

November, 2020

## The Michigan Community Stabilization Plan – Fact Sheet

The unforeseen events of COVID-19, combined with Michigan's broken municipal finance system, have pushed our communities into severe financial distress. Several cities are already in the process of announcing budgetary cuts, layoffs, or both. More are expected in the coming months.

Unless the Michigan Legislature acts quickly to pass the Community Stabilization Plan outlined below, local government bodies will be unable to conduct business, and revenue losses will result in drastic cuts to public safety, infrastructure, parks, and other vital services essential to talent attraction and quality of life.

The Michigan Municipal League has outlined three proposed solutions for the upcoming Lamé Duck legislative session that would assist communities battling COVID-19 on the front lines.

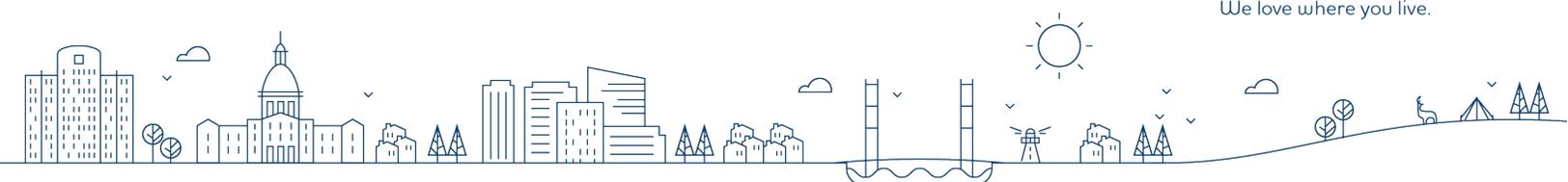
Here are the three issues identified followed by the proposed solutions:

1. COVID-19 and the Challenges of the Open Meetings Act: COVID-related health and safety guidelines calling for social distancing and limiting the size of public gatherings, make it impossible for local public bodies to adhere to the Open Meetings Act. The Legislature passed and the governor signed into law Senate Bill 1108, which authorizes public bodies to meet virtually through Dec. 31, 2020. This action allowed local governments to continue to conduct essential public business without endangering the health and safety of the local officials and members of the public.

- It is clear the virus will continue to spread throughout Michigan well past this deadline, putting the health and safety of public body members, as well as members of the public, at risk.
- If legislative action is not taken to extend the deadline into next year, local government of all kinds—school boards, zoning boards, city councils, etc.—will not be able to safely hold meetings without either violating public health orders or the Open Meetings Act.
- Without action, local development projects, city and school budget approvals, and all other manner of public and private sector business will grind to a halt.

2. COVID-19 and the Impact to Local Income Taxes: The pandemic, coupled with existing tax limitations, have placed communities in dire financial stress.

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- Public safety measures to protect people from COVID-19 have caused non-essential employees to work from home for most of the year and are expected to continue into 2021. Under current law, this will cause Michigan’s 24 local income tax communities to lose up to \$160 million in revenue this year alone.
- Millions of Michiganders received unemployment benefits during the COVID-19 shutdown. However, Michigan’s city income tax law prohibits the collection of tax on unemployment benefits, even though state and federal government does tax those benefits, leaving behind Michigan’s local income tax cities. When we combine the inability to tax that revenue with the loss of non-resident income taxes, Michigan’s 24 income tax cities stand to lose approximately \$250 million next year alone.
- Given our current structure, there was no way any city could have planned for COVID-19 or the longevity of the pandemic.
- This loss of about \$250 million can represent upward of 30 percent of income tax revenues among these 24 cities.
- No community can withstand such a devastating financial impact without deep cuts to essential city services like public safety and roads.
- Even while being forced to close due to the pandemic, these employers still maintain a presence in the city, and the city is responsible for keeping that building safe and secure, along with maintaining all services and infrastructure their residents need.

3. COVID-19 Impacts Due to Headlee and Proposal A: Michigan’s broken municipal finance system is especially vulnerable during a time of crisis like the COVID-19 pandemic, and the upcoming December 31 Tax Day will permanently compound this fiscal problem for all Michigan’s local governments, schools, community colleges, libraries, etc.

- COVID-19 is causing the permanent closure of businesses and reducing occupancy for retail and commercial office space across Michigan, which could lead to reduced property values—and therefore cuts to property tax revenue—in every single community.

As we learned from the Great Recession, the fiscal impact to local governments that result from declines in property values caused by the pandemic will become permanent due to the unintended interactions between Proposal A and Headlee. This broken system has caused the crisis of the Great Recession to continue for over a decade for local governments while other sectors were able to rebound alongside the economy. Until the unintended interactions are resolved, communities’ ability to respond to the needs of citizens and businesses will be severely impacted.

## Community Stabilization Plan Solutions:

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### *Amend the Open Meetings Act*

- The Legislature must amend the Open Meetings Act to give public bodies the authority to meet virtually beyond Dec. 31, 2020.

### *Resolve the Local Income Tax Issue*

- The vast majority of Michigan workers are already having their city income tax withheld from their paychecks.
- The Community Stabilization Plan will ensure the continued financial stability and response capabilities of income tax communities by allowing cities to collect local income taxes as if COVID-19 did not happen and employees were working from their normal places of business.
- This is a one-time fix to address revenue loss due to Covid-19 and will not result in a permanent change in the way we treat non-resident income taxes.
- This is similar to legislation proposed by the Michigan Manufacturers Association (SB 1203) that asks for similar “frozen” treatment of personal property being used by remote workers. It makes sense for this proposal to move hand-in-hand with that business tax benefit.
- It is also similar to a measure lawmakers in Ohio recently passed to protect their communities.

### *Remove Conflicts between Headlee and Proposal A*

- Addressing the unintended consequences of Headlee and Proposal A outlined above can be achieved with a straight-forward, two-part solution that does not require a constitutional change.
- First, the Community Stabilization Plan will allow millage rates to adjust both up and down depending on the relationship of property value growth or decline to general inflation. It is important to note that a millage rate could never increase above charter limits, maintaining the upper limit on millage rates. Additionally, for parcels that do not have a change in ownership, the maximum charter tax rates will not increase by more than inflation.
- The second part of the solution fixes the rollback formula so cities, schools and other taxing authorities can benefit from the deferred growth from property sales. This fix would remove the “popped up” values from the calculation of the Headlee rollback which currently works to negate that growth. This is especially important for fully developed communities because these sales are their only opportunity to benefit from a growing economy.

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- Importantly, the changes proposed by the Community Stabilization Plan will allow Proposal A and Headlee to work as intended limiting existing millage and value growth by inflation but allowing for the economic catch up after sales.
- Impact on Property Owners:
  - If you did not buy or sell a property, you would experience no more than an inflationary increase in property taxes, which was the intent of both the Headlee Amendment and Proposal A.
  - If you purchased a property, you would pay tax on the reset value as is currently the case, but schools and local units of government will receive the full value from that purchase rather than a diminished amount.
- Impact on Local Units of Government and Schools:
  - A more stable and predictable source of revenue that can better meet the demands on services and is more tied directly to the economy.

The Community Stabilization Plan will better protect all of us in the event of a future economic downturn, or the next recession. This plan will ensure our communities can recover at the same pace as the economy, while providing the level of services residents and businesses expect.

It is clear the pandemic will greatly impact local governments. In addition, the potential accompanying impact of a recession will drag on for local governments as we saw during the Great Recession. If nothing is done, on December 31 we will have missed an opportunity to make meaningful changes to preserve our communities.

We need to act now to protect our local governments, communities, and businesses.

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