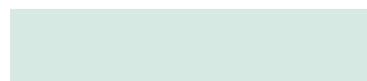


# Partnership for Place: An Agenda for a Competitive 21st Century Michigan



michigan municipal league



## Partnership for Place: An Agenda for a Competitive 21st Century Michigan

Thriving communities are a key to Michigan’s long-term success and sustainability. If we are going to compete globally in the 21st century, then it is critical to create communities that can attract and retain talent and enterprise. This policy agenda proposes a commitment of action in partnership between the State and its municipalities that will facilitate Michigan’s economic growth and allow for the development of places to provide key services and amenities that contribute to a high quality of life. It focuses on a more regional approach to service delivery, which would change the way services are provided, how resources are dedicated, and how systems are supported. This policy agenda proposes actions that will re-establish a partnership for prosperity in four key areas:

**Funding for the Future** – Making sure that appropriate funds and tools are available to operate efficiently and work regionally in order to succeed globally.

**Michigan in Motion** – Shifting from near exclusive vehicular-based investment to alternative modes of transportation that will accommodate all users, i.e. pedestrians, bikers, public transit riders, and drivers.

**Place for Talent** - Partnering with the State to attract and retain talented workers in our communities through placemaking policies.

**Strength in Structure** – Seeking out solutions to invest in infrastructure and development where it will produce the best results and target resources with maximum outcomes.

It should be noted that, all of the policy solutions are not created equal. The League recognizes that in order for some of these policy actions to realize the most benefit, basic service needs must be met first. It brings to mind Maslow’s Triangle, which was introduced by Abraham Maslow in 1943 in his paper “A Theory of Human Motivation.” Maslow depicts human motivation through a hierarchical chart of human needs, which proceed from the basic to the more complex (See Chart 1).

According to Maslow, basic physiological needs such as food and water come first, followed by safety and so on, and he suggests that you cannot move to the next level without satisfying the previous set of needs. Unmet basic needs means we cannot proceed to those things that bring true meaning and satisfaction in life such as friendship, love, and the creative expression of “self.”

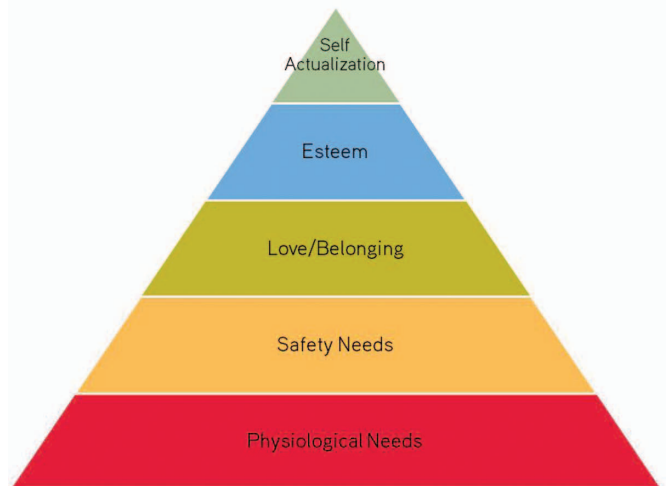


Chart 1 – Abraham Maslow’s Hierarchy of Human Needs

We can depict our policy proposals in the same manner, giving a visual depiction of how critical and essential it is to obtain the basic policy changes in order for communities to be able to move to the higher “levels” to reach the point of being fully sustainable places.

The policy recommendations can be placed into a triangle of their own—a Hierarchy of Proposals for Sustainable Places (see Chart 2).

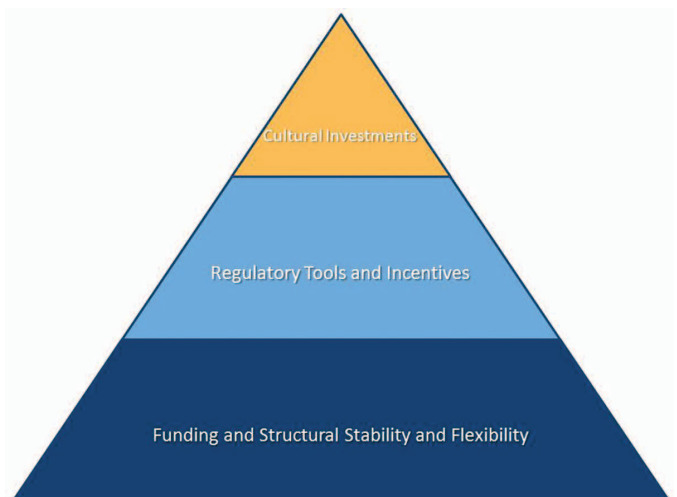


Chart 2 – Hierarchy of Proposals for Sustainable Places

The League’s Policy Agenda is a mix of core solutions that build on each other. Taken as a whole, they would put Michigan’s communities in a competitive position as we move ahead in the 21st century, creating sustainable places that attract talent and prepare them to flourish in the knowledge economy.

