

# Funding local government in Michigan: a broken system?

Gerald R. Ford Presidential Museum  
March 28, 2013

# The Michigan Public Policy Survey

- **Census survey** – all counties, cities, townships, and villages (72% response rates); twice/year
- **Respondents** – chief elected and appointed officials
- **Topics** – wide range, such as fiscal health, budget priorities, economic development, intergovernmental cooperation, employee policies, labor unions, state relations, environmental sustainability, citizen engagement, much more.

# Warning Signs

“Within five years all of our urban cores are going to be where Flint is at today, unless some significant changes are made.

The way we finance cities today is broken.”

- Ed Kurtz, Emergency Financial Manager,  
City of Flint (Michigan Radio, 1/30/2013)

# Warning Signs

“We cannot continue to do all things for all people like we have done in the past.

We tried doing more with less. That worked for a while.

Doing more with less has kind of reached its limits, and now we’re suggesting we’re going to do less with less.”

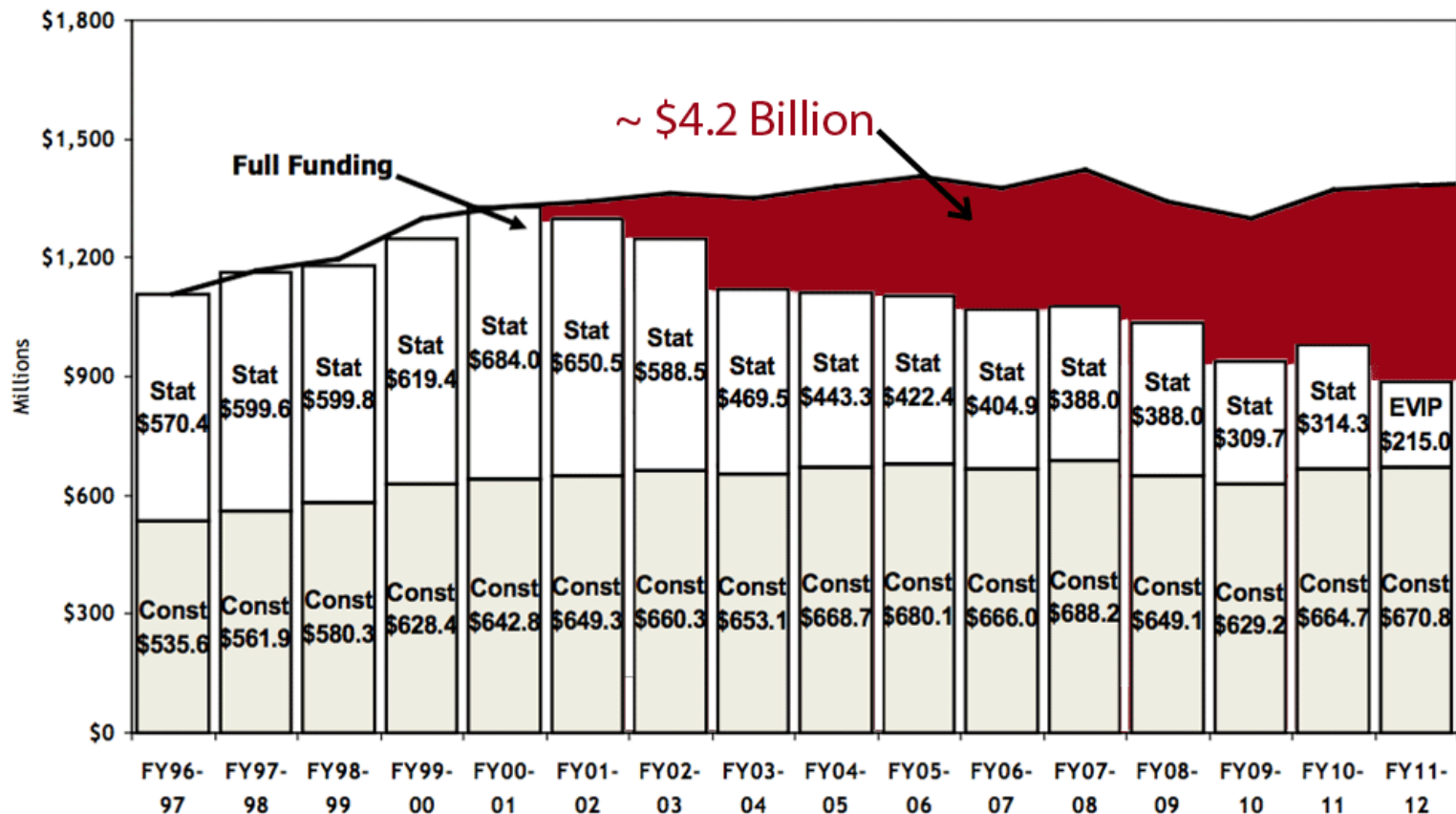
- David Hollister, former Mayor of Lansing,  
chair of blue ribbon committee on Lansing’s  
finances (Lansing State Journal, 3/15/2013)

# Presentation Outline

- Era of Local Government Retrenchment
- A 2nd Retrenchment Looming?
- What Local Leaders Say Should Be Done

