

**Report of the Governmental Work Group
to Governor-Elect Snyder
November 2010**

Workgroup Participants

- Paul Tait, Executive Director, Southeast Michigan Council of Governments, Chair
- Robert Daddow, Deputy Oakland County Executive
- Elisabeth Gerber, Professor, University of Michigan, Gerald Ford School of Public Policy
- Kurt Kimball, Managing Partner, Pondera Associates
- Fred Leeb, Managing Partner, Nonprofit Management Group
- Keith Molin, most recently, Director, Michigan State Housing Development Authority
- Summer Minnick, Director of State Affairs, Michigan Municipal League
- Jack O'Reilly, Mayor, City of Dearborn
- Adam Rujan, Partner, Plante & Moran (and colleagues)
- John Taylor, Professor, Wayne State University

Input provided by: Bill Hardiman, State Senator
Eric Lupher, Director of Local Affairs, Citizens Research Council

The Challenge

The State of Michigan and many of its local governments, even those best fiscally managed, are experiencing severe economic stress. Property tax is the primary revenue source for most local governments. That revenue stream has dropped precipitously, with taxable values projected to decline 32 percent between 2007 and 2013 in the seven-county Southeast Michigan region, the part of the state hardest hit by this trend. Further demonstrating how this has disproportionately affected some areas, from 2007 thru 2012, Oakland County will experience a 35.31 percent decline. Statewide, the loss is about half that rate, but still significant. Another significant source of local revenue, State Revenue Sharing, has dropped 31 percent since 2000, resulting in a reduction of \$4 billion to this funding.

To add to the long-term negative effects of these revenue shortfalls, the combination of Proposal A and the Headlee amendment limits future increases in property taxes for each parcel of property to the lesser of inflation or five percent. The result is that the purchasing power of property tax dollars will bottom out and remain at that reduced level long into the future.

In response, local governments are implementing efficiencies, cutting non-essential services, and engaging in collaborative service delivery with their neighbors, but not to the degree necessary to maintain core governmental services in the face of such monumental revenue declines. Also, there is not yet a universal sense of urgency or understanding that much more can and should be done now before it is too late. Local governments will have to rely primarily on their own resources rather than expect the state or federal government to step in to save them.

The work group recognizes that quality local government services are essential to the quality of life of Michigan's residents and, ultimately, our economic prosperity. The following recommendations are submitted for action by your team, the legislature, and local governments. They reflect the need to acknowledge the depth of the problem and significantly change the status quo, including reconciling constitutional requirements with local realities. They also recognize the ripple effect that changes in state policy in one area have on other parts of the state and local government. The desired outcome...to help local governments avoid fiscal emergency and continue to cost-effectively provide essential government services.

Recommendations

Underlying the recommendations that follow is a need to make monitoring of local government finances and support of financial management a priority that requires dedicated resources.

TRANSPARENCY/ACCESS TO ACCURATE FINANCIAL STATEMENTS AND INFORMATION

- **Local governments should be required to report, annually and more frequently as the severity of their fiscal distress demands, consistent financial summaries that are brief, timely, readily understandable, and communicate fiscal status, including both current and two-to-five-year forecasts.**
 - Today's fiscal reporting based on audited data is too slow (2008 is latest data), too cumbersome to readily flag fiscal distress, and does not provide trend analysis into the future.
 - The summaries should provide information on all major funds, not just the general fund, including:
 - Key indicators to help the public understand the government's fiscal situation and to identify problems.
 - Fund balances and percentages described as "rainy day" funds.
 - Cash flow (not presently a high-priority item), actual and projected.
 - Receivables and payables, ratios and aging.
 - The amount of unfunded liabilities, including pension obligations.
 - Significant changes in inter-fund borrowing.
 - A comparison of actual results to the original budget as the year progresses and simple explanations of changes.
 - Two-to-five-year forecasts:
 - Projected revenues.
 - Projected operating and legacy costs.
- **New criteria should be developed to determine fiscal distress of communities, taking into account the newly required forecast data and other key indicators.**
 - Review the Department of Treasury's Fiscal Indicator Data Base.
 - Review the report of the Municipal Government Finance Officers Association.

