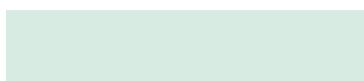




THE STATE OF OUR COMMUNITIES



michigan municipal league
better communities. better michigan.



THE STATE OF OUR COMMUNITIES

Looking back on 2014, Michigan's recovery was a topic of central focus throughout the year. The state of Michigan's economy and the factors that drive our economy were critical issues debated within the Legislature and during the gubernatorial campaign. Detroit's emergence from bankruptcy and the focus on the factors that led to their financial crisis, along with the crisis faced by the eleven other communities currently operating under emergency financial management, have led the governor and other key leaders to highlight the pressures on municipal governments throughout Michigan and the importance of these communities to the state as a whole.

Cities, villages, and metropolitan areas drive economic development and job creation in our state. Michigan's metropolitan regions, according to the Bureau of Economic Analysis, house 82 percent of the state's residents, 84 percent of our jobs, and are responsible for 88 percent of our gross domestic product.¹



Cities are magnets for young, educated people that bring innovative ideas and highly sought after talent to a local economy. College graduates between the ages of 25 and 34 are more than twice as likely to live in an urban neighborhood as the rest of the population.² These individuals are highly mobile, and for the most part are moving to the core of metropolitan regions. While cities across the country are investing in their community assets to compete for this new talent, Michigan is falling behind. Of the 51 biggest metro areas in America, only Detroit experienced a decline in the number of college graduates aged 25 to 34 from 2000 to 2012.³

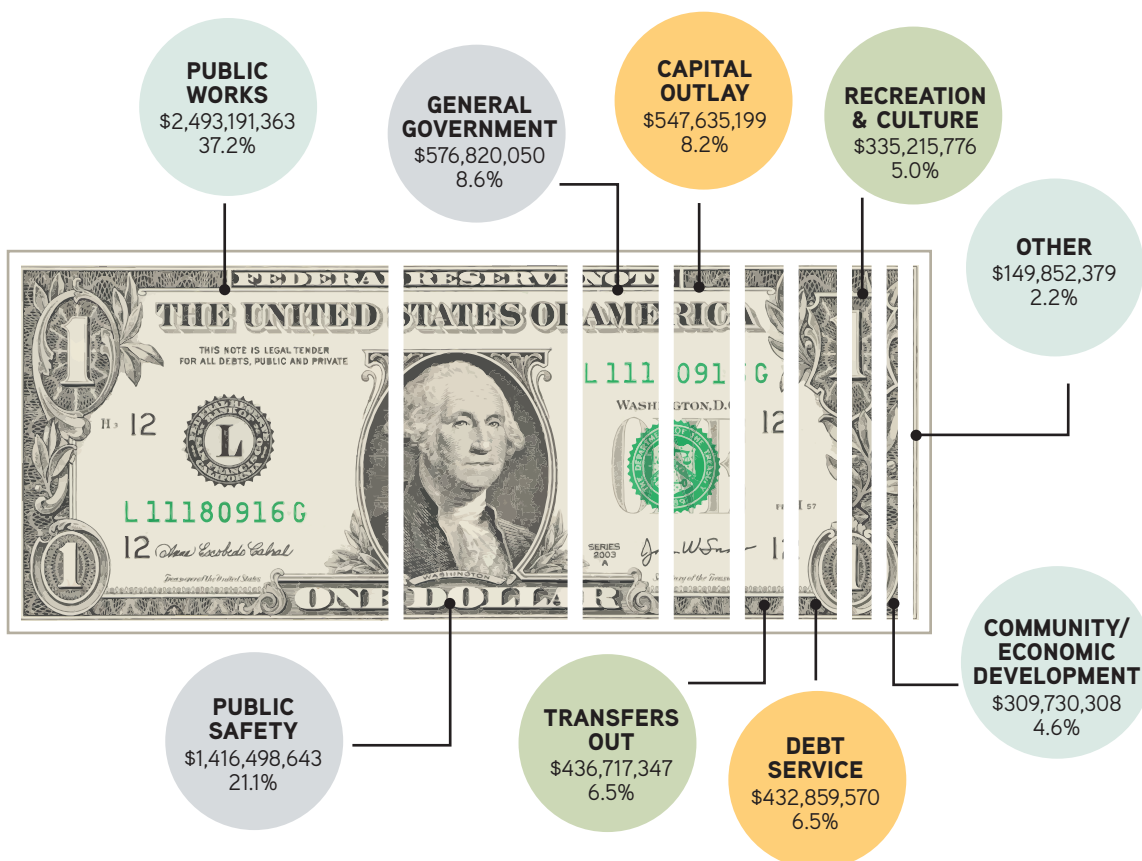
Each and every day the quality of life for Michigan residents and business owners is impacted by the choices that local governments make in providing public safety, street and sidewalk repair, public utilities, and other essential investments that create flourishing local economies. These choices define a community and set the stage for whether or not it will be competitive and prosperous in the coming years.