# A Decade of Funding Cuts

## Revenue sharing cuts

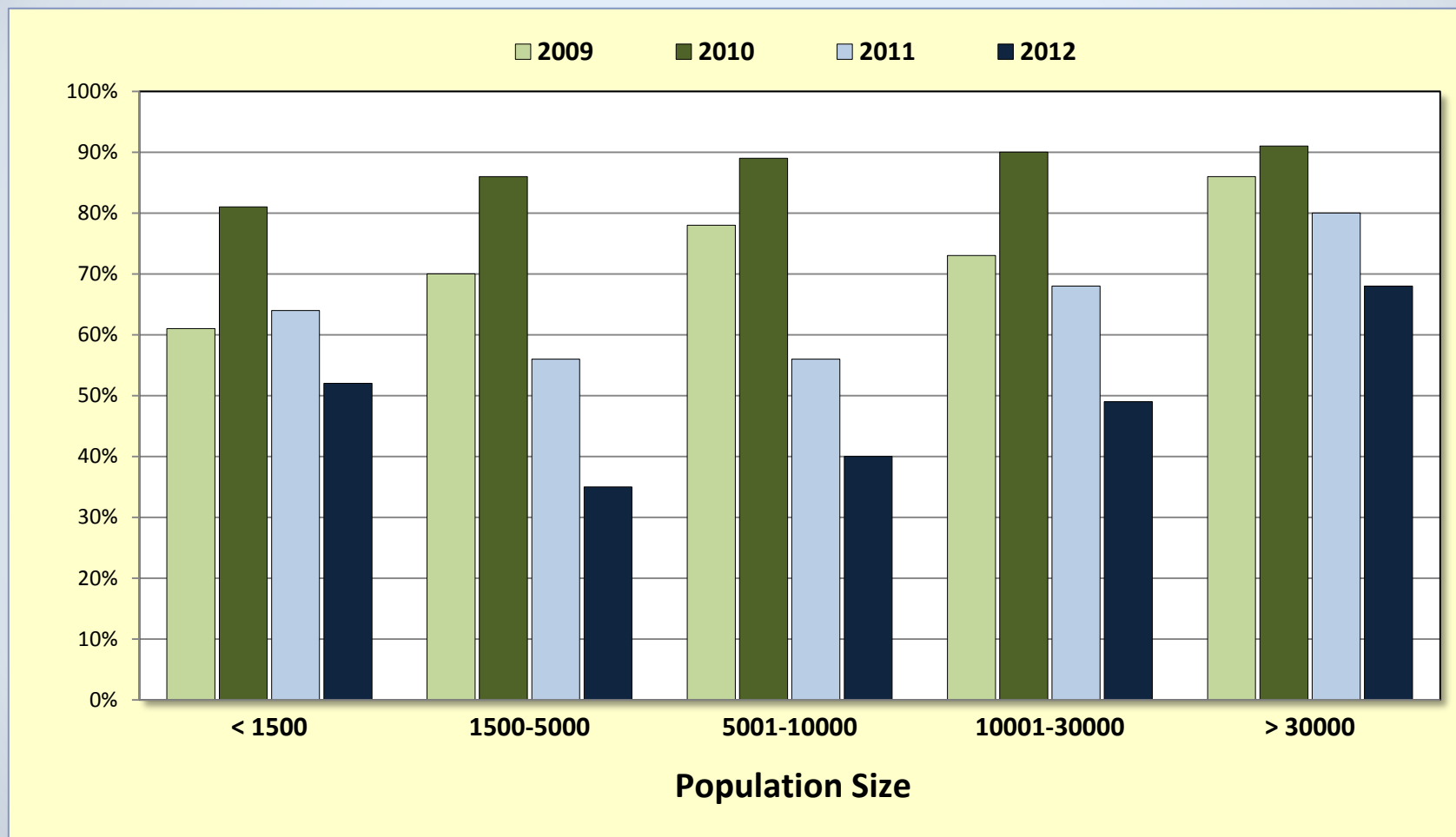


9/22/2011

House Fiscal Agency

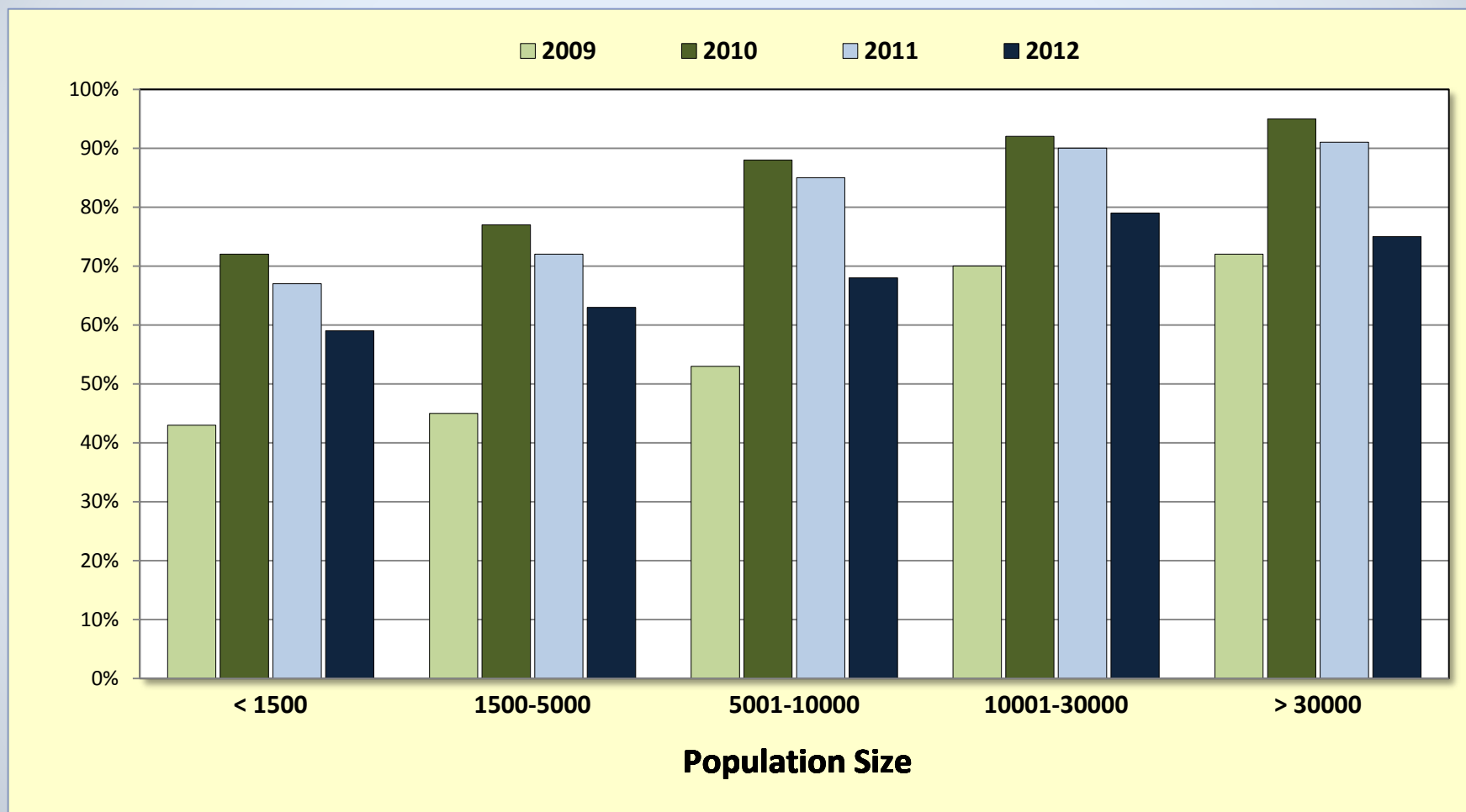
# Declining Revenues

% of jurisdictions with declining state aid



# Declining Revenues

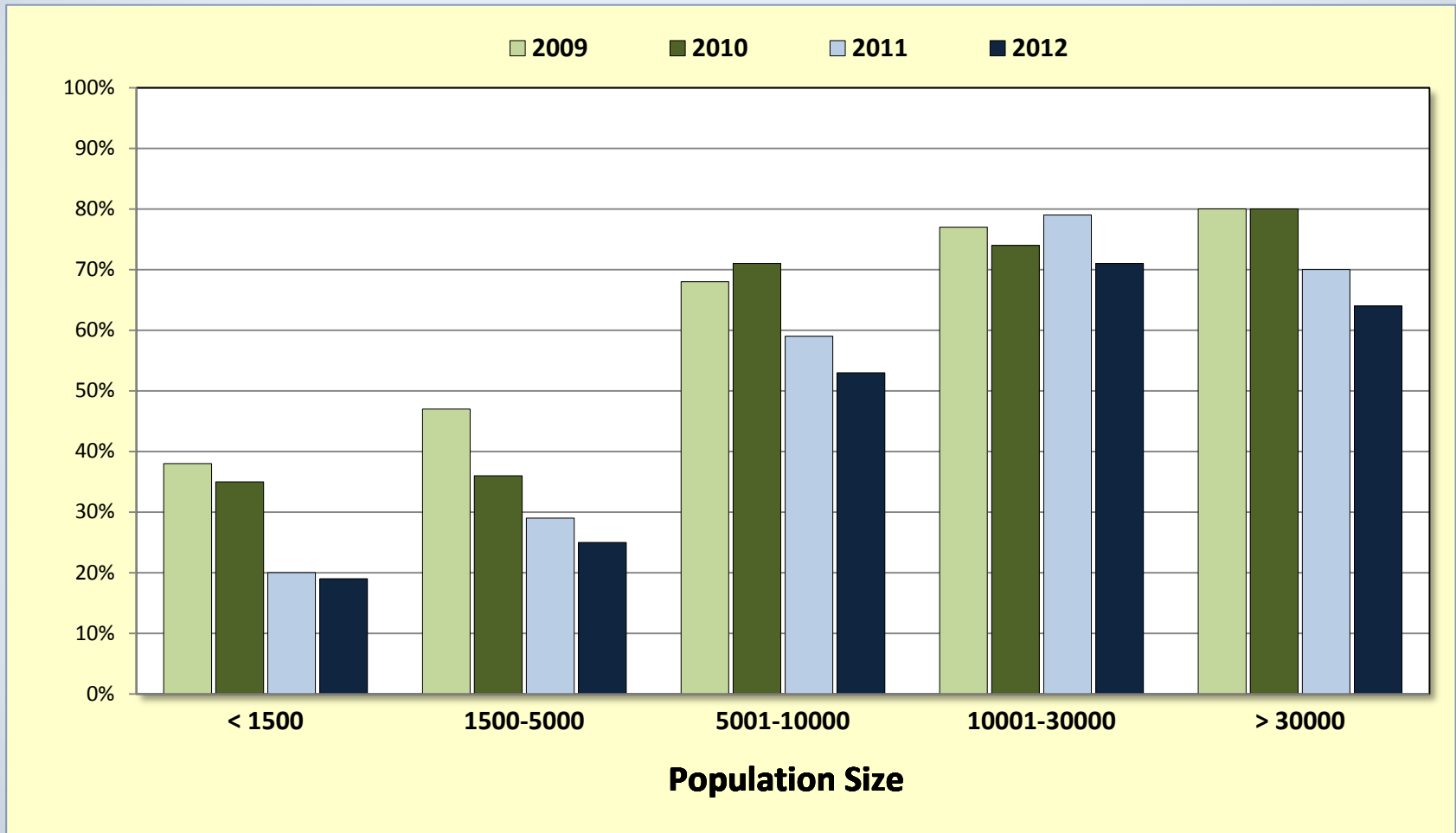
% of jurisdictions with declining property tax revenues





