastructure.

"Local obligations for retirement and other postemployment benefits (OPEB) commit large dollar allocations and these required contributions tend to take priority over other expenditures," said Birmingham City Manager Joe Valentine. "Our total OPEB costs are approximately $4.8 million. Approximately 49 percent of this is for police, dispatch, and fire operations."

In East Lansing, 58.5 percent of the general fund budget is public safety. The city's new health care taskforce is helping to control employee health care costs. Still, the city's total OPEB liability as of last valuation was $46.97 million, with police and fire approximately 47.6 percent of the total. In Hazel Park, police and fire make up 49 percent of the general fund budget. Birmingham's public safety budget is $12.7 million: approximately 44 percent of the General Fund budget, or 22 percent of the overall budget.

Communities large and small are forced to make up the difference by any means available. Hazel Park passed a Headlee override in 2006 and a 9.8 police and fire millage in 2011, and levied a street lighting assessment on all residential and most commercial properties in 2012. Howell has raised its general operating millage to just short of maximum capacity and has begun levying a garbage millage.

"But even with these two increases, Howell's overall property tax revenue is still down 12 percent from its peak. Without the millage increase, property tax revenues would be down 22 percent," said Charles. There's only so much any community can do.

"We are fortunate to be under our Headlee maximum levy, but raising taxes hasn't been a palatable option and has implications for maintaining our AAA bond rating," said Valentine. "Seeking grants and increasing fees for services will only go so far, so options are somewhat limited. Encouraging development to increase property taxes is probably the best option."

Shared Services

Many neighboring communities have joined in a wide variety of service-sharing agreements in an effort to cut rising costs.

In fiscal year 2012-13, Birmingham approved an interlocal agreement with the village of Beverly Hills to provide for consolidated dispatch and combined public safety communication services for both communities. Each community has benefitted and the arrangement has worked well operationally, said Valentine. "Additionally, in 2012 our fire department began transporting patients from medical runs to local hospitals in lieu of using a private ambulance service to provide continuation of care," said Valentine. "The result is fairly seamless to the patient as billing and collection is handled by a vendor of the city and revenues of approximately $200,000 annually are now received for this service."

Hazel Park and Eastpointe passed the South Macomb Oakland Regional Service Authority (SMORSA) millage in 2015 to enable funding for both cities to maintain their own fire departments.

"Hazel Park also engages in many service sharing opportunities that either save money or improve services for our residents, including an automatic fire mutual aid pact with Ferndale and Madison Heights, a multi-city consortium for trash collection and hauling, several multi-jurisdictional police consortium units, and several cooperative recreation programs," said Klobucher. "Until we came up with the SMORSA idea with Eastpointe, we were running out of options. While these programs are valuable, consolidation has been oversold and overhyped as a solution for Michigan's municipal finance problems."

Cutting Down, Cutting Back

Even with all the stopgap strategies, municipalities are ultimately forced to simply do less for residents and employees.

Hazel Park has eliminated curbside leaf vacuuming and the hours at city hall have been reduced. Over 20 percent of Hazel Park's full-time positions have been eliminated since 2002. All bargaining units have repeatedly made concessions over the last decade, including an across-the-board pay cut, reductions in healthcare benefits, elimination of positions, and the use of part-timers and volunteers in place of full-time employees.

Howell has reduced staffing levels by 25 percent over the last seven years and moved into reactive rather than proactive mode. And it's only getting worse, said Charles.

"Each year the committee can count on a parade of legislation that looks to further restrict local revenue streams. These either take the form of special exemptions, imposing new mandates on communities or elimination of certain taxes," he said. "The problem has become much worse with term limits as very few in the Legislature comprehend that the way Michigan funds its local governments is broken."

A Better Future

What would the world be like with healthy funding? Better roads and infrastructure top most wish lists. But without it, both those essentials will continue to worsen.

The time to fix it is now, says League President Bolen.

"We don't ask for a handout or even a hand up. What we ask for is a handshake with a promise between the state and local units of government to fix this problem once and for all," said Bolen. "We do not expect the state to do things for us that we should do for ourselves. But we should expect that the state will be an active partner in helping communities create a better future by doing everything possible to solve problems in a timely fashion with the playing field being level and staying level."

The solutions do exist. Among them: more local tax options. A balanced distribution of revenue sharing funds for communities with a higher tax effort or higher legacy costs. Reform the system of property tax assessment and appeal. Pass Proposal 1 for guaranteed road funding.

"We are now at a crucial crossroad in how we plan our financial futures. To move forward we need leadership: true authentic leadership at all levels of government," said Bolen. "The challenges to change the status quo will be daunting. But if we pursue this great initiative together, we will succeed and in the end create a better version of ourselves, our communities, and this great state. Future generations should expect no less of us."

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