Local Governments Not Sharing in Recovery

By Rick Haglund

Michigan’s economy has made a steady recovery from the Great Recession over the past six years. But the state’s local governments are far from fully sharing in that recovery.

Scan local newspapers and you’ll see stories about communities struggling to keep their finances in the black, even as Michigan is adding jobs and state government revenues are growing.

"In a 2012 University of Michigan survey, most city leaders said they believed Michigan’s system of local government finance was broken. It’s a view that still echoes today."

Key Findings

- For the first time in the MPPS survey, more Michigan jurisdictions report that they are better able to meet their fiscal needs than they were last year (48%) than report they are less able to do so (36%). However, an additional 16% stated no change in their fiscal health status over the past year.
- A trend of year-over-year improvements in fiscal health is reported by jurisdictions of almost all sizes and types, there is now a “net” positive outlook on fiscal health for next year, with 35% feeling they will be better able to meet their needs a year from now while 22% feel they will be less able to meet their needs.
- Michigan’s largest cities are more likely to report increases in state aid than are the largest counties and townships, but are significantly less likely to report increases in property tax revenues.
- Michigan’s largest counties are more likely to report increases in state aid than are the largest counties and townships, but are significantly less likely to report increases in property tax revenues.
- Demands for public services (i.e., infrastructure, human services, and public safety) continue to increase, with 80% of all jurisdictions across the state, and 90% of the largest jurisdictions, saying they have increased tax revenues over the past year.
- As fiscal stress continues to ease overall, more local governments report stabilization in their staffing levels and plans to increase pay, however, an additional 22% of the largest jurisdictions, and 15% of the smallest jurisdictions, report increases in state aid than are the largest counties and townships, but are significantly less likely to report increases in property tax revenues.
- Despite continued overall improvements in the actions they are taking in response to ongoing and widespread fiscal challenges. The findings are based on responses from 1,186 local governments across the state, and 82% of the largest jurisdictions.
- Key results from the survey are published in the Michigan Public Policy Survey (MPPS) conducted annually each spring from 2009 through 2014.

Prosperous Cities Are Hurting, Too

We all know about Detroit’s recent bankruptcy—the largest municipal bankruptcy in U.S. history—and the 11 struggling cities in the state that have been either run by emergency managers or faced state intervention in recent years.

But even more prosperous cities, such as Kalamazoo, Grand Rapids, and Marquette, are trying to figure out how to maintain quality city services when rising costs are outrunning revenues that are in part restricted by state actions.

Kalamazoo is considering boosting a variety of fees on parks, building permits and other areas to offset a projected $7 million budget shortfall by 2020.

“We don’t have the tools available at this time to make all this work without having to look at further restructurings,” Chief Financial Officer Tom Skrobola said in the Kalamazoo Gazette.

Grand Rapids, with voters’ approval, has enacted a new tax to fund city parks and canceled a scheduled income tax cut to pay for street improvements.

Marquette, the picturesque Upper Peninsula city where the League held its annual conference last year, is like many cities wrestling with an aging infrastructure and underfunded retiree benefit plans.

Oh, and Marquette’s largest taxpayer, We Energies, is challenging its $210 million property tax assessment before the Michigan Tax Tribunal. The company is seeking to cut its assessment by nearly half.

“It wouldn’t make much for some serious pain to set in,” said Gary Simpson, Marquette’s chief financial officer.

Vibrant cities are important in making Michigan an attractive state to newcomers and long-time residents alike. People are citizens of states, but they live, work, and educate their children in local communities.

And increasingly, young people want to live in cities that possess a strong sense of place. If our cities can’t provide the services and quality of life its residents want, all of Michigan is diminished.
Many reforms have been proposed. Chief among them is giving local governments relief from revenue restrictions in Proposal A and the Headlee Amendment.

But state government could provide billions more for local governments, if it chose to, by increasing its own revenues.

State Actions
Over the past three decades, the state has tried to cut its way to prosperity, trimming $51 billion in taxes between 1994 and 2012, according to a study by former state Treasury Department official Doug Drake.

Those tax cuts have contributed to the state falling far below its taxing limit under the Headlee Amendment, the same law that is restricting local governments’ revenue growth.

The amendment caps state revenues at 9.49 percent of personal income. Michigan could raise $8.5 billion in additional revenue this year before hitting the cap. That’s just $1 billion less than the entire general fund budget.

And the gap likely will continue growing. State revenues are expected to be $10.7 billion below the Headlee cap by fiscal 2017, according to the House Fiscal Agency.

Michigan could invest far more to ensure its cities are safe and vibrant if it could find the political will to do so.

To download the U-M study, please visit closup.umich.edu.

Rick Haglund is a freelance writer. You may contact him at 248-761-4594 or haglund.rick@gmail.com.