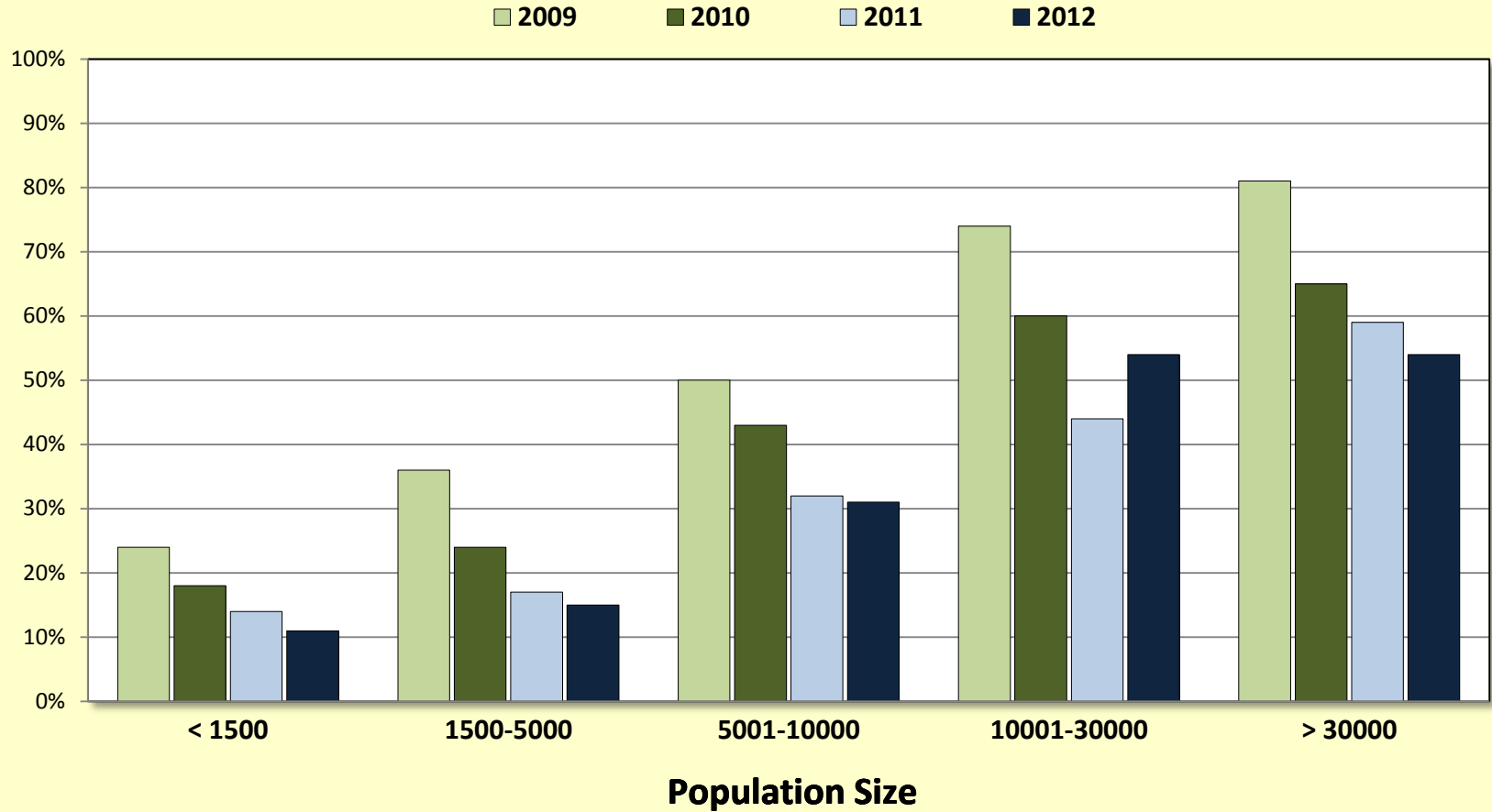
# Rising Costs

% of jurisdictions with **rising health care costs**



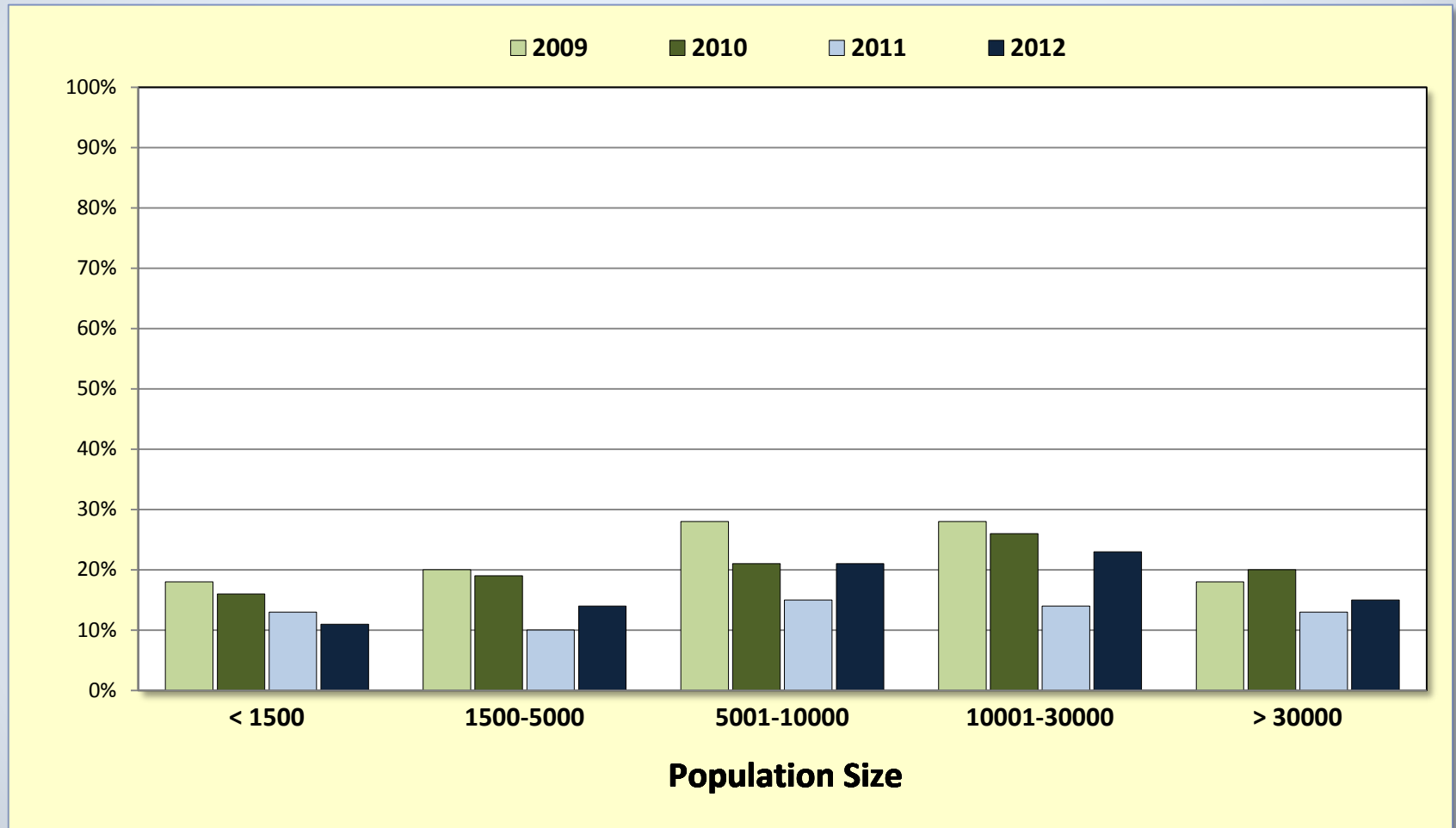
# Rising Costs

% of jurisdictions with **rising pension costs**



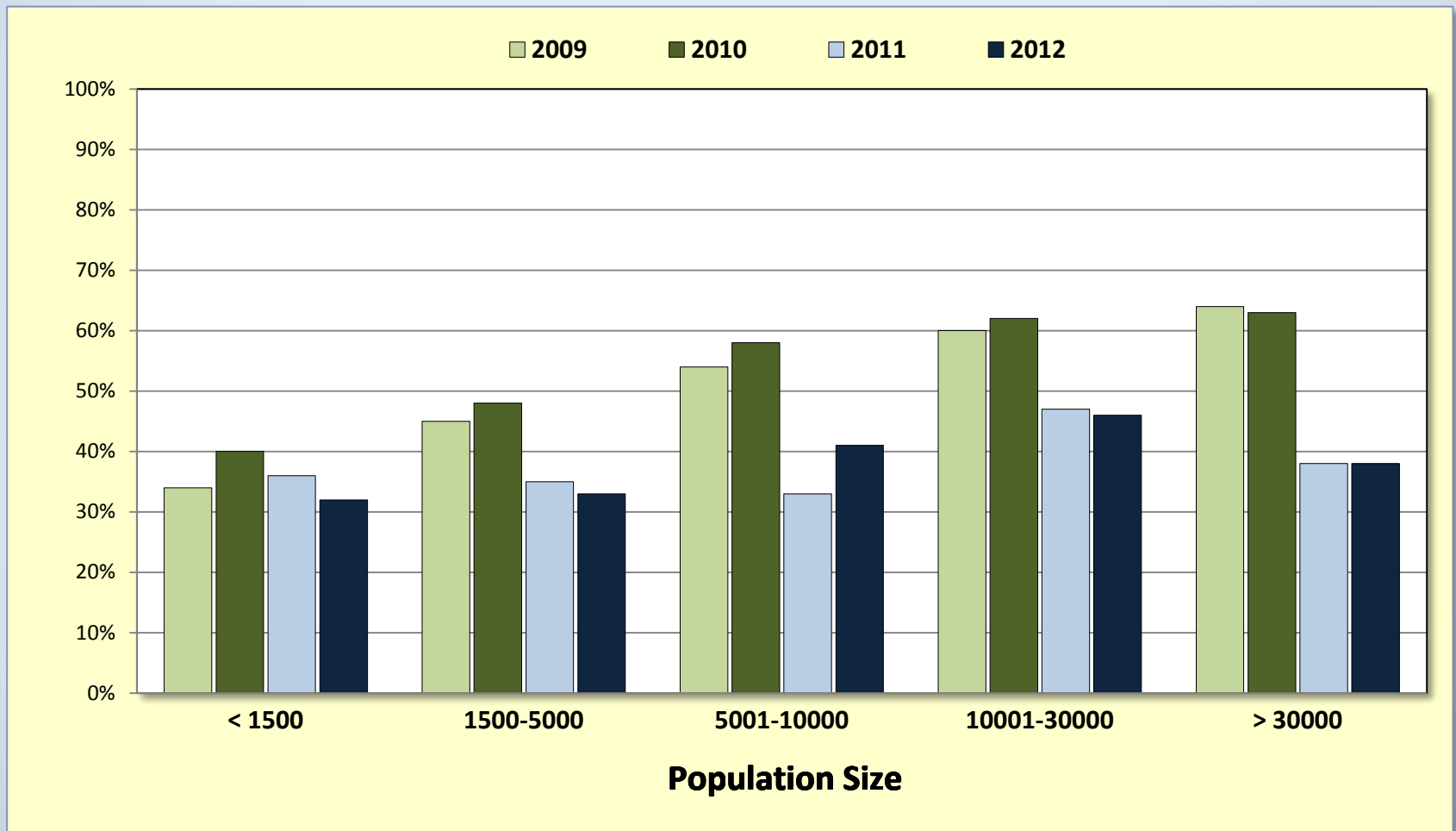
# Government Actions

% of jurisdictions **increasing debt**



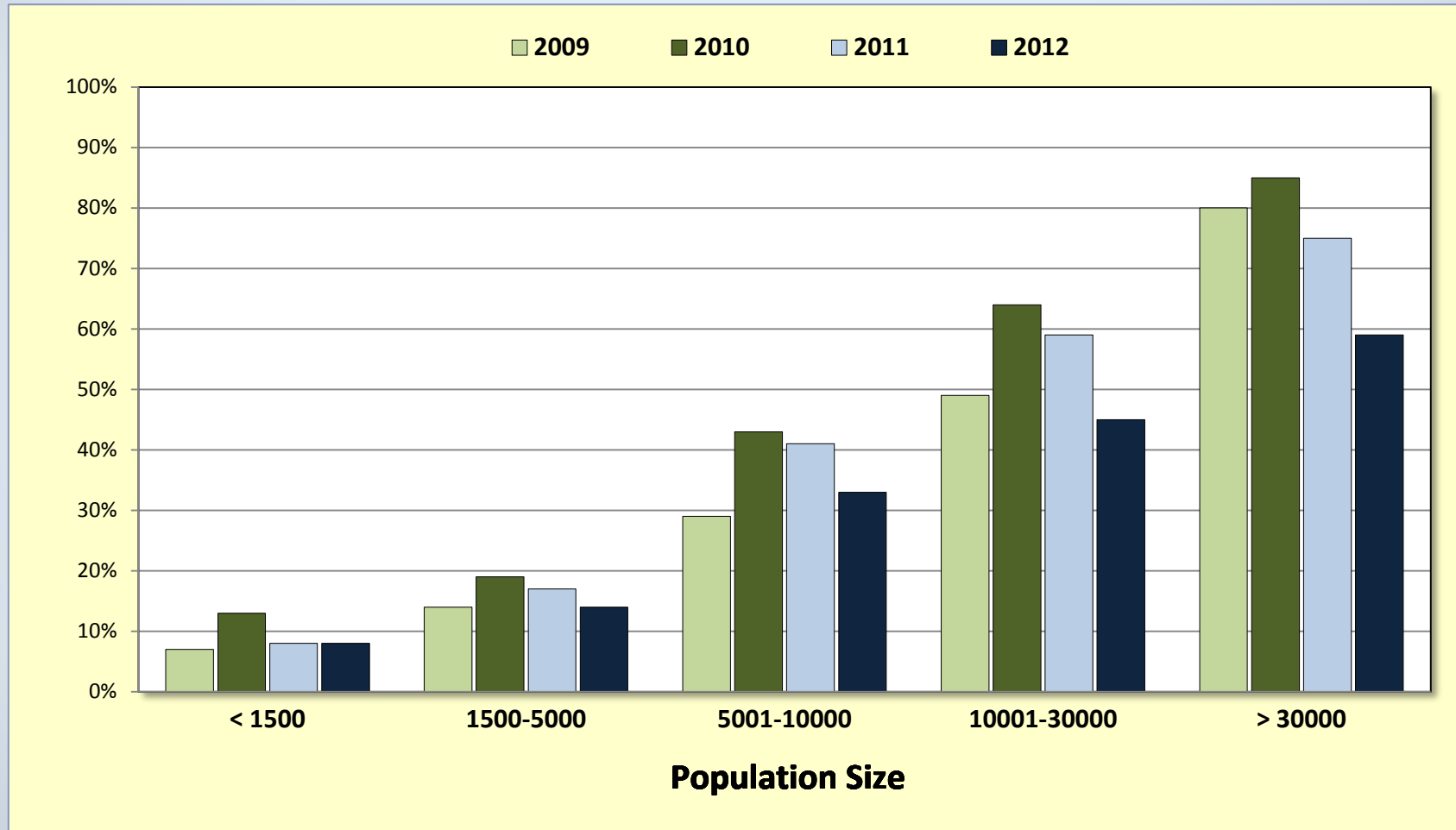
# Government Actions

% of jurisdictions **increasing reliance on GF balance**



