

Michigan's Local Finance Structural Deficit and Analysis of Proposed Solutions

Presentation to the Urban Core Mayors and Stakeholders

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Purpose of Study

Michigan's cities and townships experience continued financial hardships due to Constitutional revenue limitations and loss of statutory state revenue sharing, exacerbated by rapidly increasing benefit costs for employees.

- o Revenue limitations include the Headlee Amendment of 1978, and Proposal A of 1994
- o Benefit costs include health care and retirement benefits for current and retired employees



Purpose of Study, cont.

Because of the double threat of limited revenue and faster-than-inflation increases in personnel benefit costs, local units of government are increasingly pressured to:

- o Find novel sources of financing (e.g., special assessments, fees)
- o Privatize services
- o Merge with adjacent local unit or county government
- o Explore or initiate service-sharing agreements with county or adjacent local units



Proposed Remedy

In the 2007 State of the State address, Governor Granholm proposed:

“Cities and townships that want to see their revenue sharing increase this year will need to show us they are sharing services or consolidating with other units of government to save taxpayers money.”
(Gov. Granholm, Feb. 6, 2007)

Governor’s Recommendation: Two-and-a-half percent set-aside (approx. \$27 million) of statutory revenue sharing pool for redistribution to cities and townships that adhere to the Governor’s proposal



Research Question

The primary question posed by the Governor's State of the State proposal is what impact a 2.5 percent increase in revenue sharing to cooperating local units will have, considering:

- o A recent history of declining local revenues in older local units
- o A recent history of faster-than-inflation increases in employee and retiree benefit costs, and General Accounting Standards Board (GASB) changes that will increase these costs in the short term
- o That there is little if any quantitative research of actual cost-savings from intergovernmental agreements in Michigan



Urbanized Regions in Michigan used in this Study

Bay City-Midland-Saginaw

- Bay City
- Essexville
- Midland
- Saginaw
- Saginaw Township

Greater Detroit Downriver

- Allen Park
- Brownstown Township
- Lincoln Park
- Melvindale
- Riverview
- Southgate
- Taylor
- Trenton
- Woodhaven
- Wyandotte

Greater Grand Rapids

- East Grand Rapids
- Grand Rapids
- Grand Rapids Township
- Grandville
- Kentwood
- Wyoming
- Walker

South Macomb County

- Centerline
- Clinton Township
- Eastpointe
- Fraser
- Harrison Township
- Mount Clemens
- Roseville
- St. Clair Shores
- Sterling Heights
- Warren



Selection of Urbanized Regions

These four regions were selected with the following criteria in mind:

- o Older, disinvested areas of the state (median housing unit age over 50 years for the region as a whole)
- o Relatively homogenous communities within a single county (except for Bay City-Midland-Saginaw); likely to explore enactment of service-sharing agreements
- o Large enough to capture a significant proportion of state population, small enough to be a manageable study area (32 cities and townships, approximately 13.5 percent of state population)



Methodology

Basic financial data on the 32 cities and townships was taken from Certified Annual Financial Reports (CAFRs) and State of Michigan property tax and revenue sharing reports that includes:

For the years 1997 and 2006 –

- o health care and retirement contributions from CAFRs
- o property tax revenues from State Tax Commission Reports
- o Revenue sharing figures from the Dept. of Treasury



Methodology, cont.

- o From CAFRs and state reports for each of the four regions, annual gains in property tax and revenue sharing amounts were calculated
- o From CAFRs and state reports for each of the four regions, annual increases in health and retirement costs were calculated



Important Assumptions

Given the hypothetical approach of this research, it is assumed that:

- o there are no administrative or political barriers to intergovernmental cooperation
- o Property taxes and state revenue sharing are the two largest sources of revenue for all local units (Grand Rapids, Saginaw and Walker excluded)
- o Local units will continue to pay health and retirement costs from their General Funds



Important Assumptions, cont.