With the economic slide over the past decade, these responsibilities have become increasingly difficult for local leaders who must operate under a suffocating framework of shrinking funds, rising service costs, and escalating retiree liabilities.

The current state of our communities is a clear indication that Michigan's municipal finance system needs to be put under a microscope. Structural problems that have long contributed to fiscal difficulties are now more apparent than ever. These problems need to be discussed and debated in order to provide a clear path to recovery for our communities, our economy, and our state.

2014 CITY EXPENDITURES

Source: State of Michigan Department of Treasury 2014 F-65 data



WHY COMMUNITIES MATTER

Local governments are responsible for providing some of our most essential and valued services that keep our residents safe and our economy moving. In a survey of Michigan citizens by the Michigan Economic Center, 64 percent of respondents said that the most important thing government can do for job creation is to provide quality public goods such as education, transportation, safety, utilities, parks, and libraries that create an environment in which people want to live, work, and run a business.⁴ Most

innovative entrepreneurs have recognized this demand and have sought to establish their businesses in communities that provide these services. A recent report by Endeavor Insight demonstrated that America's fastest growing companies often looked for quality of life factors such as parks, schools, entertainment, and cultural amenities when deciding where to locate their business.⁵ People want to be a part of vibrant places; local governments fund the services that make these communities possible.

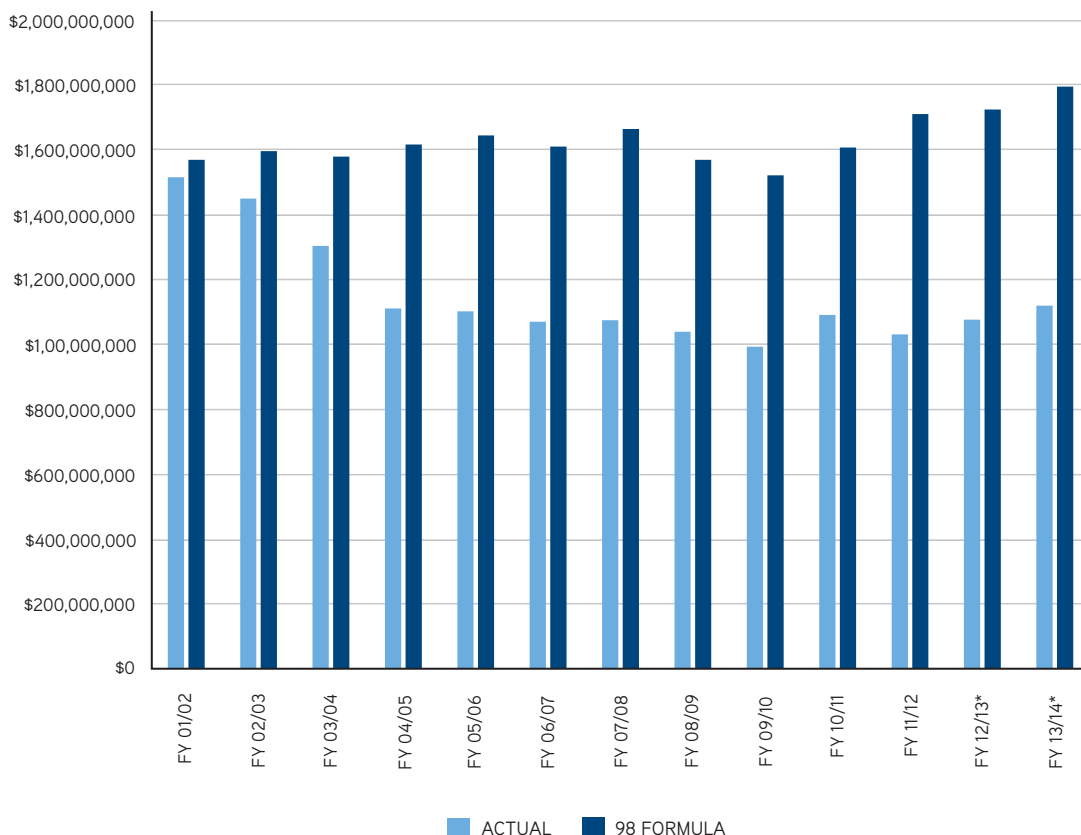
HOW WE FUND OUR COMMUNITIES

Local governments depend on property taxes and revenue sharing to cover most of the costs of operating and providing services. The reliance on these two sources has left communities in a problematic position. Property values dropped considerably during the recent economic recession, and tax revenue recovery has been hindered by statutory and constitutional mechanisms, even as the economy begins to recover.⁶ Over the same period property values plummeted, the state chose to cut billions of dollars out of statutory revenue sharing to cover shortfalls in the state budget. Even though the state and local governments have the same primary drivers of cost—labor and infrastructure—the state has been able