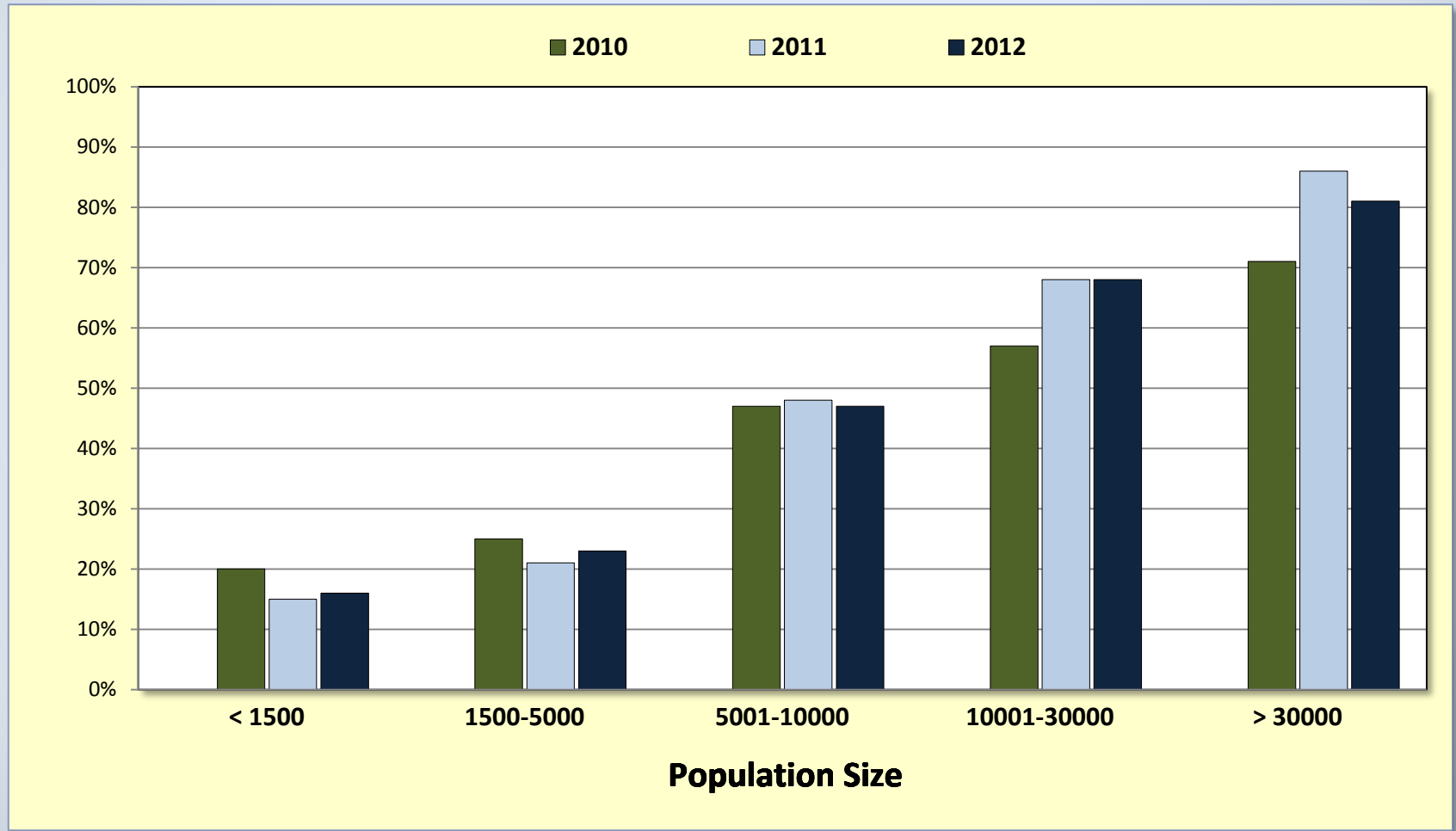
# Government Actions

% of jurisdictions **cutting staff levels**



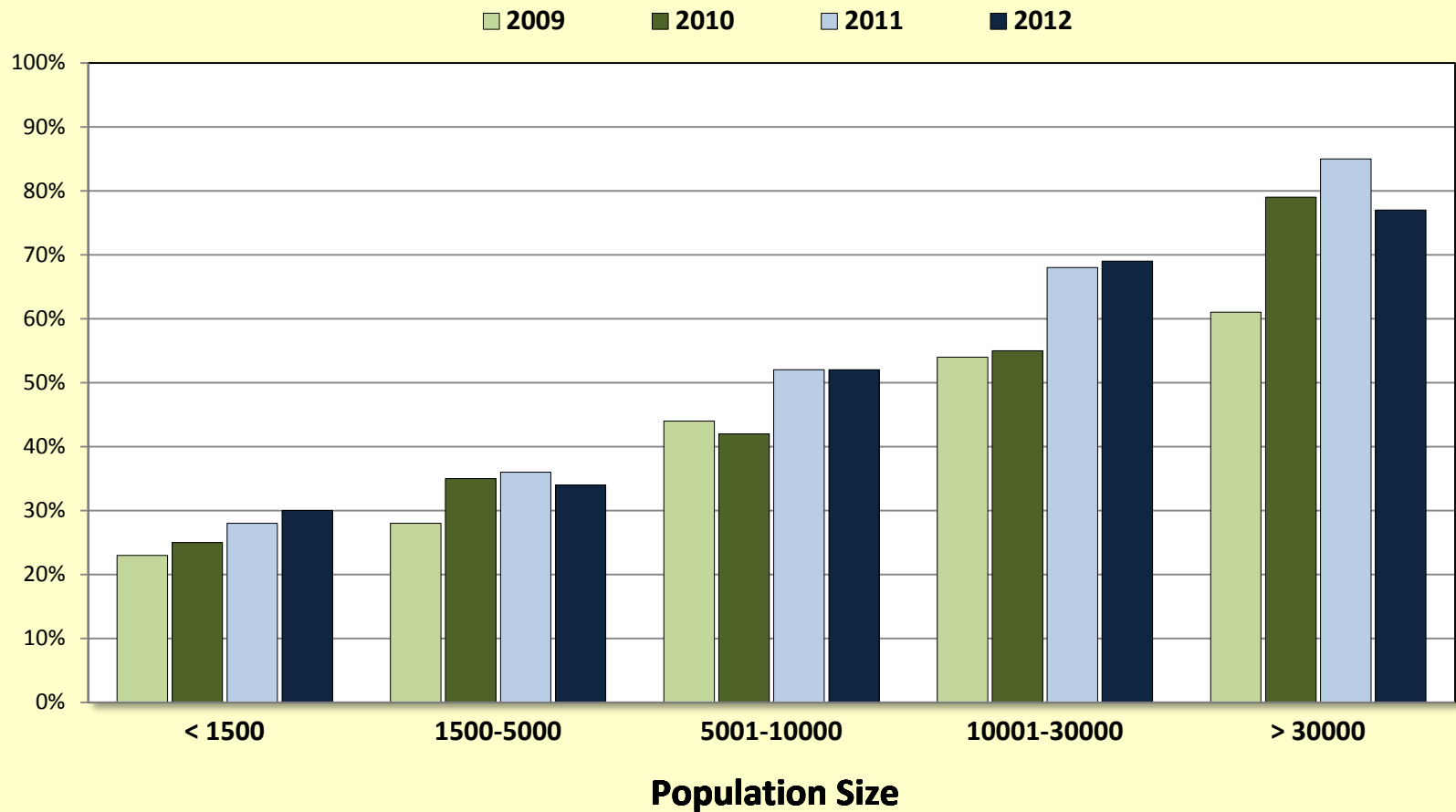
# Government Actions

% of jurisdictions **shifting health care costs** to employees



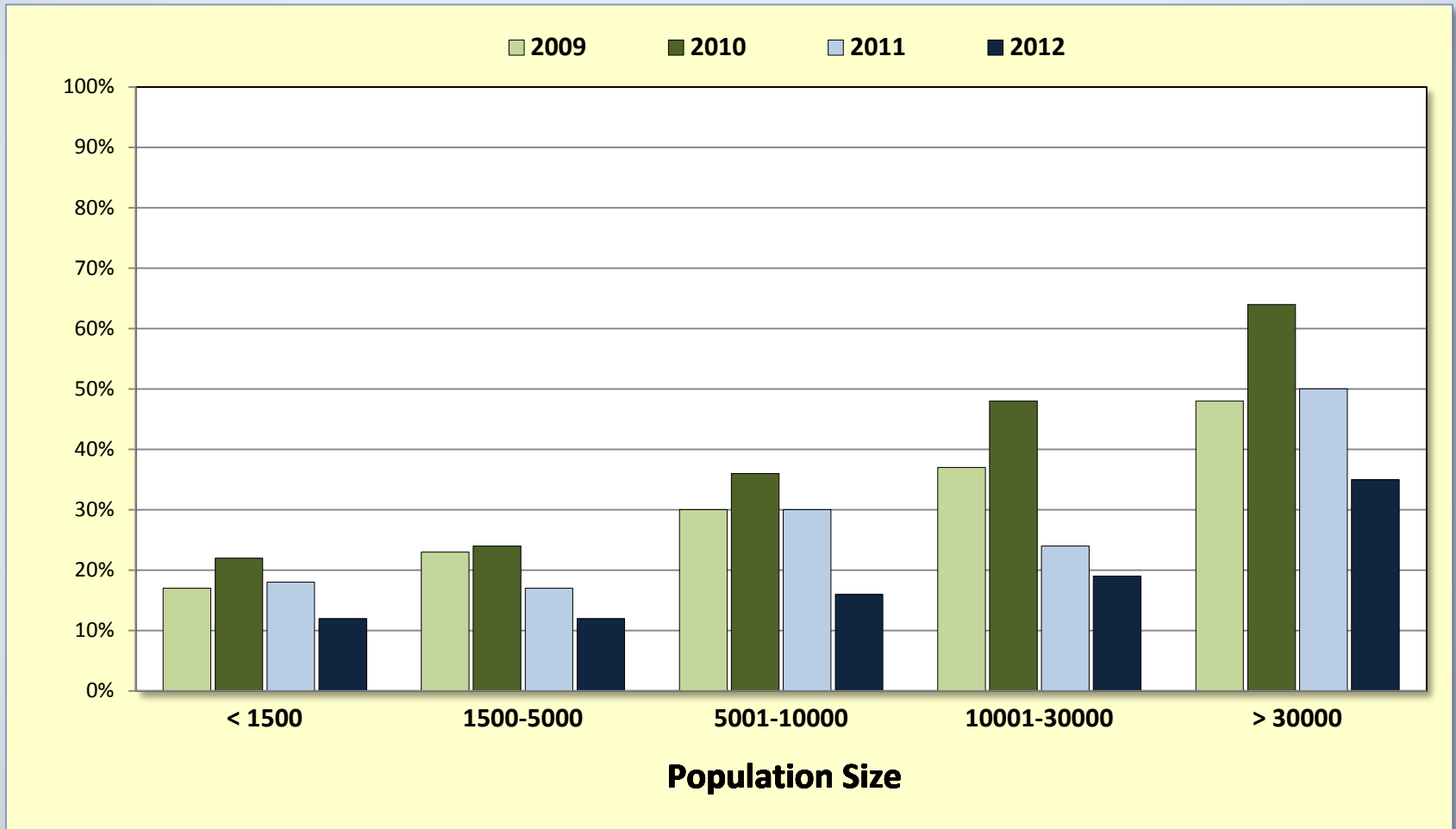
# Government Actions

% of jurisdictions **increasing inter-gov't cooperation**



# Government Actions

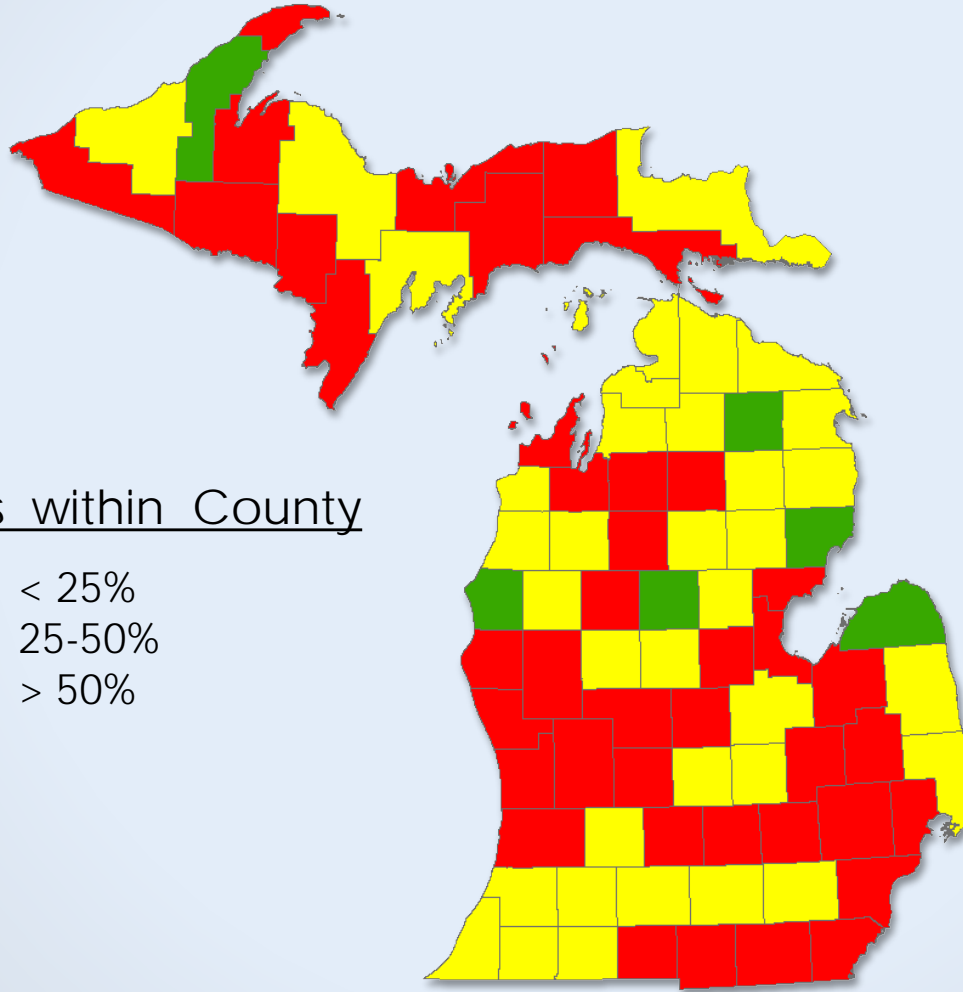
% of jurisdictions **cutting service levels**