## Funding for the Future

### Building the Case

Each and every day the quality of life for Michigan residents is impacted by the choices that local governments make in providing public safety, parks and recreational programming, street and sidewalk repair, and investments into an exciting downtown. These choices define a community and set the stage for whether or not it will be competitive and prosperous in the coming years.

Over the past decade, these choices have become increasingly difficult for local leaders who must operate under a suffocating framework of shrinking funds, rising service costs, and a legacy liability of escalating retiree costs.

Put simply, Michigan’s municipal finance structure is broken. It is built on an old economic model for an industrial era. The world has modernized and Michigan must adapt its financial model as well or risk sliding further down the path to financial despair and cultural ruin.

Particularly in light of the recent personal property tax changes, the time is ripe for action. If we expect local leaders to operate efficiently, work regionally, and succeed globally, the State must partner with them and provide the tools to thrive. This includes reevaluating local reliance on property taxes and the dwindling fiscal partnership with the State, and relieving them of legacy burdens carried over from another economic time.

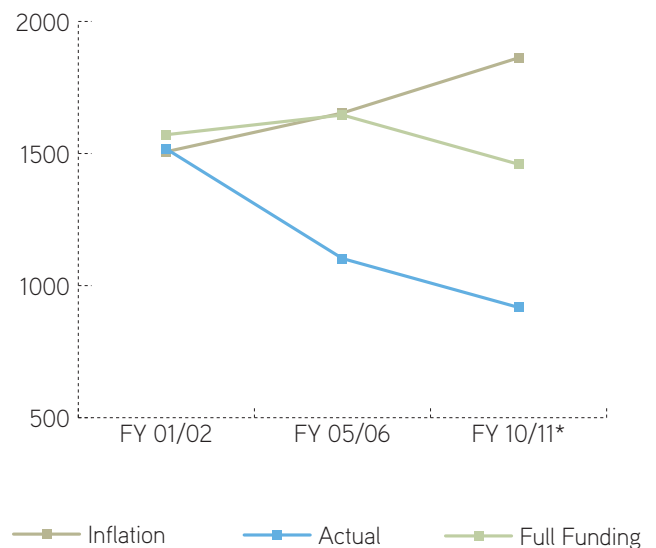
### Shrinking Revenues

Most Michigan municipalities have three main revenue streams and each of these is strictly limited. However, there are 22 cities that have elected to levy a city income tax, in most cases to try and mitigate the lack of property tax revenues due to large portions of land being tax exempt.

- The vast majority of local revenue comes from property taxes—within one of the most restrictive property tax systems in the country due to the combined effect of the Headlee Amendment and Proposal A. The former limits tax revenues collected by a community as a whole, while the latter limits each parcel’s value growth to 5 percent annually or the rate of inflation, whichever is less. The combination of these two constitutional provisions greatly restricts a municipality’s ability to raise critical revenue for essential services on pace with rising costs. To make matters even worse, these tax increase caps are set so low it will take decades to restore revenues to the same levels they were prior to the significant decline in property values that has occurred over the last several years. Even if the economy rebounds dramatically and home values rise, the community will not be able to generate any revenues beyond the rate of inflation to respond to growing service needs. Because of the over-reliance on property taxes, when the housing market plummeted, communities suffered significantly.