to manage cost increases through growth in its revenue. Local governments do not have this same ability; artificial limitations and state imposed restraints on property taxes and alternative revenue sources—along with the restrictive nature of user fees and the economic challenges of income taxes—mean that while the state’s budget has largely recovered from the recession, communities are left behind and forced to continue making tough choices that can have serious consequences for their residents. The effect of strained budgets on public safety has been one example of this—Michigan saw a loss of 2,315 police officers and more than 1,800 firefighters from 2001 to 2010.⁷

STATE REVENUE SHARING AND INCENTIVE PROGRAM PAYMENTS: ACTUAL VS. '98 FORMULA

Source: House Fiscal Agencyⁱ



*Note: '98 Formula data for FY 12/13 and FY 13/14 calculated from 1/13/2013 consensus budget estimates

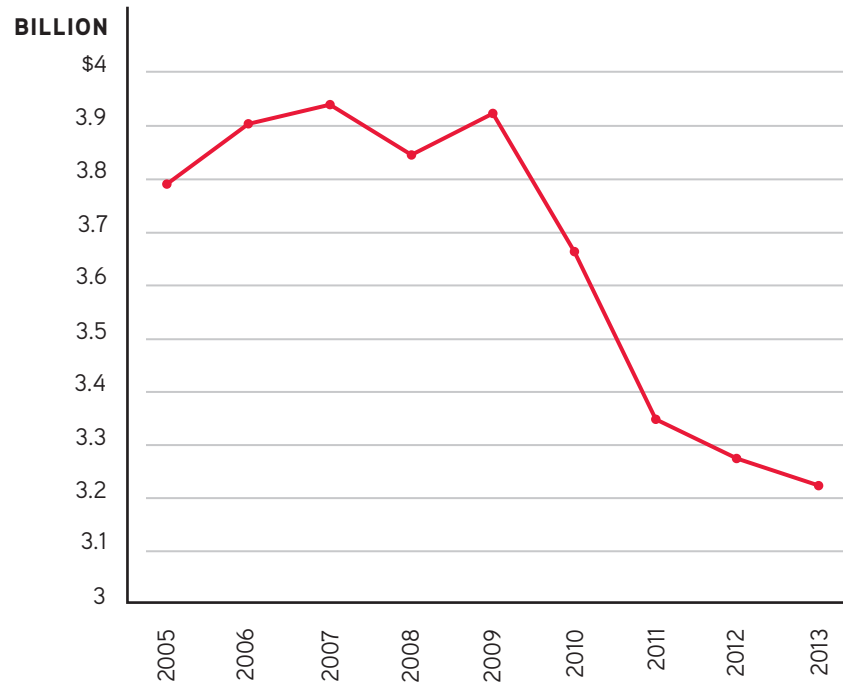
TOTAL STATE SPENDING FROM STATE RESOURCES

Source: Senate Fiscal Agencyⁱⁱ



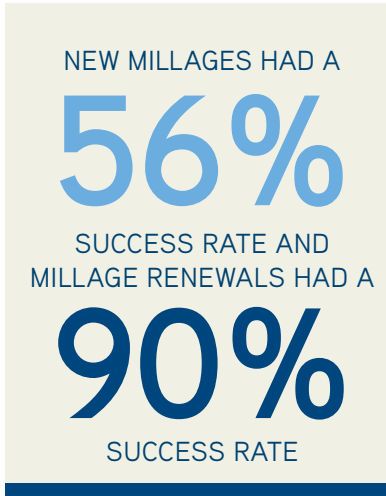
TOTAL PROPERTY TAX REVENUE

Source: Citizens Research Council of Michiganⁱⁱⁱ



COMMUNITIES HAVE RESPONDED TO THIS FINANCIAL SHORTFALL

Local governments have overwhelmingly responded to these challenges by implementing reforms, cutting costs, and establishing greater efficiencies. The City of Eastpointe has reduced their full-time employment over the past five years from 162 to 104.⁸ Howell has frozen the wages of their employees since 2009.⁹ Lansing, East Lansing, and four surrounding townships launched a project in 2012 to implement a shared fire services initiative.¹⁰ Sterling Heights recently privatized functions such as dog licensing and custodial services.¹¹ These efforts highlight the way that communities across the state are making tough choices and taking innovative approaches to ensure that they can meet the demands



of their residents to the best of their ability despite financial difficulties.