# Spreading Fiscal Problems

2009: **less able to meet fiscal needs**, by county



## Jurisdictions within County

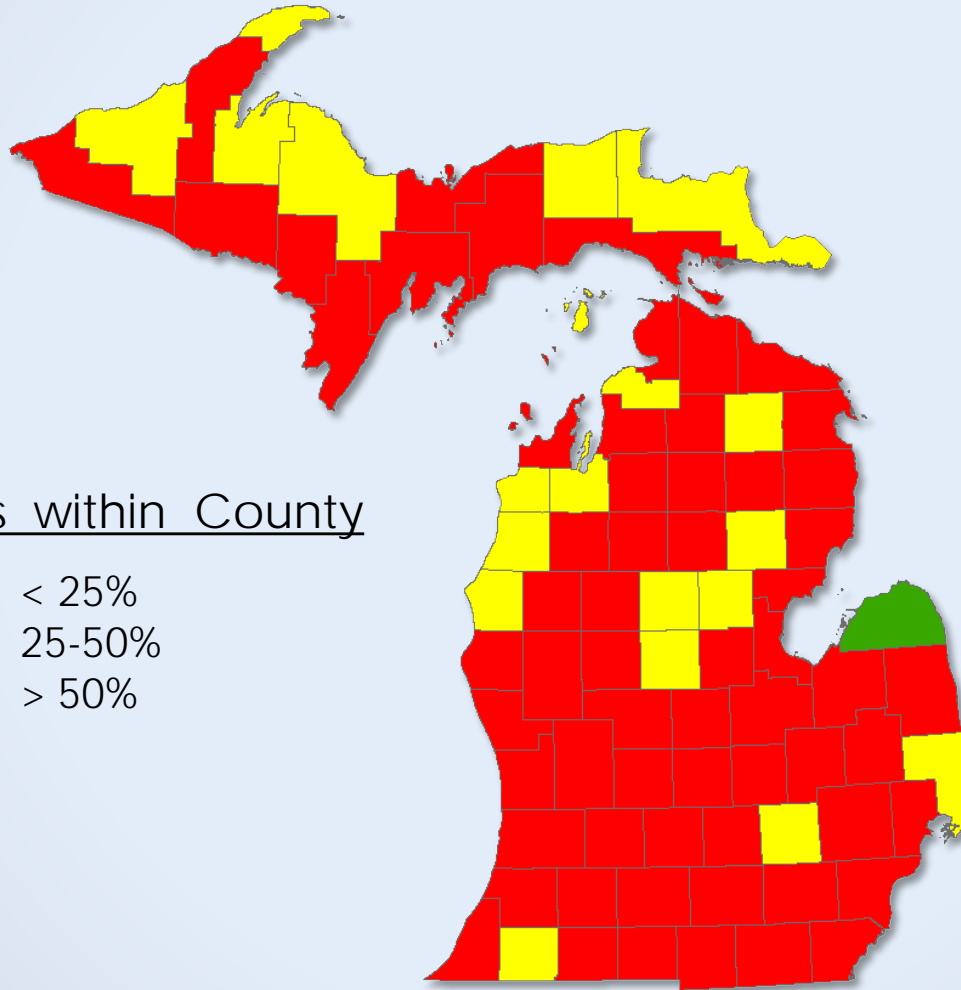
Green: < 25%  
Yellow: 25-50%  
Red: > 50%

# Spreading Fiscal Problems

2010: **less able to meet fiscal needs**, by county

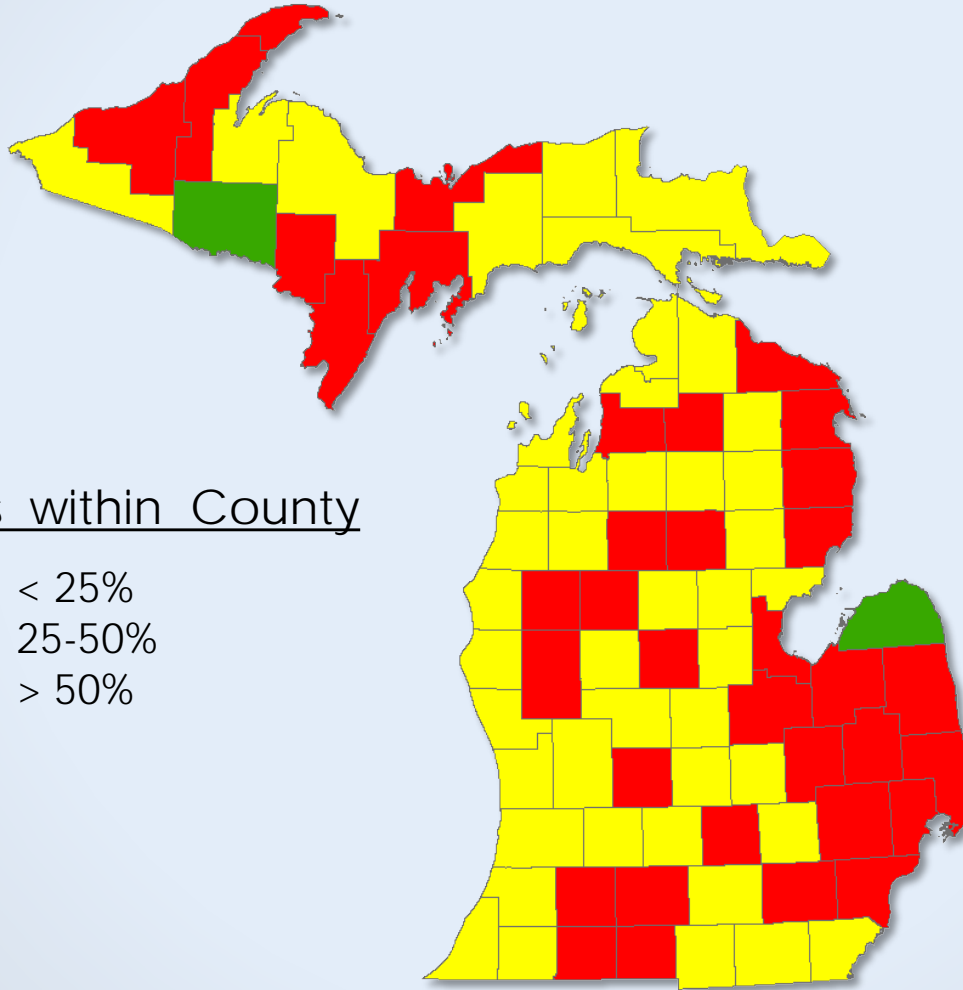
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# Easing Fiscal Problems

2011: **less able to meet fiscal needs**, by county



## Jurisdictions within County

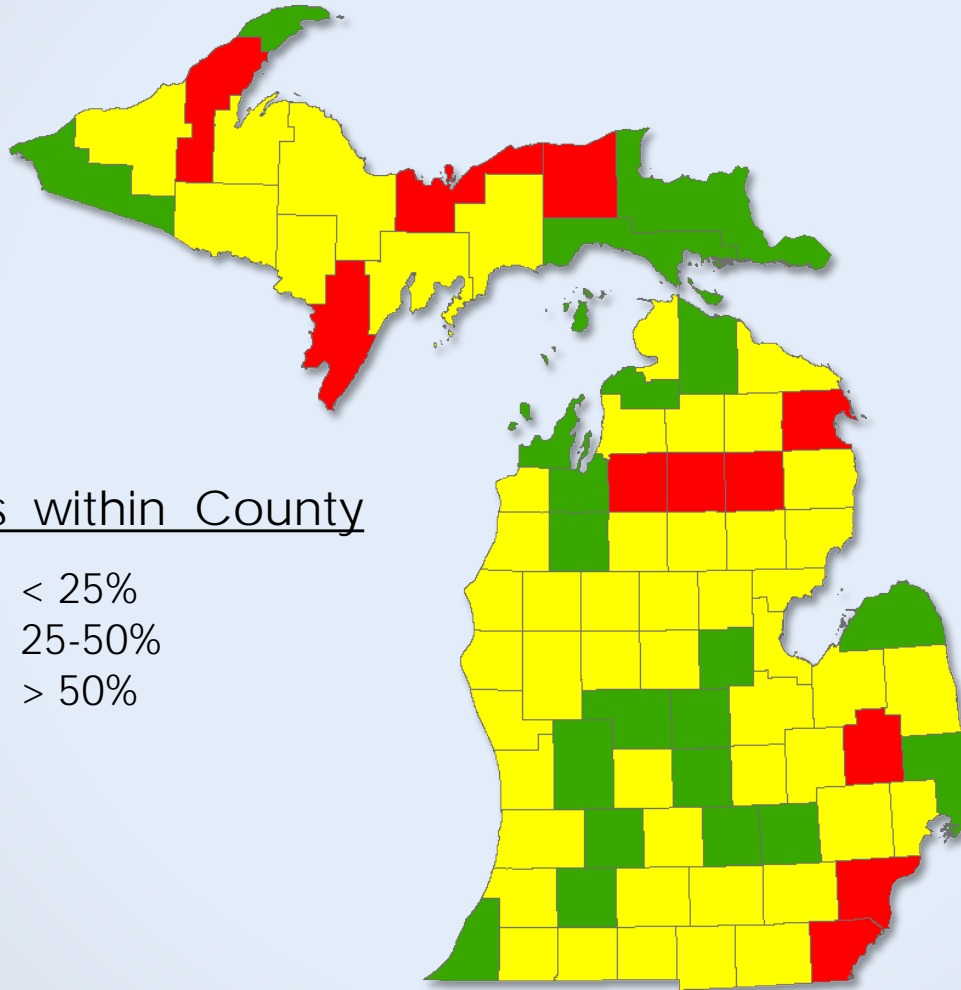
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# Easing Fiscal Problems

2012: **less able to meet fiscal needs**, by county

## Jurisdictions within County

Green: < 25%  
Yellow: 25-50%  
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# Status of Fiscal Health Today

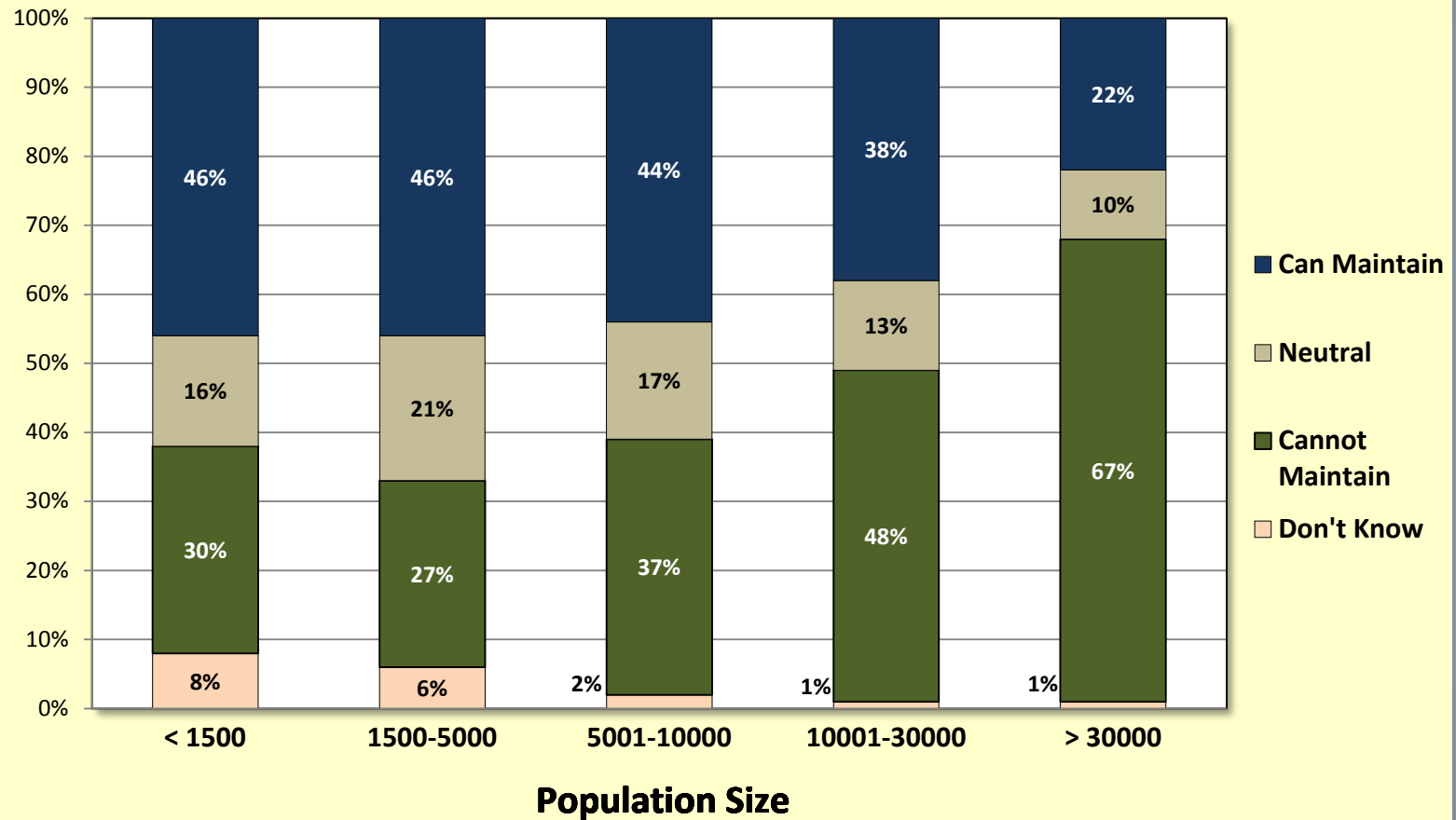
- **General Fund Balance**
  - 66% say levels are about right or even too high
  - 23% say too low (41% in largest jurisdictions)
- **Cash Flow**
  - 91% say not much of a problem or not a problem at all
  - 18% in largest jurisdictions say somewhat of a problem
- **Package of Services**
  - 79% are very or somewhat satisfied with package of services still delivered today