#### TOTAL STATE SHARED REVENUE—CITIES, VILLAGES, TOWNSHIPS, & COUNTIES

Source: The House Fiscal Agency and Plante & Moran

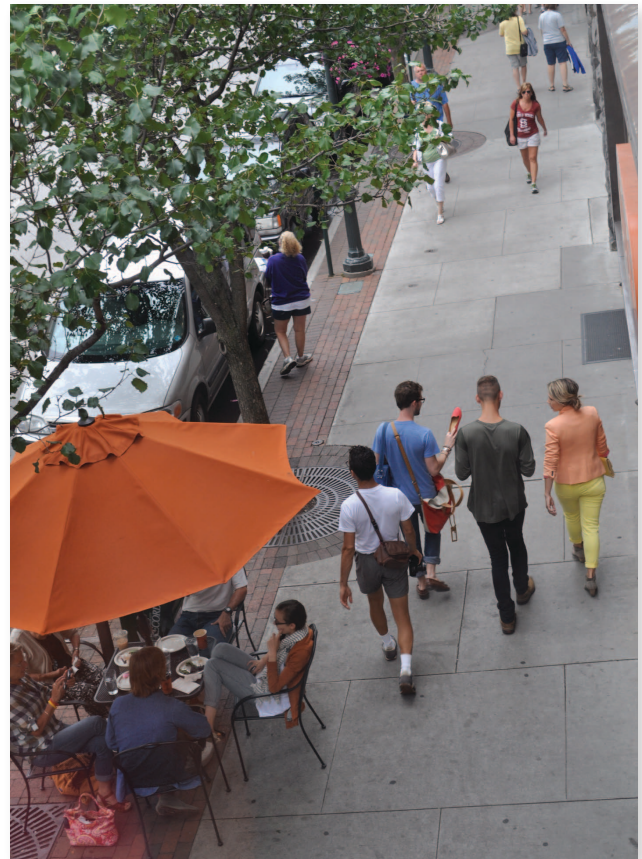


\*\* Inflation applied to FY 97/98 total state shared revenue based on Proposal A inflation factor 1.6% (98/99), 1.9% (99/00), 3.2% (00/01), 3.2% (01/02), 1.5% (02/03), 2.3% (03/04), 2.3% (04/05), 3.3% (05/06), 3.7% (06/07), 2.3% (07/08), 4.4% (08/09), -3% (09/10), 2% (10/11)

- The next main stream of revenue is in the form of Constitutional and Statutory revenue sharing, known currently as EVIP (Economic Vitality and Incentive Program). In 1939, intangible property was removed from the local property tax base and a state intangibles tax was created, with a method put in place to return those funds to locals. Since that time, additional state taxes have been enacted to preempt and replace the local levy, such as sales, income, and single-business taxes. All this was done with the State’s pledge that a portion of the revenues raised from the new state taxes would be returned to locals (shared) to provide essential services. Instead, local communities have had their “share” of the funds slashed dramatically in the past ten years and are now being forced to comply with a whole host of new bureaucratic regulations for the privilege of obtaining an ever-decreasing portion of those funds.
- Fees and fines are the third leg of the stool for local revenue generation and even those have been limited by Supreme Court rules. In 1996, the court determined in *Bolt v. City of Lansing* that the city’s storm water fee was a tax that required voter approval under Article 9, Section 31 of the Headlee Amendment. As part of its ruling, the court set out a three-part test for what constitutes a fee:
  1. It must serve a valid regulatory purpose.
  2. It must be voluntary.
  3. It must be proportional to the service provided to the user paying the fee. Unless a fee meets all three conditions, it is considered a tax and must be voted on. This limitation on fees has been another handcuff on local communities trying to build great places.

## The Burden of Legacy Benefits

An additional burden impacting local communities is the growing legacy burden of unfunded retiree benefits in addition to pensions, known as “other post-employment benefits” or OPEB. Rising health care costs, early retirement ages, and a pay-as-you-go approach have created an unsustainable model that has overwhelmed local budgets to the point that many struggle to find enough remaining funds to provide critical services.



According to a recent Michigan State University report, the total OPEB liability for Michigan’s cities, villages and townships is \$13.5 billion with funding levels at only 6 percent.<sup>1</sup> That means that the *net unfunded liability is \$12.7 billion*. This is 1.6 times the combined amount owed for unfunded pension obligations (\$3.1 billion) and governmental activities debt (\$4.7 billion).

Unfortunately, Michigan law does not allow communities to unilaterally or retroactively adjust OPEB, so benefit plans from decades ago are still being provided. The 311 local units which provide OPEB represent 67 percent of Michigan’s population. Each contributes an average equivalent of 3.18 mills annually to fund OPEB—or about 20 percent of their general fund revenues. Detroit’s OPEB contribution is equivalent to over 35 mills.<sup>2</sup>

This legacy liability puts a drain on Michigan’s economic hubs that cripples their ability to provide the vital local services that are critical to attract and retain the talent needed to sustain a new economy.