- o Property tax revenues are based on the 1997-2006 period in all local units in the study, and are characterized in nominal (non-inflation adjusted) dollars
- o Revenue-sharing payments assume no change from 2006 levels (although statewide, there was a 2.9 % decline from 2005-06 to 2006-07, and a 31 % decline from 2000-01 to 2006-07)
- o Future health care and retirement costs are based on the 1997-2006 period, and include premiums and payments only, and do not include local administrative costs



Summary Results

| | Annual Revenue Increase | Rate | Annual Cost Increase | Rate | Catch Up Year |
|-----------------|-------------------------|------|----------------------|------|---------------|
| Grand Rapids | \$3,373,000 | 3% | \$1,616,000 | 8.3% | 2021 |
| Bay City et al. | \$1,271,000 | 1.8% | \$1,108,000 | 8.2% | 2009 |
| Downriver | \$4,300,000 | 2.6% | \$1,590,000 | 8.3% | 2022 |
| South Macomb | \$11,534,000 | 2.8 | \$3,372,000 | 8.7% | 2026 |



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Results, Grand Rapids Region

| Revenues (Annual) | Amt. (Rate) |
|---|---|
| Increase in Property Taxes | \$2,226,000 (3.3%) |
| Increase in Revenue Sharing | \$1,147,000 (2.3%) |
| Savings Achieved With Intergovernmental Agreements | \$ 130,000 (5.0% of property tax) |
| Total | \$ 3,373,000 |

| Costs (Annual) | Amt. (Rate) |
|-------------------|------------------------|
| Health Care | \$ 575,000 (9.0 %) |
| Retirement | \$1,041,000 (8.0 %) |
| Total | \$1,616,000 |



Results, Bay City-Midland-Saginaw Region

| Revenues (Annual) | Amt. (Rate) |
|--|-------------------------------------|
| Increase in Property Taxes | \$ 659,000 (1.3%) |
| Increase in Revenue Sharing | \$ 579,000 (2.3%) |
| Savings Achieved With Intergovernmental Agreements | \$ 33,000 (5.0% of property tax) |
| Total | \$1,271,000 |

| Costs (Annual) | Amt. (Rate) |
|----------------|-----------------------|
| Health Care | \$ 244,000 (9.0 %) |
| Retirement | \$ 864,700 (8.0 %) |
| Total | \$1,108,000 |



Results, Greater Detroit Downriver

| Revenues (Annual) | Amt. (Rate) |
|--|-----------------------------------|
| Increase in Property Taxes | \$3,208,000 (2.7%) |
| Increase in Revenue Sharing | \$ 932,000 (2.3%) |
| Savings Achieved With Intergovernmental Agreements | \$ 160,000 (5.0% of property tax) |
| Total | \$4,141,000 |

| Costs (Annual) | Amt. (Rate) |
|----------------|---------------------|
| Health Care | \$ 575,000 (9.0 %) |
| Retirement | \$1,041,000 (8.0 %) |
| Total | \$1,590,000 |



Results, South Macomb County

| Revenues (Annual) | Amt. (Rate) |
|--|-----------------------------------|
| Increase in Property Taxes | \$9,646,000* (4.9%) |
| Increase in Revenue Sharing | \$1,887,000 (2.3%) |
| Savings Achieved With Intergovernmental Agreements | \$ 482,000 (5.0% of property tax) |
| Total | \$11,534,000 |

| Costs (Annual) | Amt. (Rate) |
|----------------|---------------------|
| Health Care | \$1,968,000 (9.0 %) |
| Retirement | \$1,404,000 (8.0 %) |
| Total | \$3,372,000 |



Summary Results

| | Annual Revenue Increase | Rate | Annual Cost Increase | Rate | Catch Up Year |
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| Grand Rapids | \$3,373,000 | 3% | \$1,616,000 | 8.3% | 2021 |
| Bay City et al. | \$1,271,000 | 1.8% | \$1,108,000 | 8.2% | 2009 |
| Downriver | \$4,300,000 | 2.6% | \$1,590,000 | 8.3% | 2022 |
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Conclusion

Optimistic assumptions about tax base growth, efficiencies achieved through intergovernmental agreements, incentives toward intergovernmental agreements, if achieved, will probably stave off serious declines in Grand Rapids, Downriver and South Macomb County, at least in the near term.

However, Bay City-Midland-Saginaw could experience short-term trouble, even under these optimistic conditions.



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