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# Concerns Going Forward

% that can **maintain services** in current system



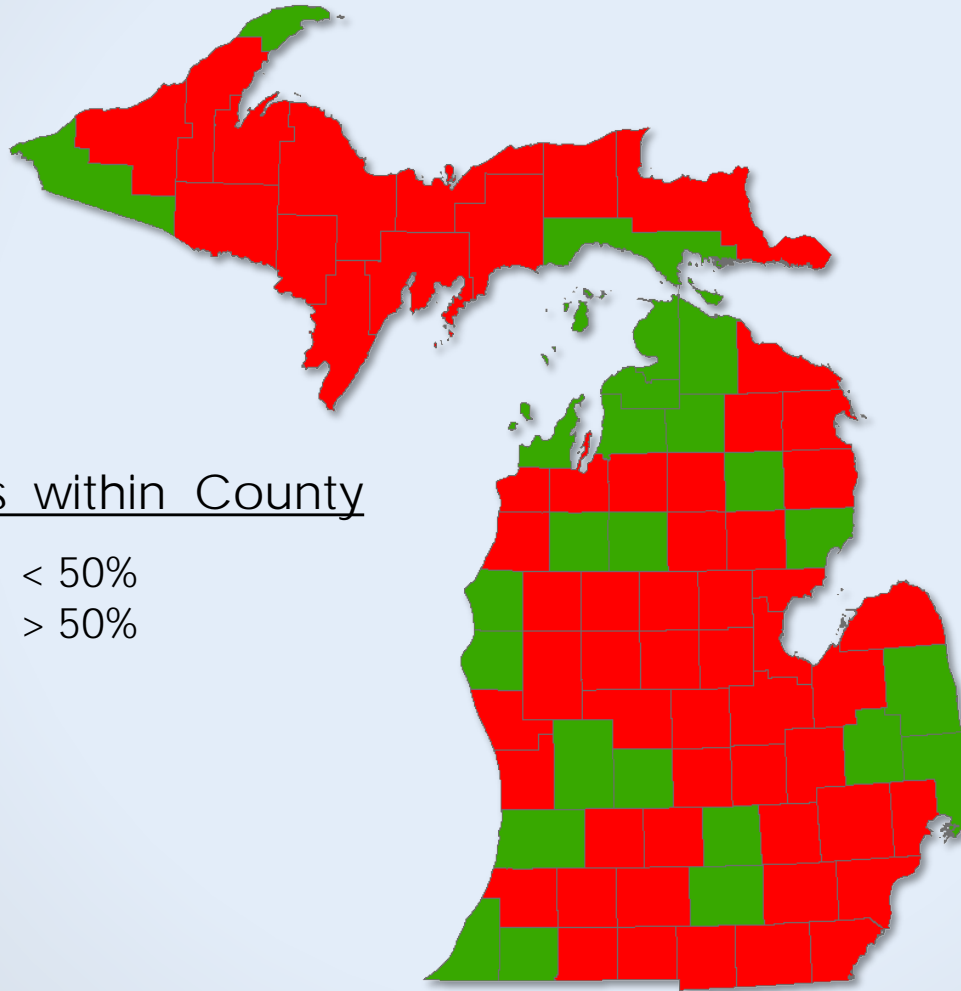
# Spreading Fiscal Problems

Able to **maintain services**, by county

## Jurisdictions within County

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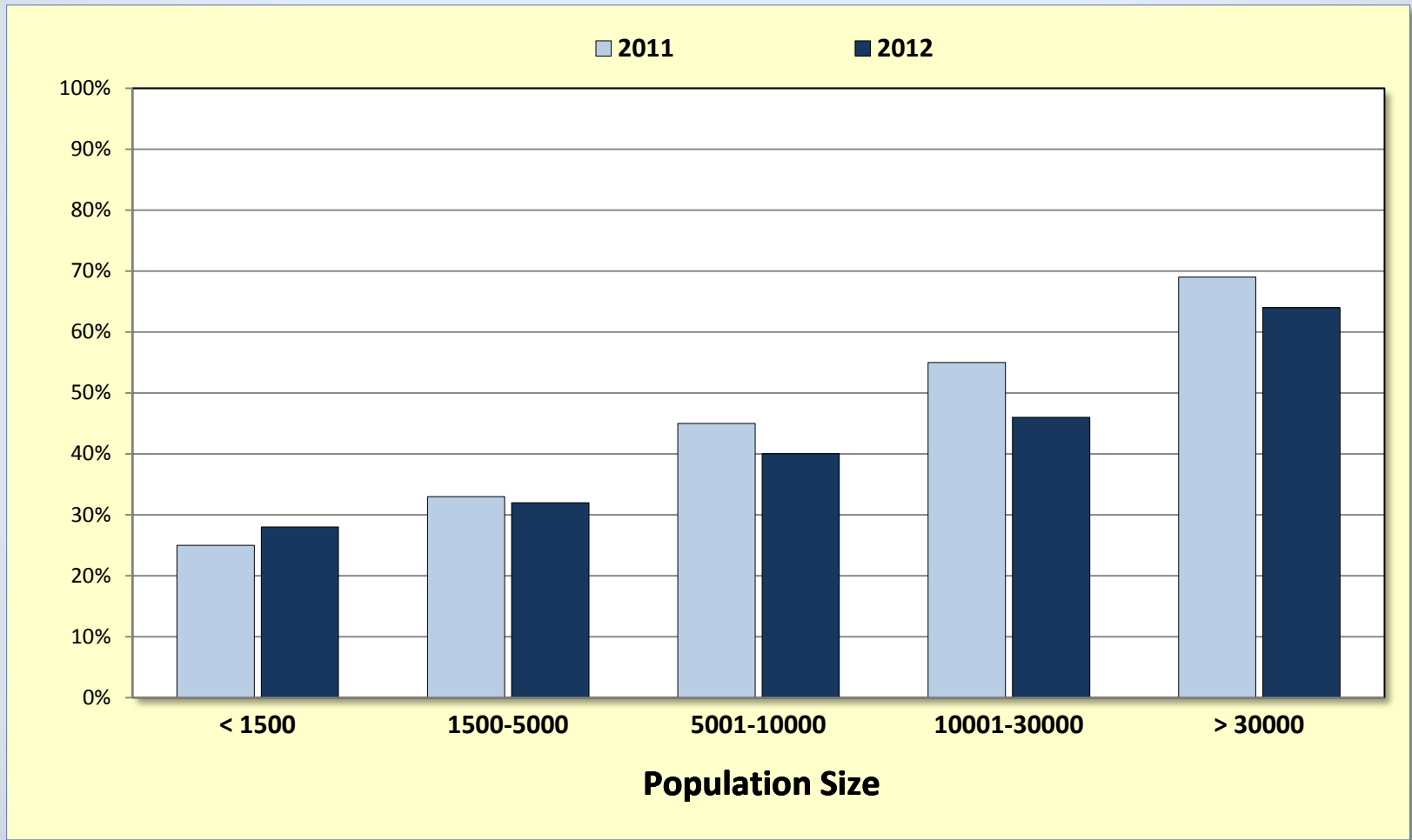
Green: > 50%