## Proposed Policy Actions

In order to fulfill the basic needs for our policy pyramid, we must create financial stability and flexibility. We can accomplish that by implementing the following recommendations:

- 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.<sup>3</sup>
- Alternatively, increase the sales tax by one cent and dedicate that 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.
- Allow locals to implement land value taxation to encourage appropriate use of space. By shifting where the value is held, some communities could see major improvements in their property development. This tool has been used successfully in targeted cities in other states, like Pennsylvania.
- 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.

- 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.

## Michigan in Motion

### Building the Case

Thriving metropolitan regions around the world have multi-modal transportation systems that connect and support all users, from pedestrians and bicyclists to public transit riders and auto drivers. In order to compete, Michigan must also offer a complete transit-and-transportation system that works seamlessly to move people. Shifting our investment from a purely auto-based approach is essential as we strive to keep and attract talent through the development of our places.

Building a modern transportation system in Michigan is long overdue. For years Michigan has woefully under-invested in its roads, bridges, streets, and public transit.



The cost to maintain an aging system competes with the need to make changes that accommodate an aging populace and trending population shift back to metropolitan centers.

Road systems in Michigan are primarily maintained through a combination of federal and state funding, although local units are increasingly being called upon to supplement the shortfalls.

Michigan continually risks losing out on the federal match. Each year, the State has managed to cobble together the required match funds by raiding other pots of money or implementing budget tricks. However, these are not real solutions and if policy makers don't act soon, our lack of progress on this issue will result in a dismantling of the inadequate transportation network that exists today—a 180-degree turn from the modern 21st century system the State needs to be developing.

Michigan needs real increases and new funding mechanisms, and must ensure that this new investment is prioritized in full-service communities and regions. Policy makers must use the current state and federal focus on transportation to propel this from an abstract discussion into real and significant change. We must prioritize and promote transportation and mass transit, road diets, Complete Streets, and recreational opportunities that increase mobility and connectivity. Research shows this is an essential component of successful regions worldwide, so there is simply no time to waste.

## Proposed Policy Actions

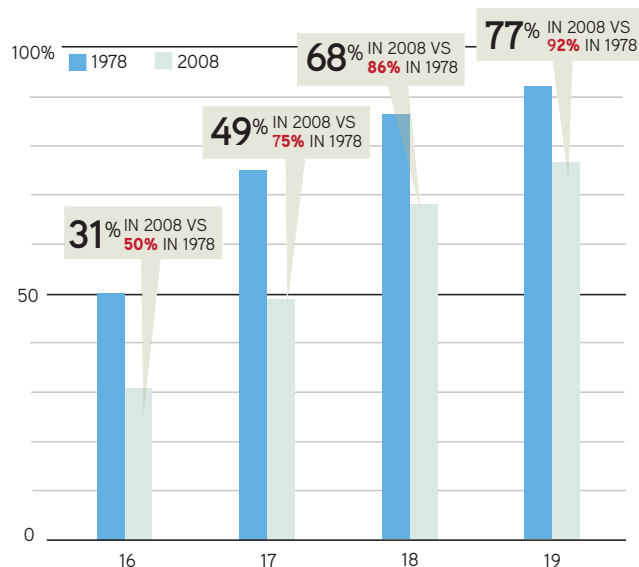
Transportation, including transit and non-motorized pathways, are an essential component of sustainable places. They must be funded appropriately to yield benefits that other tools, such as Road Diet designs and Complete Street programs provide. Therefore, we propose the following recommendations:

- Realign the formula of Michigan's Public Act 51 of 1951 that is utilized by MDOT to distribute transportation dollars to the various road agencies. The Act 51 formula is based on outdated criteria that do not reflect the economics of maintaining a modern transportation network. Its simplistic basis is driven by miles of road, traffic volumes and, to

some extent, population. It ignores metropolitan needs and roadway characteristics, and fails to allow for project cost variability due to such factors as lane miles, age of infrastructure, and the presence of underground utilities.