When attempts at efficiency fell short, many local governments were forced to turn to their taxpayers for help in funding essential services, and residents have responded favorably. Of the 1,165 local millage proposals that were put before voters from 2008 to 2012, 872 were supported.¹² New millages had a 56-percent success rate and millage renewals had a 90-percent success rate. While these results show that taxpayers place a high

value on the continued provision of their public services and are willing to pay for these services that they believe will have a positive impact, taxpayers can only afford so much.

THE CRISIS CONTINUES

Despite efforts to increase efficiency and continued support from taxpayers at the ballot, communities remain in financial crisis. The recession has left a heavy impact on municipal budgets, particularly on the property tax base. Statutory and constitutional mechanisms that limit the ability to increase revenue through market growth have made it difficult for communities to recover. While property values are rising steadily, it could take decades before this tax base returns to pre-recession levels. At the same time, local governments are heavily burdened by legacy benefit commitments and aging infrastructure that demands a higher investment the longer that maintenance and repair is delayed. In the face of the mounting structural costs and limitations, communities will continue to have great difficulty in making the investments that are so critical to attracting talent and business that will drive Michigan's growth through economic recovery.

LOCAL GOVERNMENTS ARE HEAVILY **BURDENED BY LEGACY BENEFIT COMMITMENTS** AND **AGING INFRASTRUCTURE** THAT **DEMANDS A HIGHER INVESTMENT** THE LONGER THAT MAINTENANCE AND REPAIR IS DELAYED.

HOW DO WE FIX THIS?

A close examination of the factors that have limited the ability of community budgets to recover is essential to ensuring that the financial crisis that communities face today is not a permanent state. Michigan needs to have a thoughtful discussion with the goal of determining how we can lessen the burden on our local governments and allow our communities to provide the services that will continue to drive Michigan's economic recovery. This discussion should examine, but not be limited to, the following factors:

Structure of Local Government:

Methods of service distribution in Michigan can be fragmented, duplicative, and inefficient. Taxpayer funds that are intended to support this delivery of services are spread thin across thousands of different boards, authorities, and districts rather than being focused in the entities that have the best resources available to provide quality service to the greatest amount of people. The budgets of local governments are further hindered by regulations that reduce flexibility. Evaluating the structure of local government in Michigan can reveal innovative ways to increase efficiency in how our communities meet the demands of residents and businesses.

Local Government Revenue:

Recovery for local governments following the recession has been impeded by significantly reduced revenue. Our communities face severe challenges in rebuilding their property tax base, even as the state's economy grows. While revenue sharing has decreased, the method of distribution has also failed to take into account inherent differences in the demands and resources of local units. An exploration of these primary revenue sources, as well as alternative financial tools, will allow for greater investment into our communities to attract talent and ignite economic development.

**MICHIGAN NEEDS TO HAVE A
THOUGHTFUL DISCUSSION
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Cost of Local Government:

Michigan's communities are burdened by debts from pensions and other post-employment benefit obligations. At the same time, the infrastructure that supports our transportation, water, wastewater, utilities, and public buildings is aging and crumbling due to deferred maintenance and repair. These labor and infrastructure costs have added substantial debt to our communities in the presence of revenue shortfalls. Efforts to reform municipal finance need to address these structural costs that are pushing the budgets of local governments to unsustainable levels.

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⁷ Roelofs, Ted; Bridge Magazine. *Tax Shift Adds to Fiscal Woes at City Hall*, 2013.

⁸ City of Eastpointe. *The Great Recession Forward: Eastpointe Finances*, 2014.

⁹ City of Howell. "2014-2015 March Budget Work Session", 2015.

¹⁰ City of Lansing. "Schedule of Cooperation/Collaboration/Consolidation of Services", 2013. http://www.lansingmi.gov/media/view/copy_of_lansing_michigan____consolidated_services_evip_2_1_13_proposal_tracking/4989

¹¹ City of Sterling Heights. *Comprehensive Annual Financial Report*, 2012.

¹² Bhatt, P.; Cox, M.; Moedano, A.; Rowberry, J.; Yates, W.; Gerald R. Ford School of Public Policy, University of Michigan. *Profiling Successful Michigan Millages*, 2012.

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ⁱ Michigan Municipal League. *Revenue Sharing Factsheet*, 2014.

ⁱⁱ Senate Fiscal Agency. "State of Michigan Appropriations by Fund Source", 2014.

<http://www.senate.michigan.gov/sfa/StateBudget/AppropsByFundSourceHistory.pdf>

ⁱⁱⁱ Citizens Research Council of Michigan



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.

February 2015