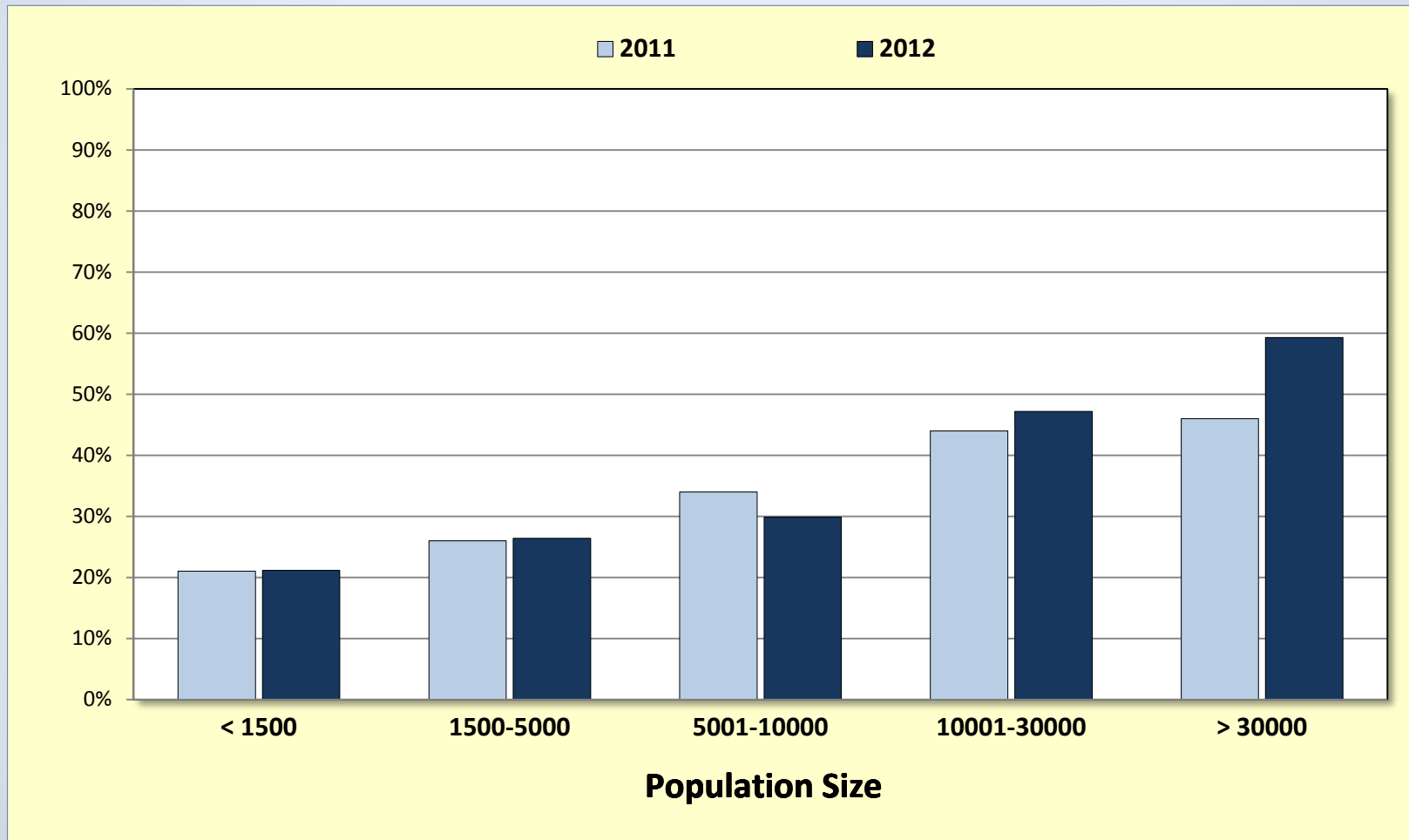
# Concerns Going Forward

% of jurisdictions with increased **human service** needs



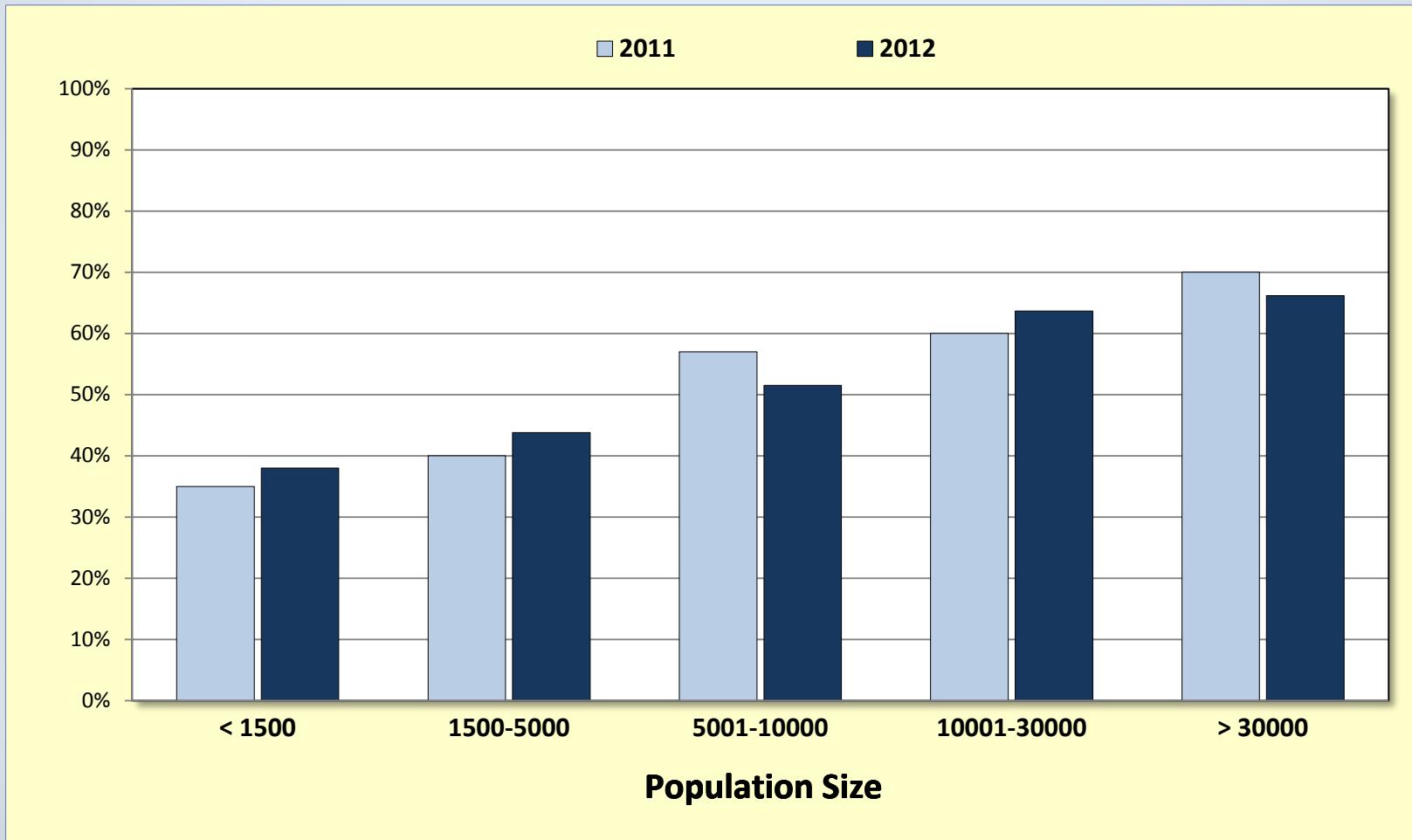
# Concerns Going Forward

% of jurisdictions with increased **public safety** needs



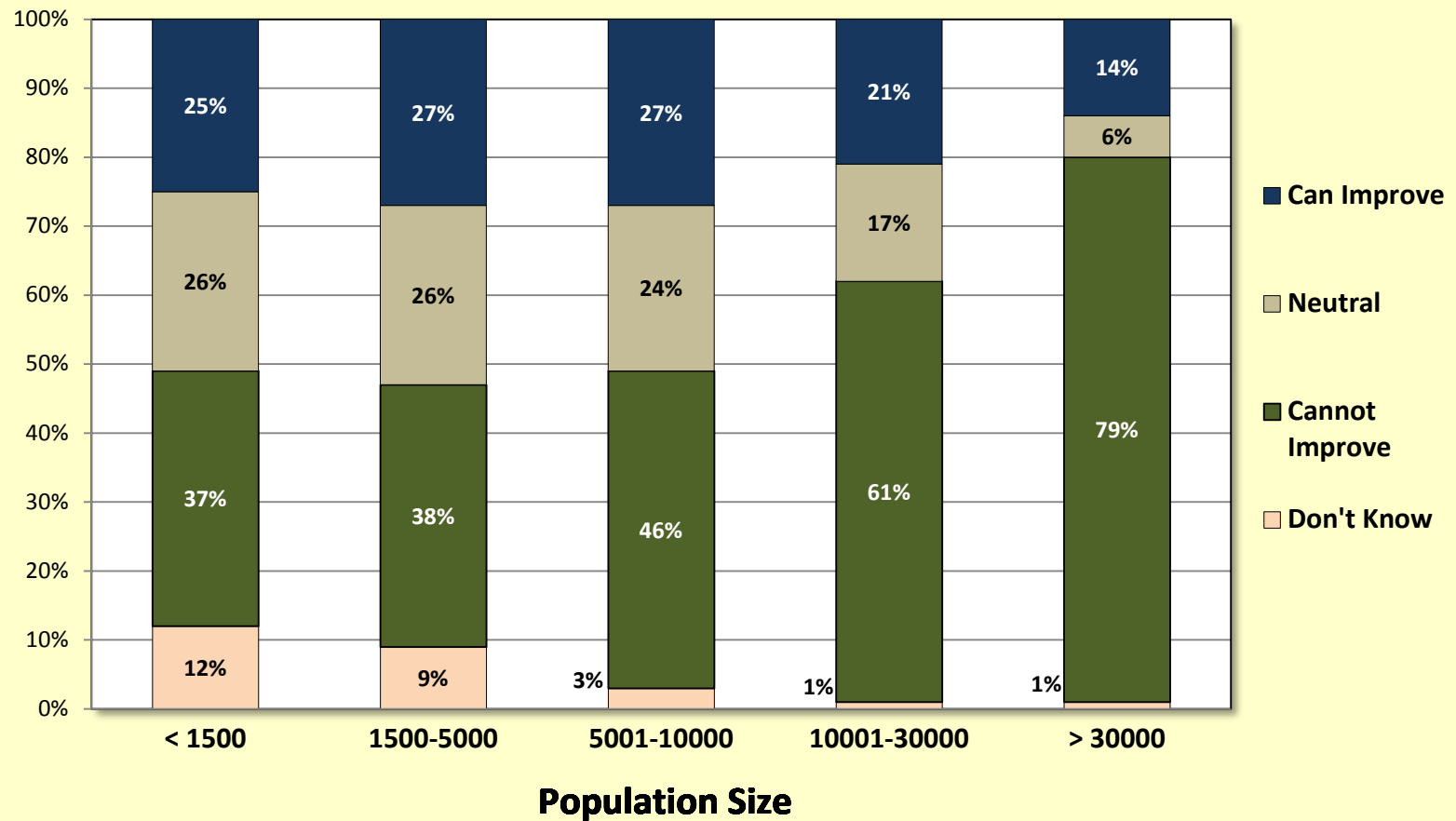
# Concerns Going Forward

% of jurisdictions with increased **infrastructure** needs



# Concerns Going Forward

% that can **improve services** in current system



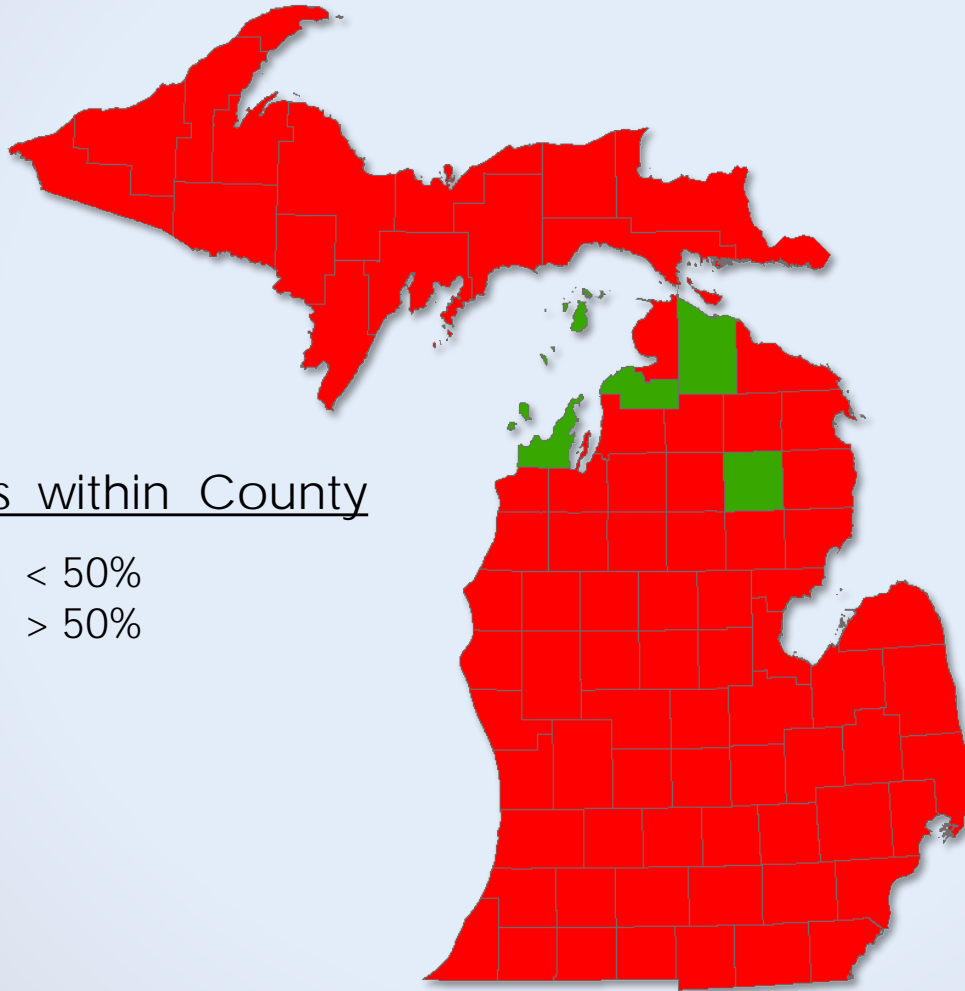
# Spreading Fiscal Problems

Able to **improve services**, by county

## Jurisdictions within County

Red: < 50%

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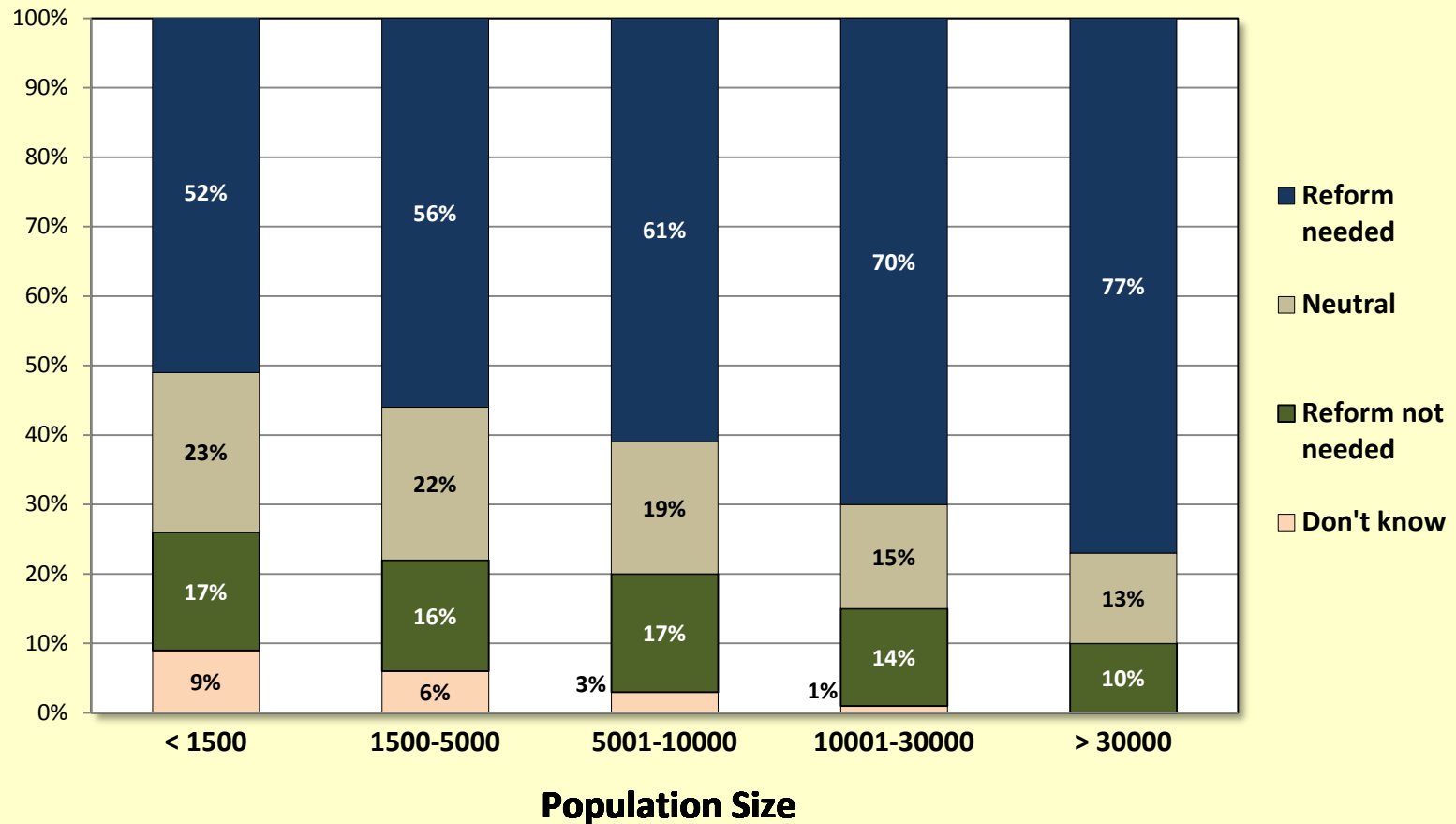


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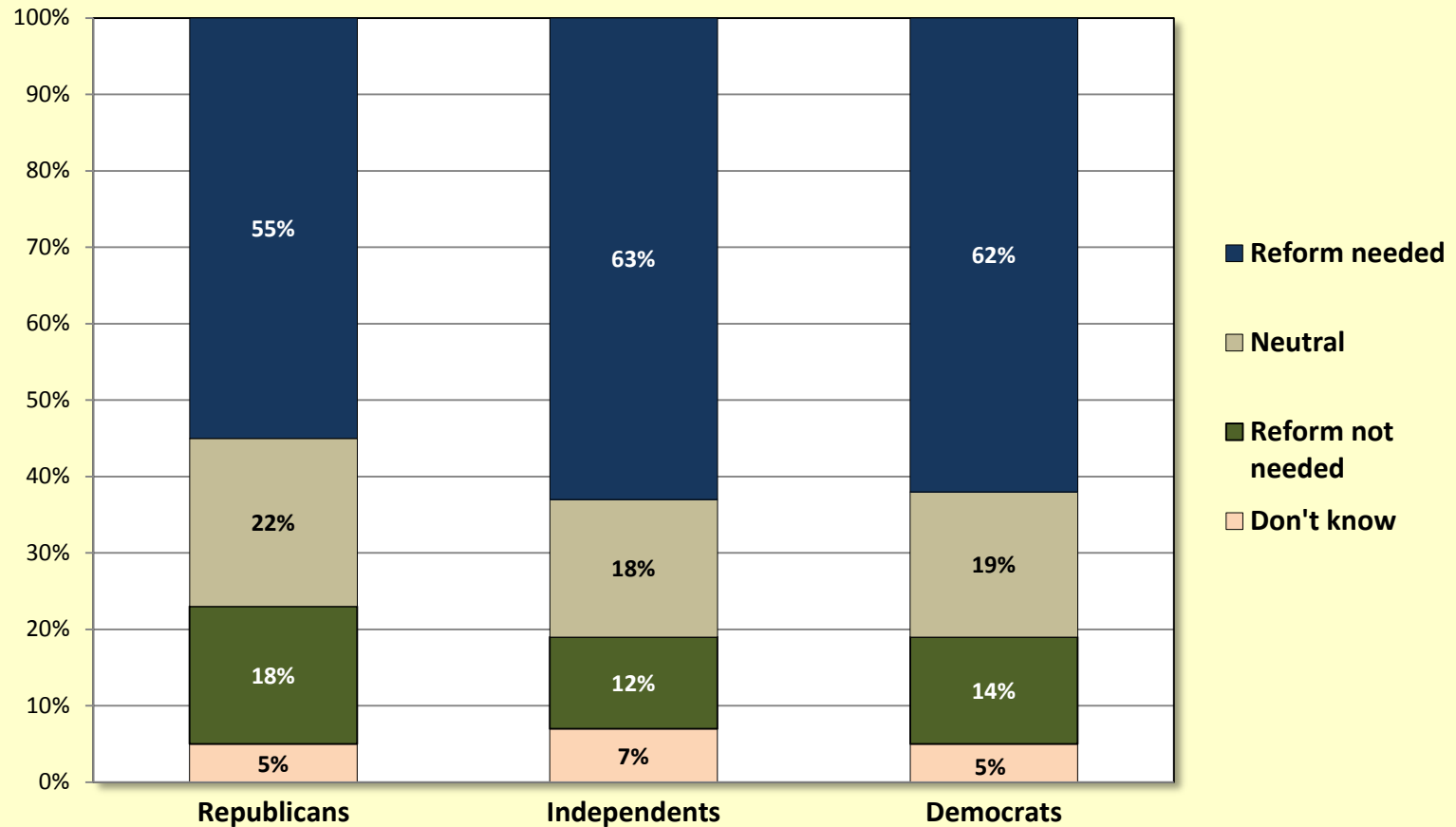
# Support for Funding Reform

% that believe **significant reform** is needed



# Support for Funding Reform

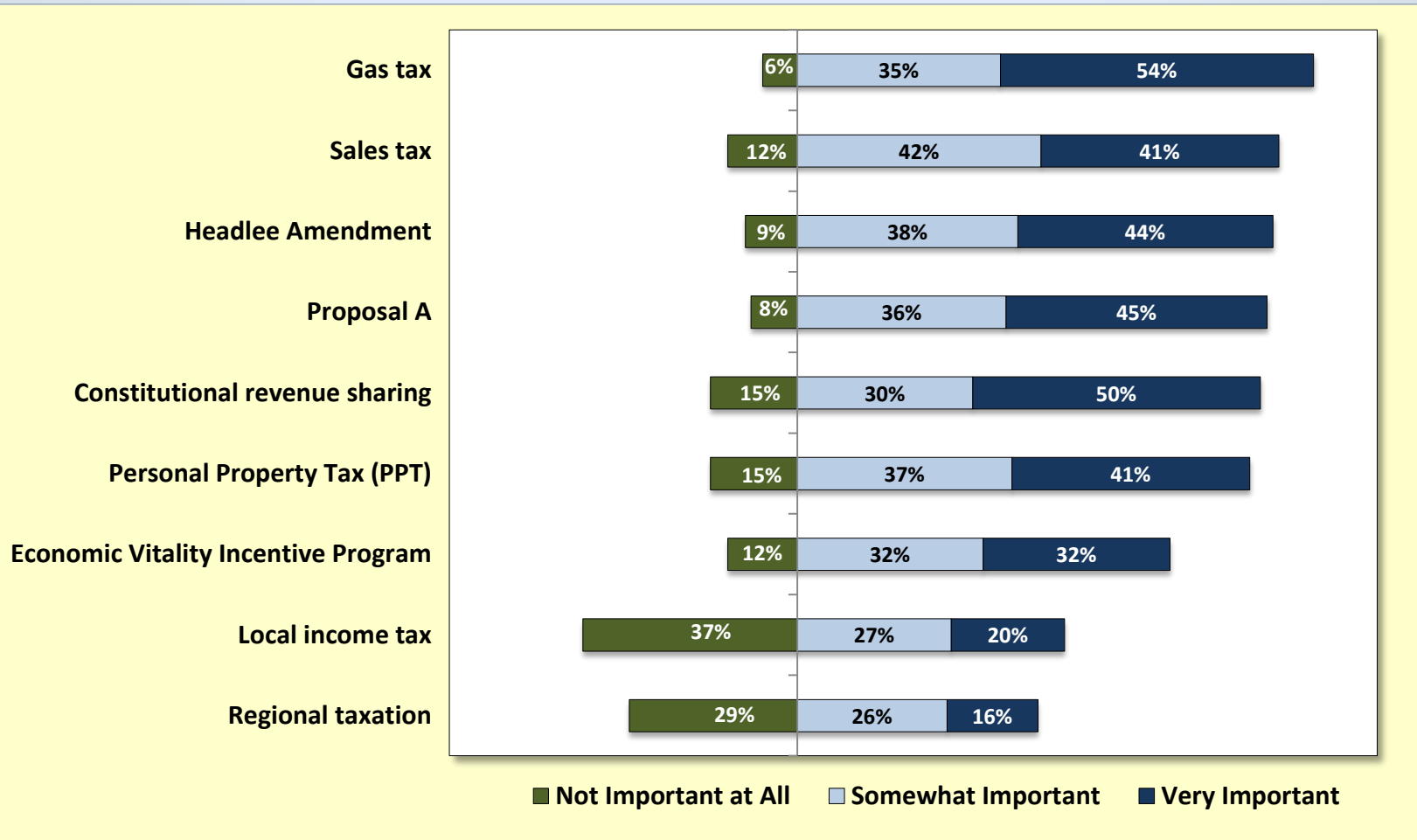
% that believe **significant reform** is needed





# Support for Funding Reform

% that would target **specific funding elements** to reform



# Support for Funding Reform

## Suggested reforms

- Property taxes:
  - Eliminate Headlee and Proposal A
  - Ease revenue caps
  - Lower/ease the automatic millage rollbacks
  - Allow automatic millage rollups

Quote:

*"I would revise Proposal A to get rid of the tax rate differences between homestead and non-homestead and eliminate the caps. I would revise the Headlee amendment so that millage rates could both be rolled back and rolled up without a vote of the people."*

# Support for Funding Reform

## Suggested reforms

- Sales taxes:
  - Increase the sales tax rate
  - Increase the sales tax base (add services, food, internet sales, etc.)