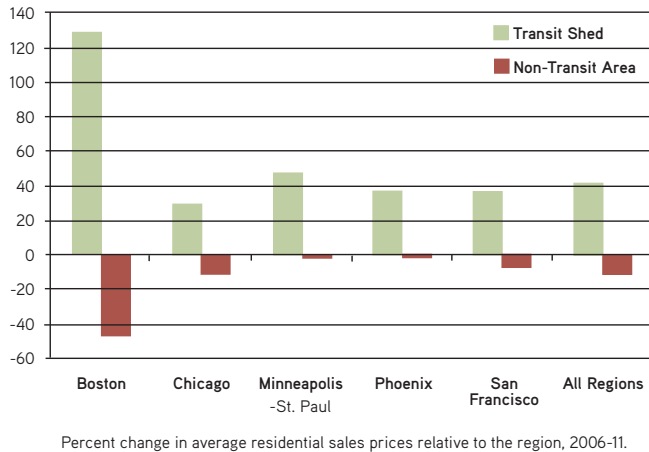
- Alternatively, amend PA 51 to prioritize the spending of any new transportation revenues coming into the system from increased fuel tax or vehicle registration revenues on transportation systems in already developed areas. Currently, the roughly \$3 billion that Michigan spends on roads, bridges, and transit is split (after earmarks for economic development projects, transit, and bridges) with 39.1 percent going to the MDOT system, 39.1 percent to the county road system, and 21.8 percent to cities and villages. Instead of basing distribution on the type of road agency, these new monies should be spent based on criteria similar to that used by the Local Bridge Advisory Board, which recognizes various factors in a project's cost and the economic value of a project with an eye towards stimulating economic opportunities. This will allow the Act to account for more specific details about the infrastructure systems being managed by the various road agencies.

**SLOWDOWN** % of U.S. population between 16 and 19 with driver's licenses



Source: Department of Transportation

**STUDY** Homes Near Transit Were Insulated From the Housing Crash  
by Tanya Snyder



- There must also be a greater emphasis on transit development through increasing revenues. The economic impact is indisputable. Leaders in Los Angeles, California and Cleveland, Ohio have shown the economic activity that follows transit development shows a return on investment that is 3 and 4 times the initial public allocation.
- Support a gas tax increase to ensure that Michigan is able to meet the federal match going forward, and begin to plan for the state’s infrastructure reconstruction using a 21st century model that focuses on strong local networks connecting people in a meaningful way that accommodates their mobile lives. A gas tax increase to 37 cents which includes parity for diesel gas would generate approximately \$950 million.
- Do not allow the State to divert funding passed on by the federal government for Transportation Alternatives, and require that all of that funding be made available for communities to invest in the talent attraction amenities.
- Prioritize road diets and livable streets with increased revenues allocated for projects that help develop a sense of place in their neighborhoods. The “road diet” is a tool to help communities deal with the excess of asphalt promulgated in the past several decades. A road diet converts a large multi-lane corridor into a two- or three-lane road with a turn lane and/or bike lanes. This action creates a more livable street that

promotes improved safety, economic development, and commercial activity. Road diets are very applicable in areas which have lost population or need to realign with modern transportation priorities in order to revitalize. In other words, many Michigan communities could benefit from this type of activity.

## Place for Talent

### Building the Case

The research is compelling. Attracting and retaining talent is critical if Michigan is to prosper in a knowledge-based economy. Transitioning from an industrial-based economy to a knowledge-based economy requires a more educated work force. If Michigan is going to be economically competitive, then it needs to become smarter. Currently, only 25.2 percent of the Michigan population holds a bachelor’s degree or higher. This compares to 28.1 percent for the country. Looking at other states in a similar geographic area, Minnesota is at 31.8 percent and Illinois is at 30.7 percent. These are states with thriving large urban centers. States and major cities with the largest populations of college educated, talented, and creative people are winning economically with lower unemployment rates and higher per-capita income levels.<sup>4</sup> The most successful economies are those that are concentrated in the knowledge-based sectors. In the United States, job growth from 1990-2012 was 34 percent in high education industries versus 14 percent in low education industries.<sup>5</sup>

Michigan, with its world-class higher learning institutions, attracts students not only from in-state, but from all over the world. Our challenge is to encourage these students to stay after college. The likelihood of moving after their 25th birthday declines by half.<sup>6</sup> We need to get them engaged in their communities so that they will choose to settle down here, raise families, start and grow jobs, and invest in Michigan for the long term.<sup>5</sup>

In a global economy where technology allows people to work anywhere, research shows that of those students who leave Michigan, two-thirds of them are choosing where to live first then looking for a job—and they are overwhelmingly choosing to live in cities.<sup>7</sup> This is a



transformative approach from a generation ago when people followed the jobs. We know that talent is attracted to vibrant places with robust services and amenities. This includes a strong emphasis on arts and cultural programs, physical design and walkability, transit options, connectivity, and an entrepreneurial environment, as well as public safety.

Nontraditional households are on the rise, with less than 25 percent of households consisting of a mother, father and children living under the same roof. Today, automotive miles driven by 21-30 year-olds is 13.7 percent versus 20.8 percent in 1995 and 18.3 percent in 2001.<sup>8</sup> These are demographic shifts which are driving dramatic changes in how we design our communities. We must offer communities with the diversity of choices in housing, transportation, activities, and recreation that is required by talent, or we will remain at a competitive disadvantage.

## Proposed Policy Actions

In order to fully position our communities to attract and retain talent, we must advance policies that provide appropriate tools for modern development as well as fund and support cultural and place-based priorities—allowing communities to further reach sustainability. To that end, the following recommendations are proposed:

- Advocate for a wide range of housing choices (affordable, rental and owner-occupied housing). As mentioned, with shifting demographics showing that less than 25 percent of households are considered traditional (mother, father, and children),<sup>9</sup> young people are choosing to rent over purchasing a home and with a want/need of much less square footage than a generation ago. Since our focus over the past decades has been to build large homes away from central cities and located in single-use areas, there is a huge housing shortage for what young people desire. In a recent blog, titled “Growing Detroit II”, Michigan Future, Inc. strongly proposes that development incentives through historic preservation and brownfield tax credits need to be restored. For decades and continuing today, the government has subsidized suburban housing (single family, home ownership). It’s time that subsidizing urban housing (multifamily, mixed-use, and largely rental) be supported.<sup>10</sup>
- Promote mixed-use development, which includes businesses, retail, restaurants, and housing and build a live-and-work environment to create a more sustainable way of living. Single-use zoning construction makes no economic sense. Charles Marohn, executive director of Strong Towns in Brainerd, Minnesota, illustrates the economic impact of a Walmart business and a mixed-use building in Asheville, North Carolina. In this particular case, Walmart takes up 34 acres of land and brings in \$6,500 of total property taxes per acre. In contrast, the mixed-used development which occupies 0.2 acre, brings in \$634,000 of total property taxes per acre. Retail taxes per acre to the city are \$47,000 for Walmart versus \$83,600 for the mixed-use building. Jobs per acre are 5.9 for Walmart and 73.7 for the mixed-use development.<sup>11</sup> With numbers like these, we need to focus our resources on multi-use investments that will strengthen the economic base and provide the type of communities people want to live in. Michigan State Housing Development Authority (MSHDA) and Michigan Economic Development Corporation (MEDC) are state agencies that could provide additional incentives for multi-use development.



- Forgive student loans on an incremental basis depending on the length of time spent in Michigan. Give a refundable loan of up to \$8,000 to each public university and community college student. Each year a student remains in Michigan after graduation, 20 percent of the loan will be forgiven. Another option is to forgive the loan by 10 percent for 10 years. Other cities and states are developing these programs. Kansas has already seen an increase in college graduates applying for their program, and 1/3 of them are from out of state. And, Niagra Falls, NY is implementing their own program now. The race for talent is on—and we must choose to get in and compete.<sup>12</sup>
- It is important that funding be available to create robust internship programs that link new graduates with small and large businesses, nonprofits and foundations to gain real-world situations. Some of that burden could be shifted to businesses to help combat the state’s brain drain by offering tax credits for those businesses that develop ongoing intern programs. One

program that already exists in Michigan is the Intern in Michigan program. It connects students and employers through a unique online matching system. This is a creative approach to retaining and connecting talent which could be incentivized and promoted, as with other similar programs.

- Underinvesting in the cultural arts makes no economic sense. The arts, culture, arts education, and creative industries are huge economic drivers that provide a rich quality of life and help attract and retain people of all ages. Jobs, tax revenue, and vibrant communities are all dependent upon the creative state of our economy. Using data provided by the Cultural Data Project, Creative State Michigan illustrates that for every \$1 Michigan invests in arts and culture, \$51 is pumped back into the state’s economy.<sup>13</sup> It is critical that the State supports the arts at a much higher level than it has been doing during the past decade.



## Strength in Structure

### Building the Case

At a time when our state and local resources are diminishing, there is a need to advocate for a strong return on investment for local services. This goes beyond “fix it first” policies and local match requirements. Although it might make sense in some cases to fix outlying and ineffective infrastructure first, it is important that is not done at the expense of investing in more sustainable projects. Local governments and the State need to recognize that 20th century service provision is not matching the demands or needs of the 21st century economy.