  - Allow local sales taxes, or local control of state sales tax

### Quote:

*"It's a bit like a three-legged stool. Right now we only have the ability to collect revenues from one leg of the stool and as a result the whole system is unbalanced. Making it possible to levy a local sales tax – or easier to levy an income tax – would re-balance the stool and allow us to reduce property tax rates."*

# Support for Funding Reform

## Suggested reforms

- Revenue Sharing:
  - Stop the cuts; provide more stability and predictability
  - Eliminate EVIP and move all funds into Constitutional program
  - Make more jurisdictions eligible for EVIP
  - Stop penalizing jurisdictions through EVIP that already took “best practices” actions
- Personal Property Tax:
  - Provide full replacement funding
- Gas Tax:
  - Base the tax on sales price, not volume
  - Change distribution formulas among local governments

# A Broken Funding System?

## key findings

- Long period of fiscal squeeze: falling revenues and rising costs.
- Local governments were very active in responding: have largely preserved fiscal health and tried to protect services.
- However, only 43% believe current system of funding will allow them to maintain their current package of services in the future; only 26% think it will allow improvements or provision of new services.
- 58% say significant reform is needed. Among them, overwhelming percentages say each major piece of the system needs reform.
- But there is no particular consensus on the fixes.
- It is time to discuss the system of funding local government.

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[www.closup.umich.edu](http://www.closup.umich.edu)