Michigan cities and villages provide the necessary services that people expect from their local governments—police and fire protection, sewer and water, roads, infrastructure, garbage collection, recycling, etc. But with increasingly fewer resources to support these services, it is important to seek out innovative solutions together and recognize the evolving economic reality: that our economic output is linked directly to the state’s metropolitan areas and smaller commercial corridors.

Michigan’s metropolitan regions account for 88 percent of the state’s Gross Domestic Product (GDP),<sup>14</sup> so it only makes sense that support and resources are dedicated and aligned for projects related to urban growth. That means stopping generalized expansion of infrastructure and development that creates a drain on our communities and state. Let’s target our resources in order to maximize our outcomes.

A study just released, entitled *Building Better Budgets*, by Smart Growth America, showed three key findings:

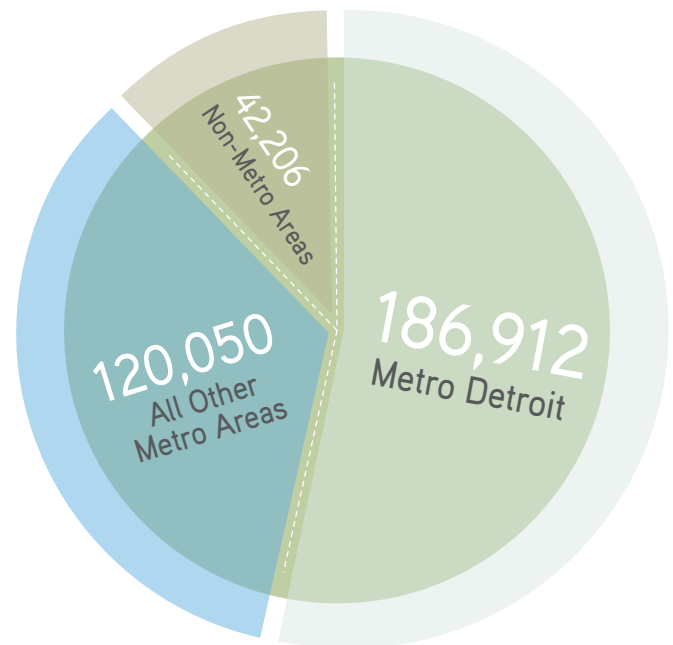
1. Smart growth development costs one-third less for upfront infrastructure.
2. Smart growth development saves an average of 10 percent on ongoing delivery of services.
3. Smart growth development generates 10 times more tax revenue per acre than conventional suburban development.<sup>15</sup>

## Proposed Policy Actions

Another essential component to sustainable places is to commit to solving structural insolvency. Michigan can no longer afford to incentivize continued development that will only lead to a greater inability to maintain infrastructure. As the study shows, it makes no economic sense to place greater fiscal strain for maintenance on residents. This reality leads us to propose the following solution:

- Create new community growth legislation to make Michigan laws more growth friendly which will encourage more effectual land use and the efficient use of existing infrastructure. This will help ensure sustainability of municipal borders, prevent increased infrastructure costs for rural areas, and reverse decades of costly low density growth that simply does not provide an appropriate return on investment. It will also enable communities that are already urban in character to expand their boundaries to accommodate new infrastructure to be added on to the existing built-out infrastructure. In addition, it will require schools to adhere to local zoning.

**MICHIGAN GDP**  
(in millions of dollars)



Michigan’s metropolitan areas account for 88 percent of the state’s Gross Domestic Product (GDP). The Detroit region alone accounts for almost 54 percent of Michigan’s GDP. In addition, the real GDP per capita in Michigan’s metropolitan areas is \$37,560, compared to \$24,949 in the rest of the state.

Source: RW Ventures, “Michigan’s Metropolitan Areas Fact Sheet”

## Endnotes

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The Michigan Municipal League is the one clear voice for Michigan communities. Through advocacy at the state and federal level, we proactively represent municipalities to help them sustain highly livable, desirable, and unique places within the state. We create and offer our members services and events that range from traditional to cutting edge, in order to help educate and inspire them to remain focused on their passion for the area they represent. We are a nonprofit, but we act with the fervor of entrepreneurs; our people are dynamic, energetic and highly approachable, passionately and aggressively pushing change for better communities.

June 2013