BUREAUCRACY, ESPECIALLY LAYERS OF BUREAUCRACY

- **Convene a high-visibility task force to question the underlying assumptions behind how governmental services are structured and funded across the state and different levels of local government.**
 - Make recommendations about how and by what level of government essential services can best be delivered.
 - What is the goal?
 - What is the value added?
 - What is the return on investment?
 - What is the best delivery model?
 - What economies of scale can be realized?
 - What accountability factors can ensure highest benefit relative to cost?
- **Identify and eliminate reports required by state government that no longer serve an intended purpose or are of marginal value, given the limited resources available.**
- **Review and implement the recommendations of the 2009 Legislative Commission on Statutory Mandates.**
- **Allow greater flexibility in use of federal and state resources that flow to the local level.**

STATE-LOCAL PARTNERSHIPS

- **Make the deadline earlier and enforce the deadline for state budget adoption to assist local governments and school districts with their budgeting and forecasts.**
- **Encourage local governments to survey their residents on the value and priority they place on government services they receive to aid in deciding on what is essential, what may be eliminated, and how best to deliver those services that are essential.**
- **Evaluate and modify state standards and enforcement of those standards to take into account the relative reduction of risk and the return on investment of resources devoted to compliance and enforcement, especially in environmental and transportation areas.**
- **Build on work already underway and expand opportunities for state partnership with counties, local governments, and community-based organizations on delivery of services to reduce duplication and improve efficiencies.**
 - Human services.
 - Economic development.
 - Public safety.
 - Transportation.
 - Information technology.
- **Prohibit governmental units from borrowing through or from the state if the objective is merely to buy time without undertaking significant structural changes.**

CONSOLIDATION OF LOCAL GOVERNMENTS/SERVICES

- **Create new or amend existing legislation to create a cohesive package of laws that more easily enable local governments to consolidate and/or collaboratively provide services.**
 - Streamline the existing process for consolidation, including with counties, as well as collaborative agreements.
 - Remove barriers to realizing cost savings from service consolidation, including labor-related restrictions.
 - Urban Cooperation Act, Act 312, Public Employee Relations Act, and several other acts that are intended to enable consolidation and/or collaboration have language relative to collective bargaining that no employee can be made worse off by a collaborative/cooperative agreement and union sign-off is required before discussions can proceed.
 - Clarify legal authority for metropolitan governments, regional service special districts or authorities, intergovernmental agreements, and other forms of collaboration.
 - Current multiple laws complicate legal authority.
- **Build on the existing state-wide comprehensive clearinghouse/bulletin board that provides a vehicle for local governments to post their interest in and resources they have for consolidating local governments or services with others.**
- **Provide state incentives (planning grants, implementation grants, favorable status, etc.) to communities consolidating local governments or services to help defer up-front costs, ease political barriers, and encourage more fiscally sound local governments to partner with their more fiscally distressed neighbors.**
- **Build volunteerism to assist staff in key service areas such as police, fire, maintenance, parks, community centers, libraries, etc.**

FINANCIAL CRISIS MANAGEMENT PROCESS, INCLUDING EARLY INTERVENTION BEFORE JURISDICTIONS REACH CRISIS

- **Improve the current system for identifying local governments in danger of fiscal distress before crisis stage.**
 - Use fiscal summaries called for in the transparency recommendations.
 - Improve benchmarks/criteria to determine current or potential future fiscal distress based on the additional information.
 - Focus on outstanding debt and inter-fund borrowing as well as fund deficits.
- **Provide more education for the public and elected officials on use of financial and operational reports, including the required financial summaries.**
- **Improve deficit elimination plans by including key assumptions, milestone dates, and risks/opportunities.**
- **Expand the authority of emergency financial manager (EFM).**
 - Include the ability to:
 - Modify union contracts and legacy costs, and to make structural, as well as financial decisions.

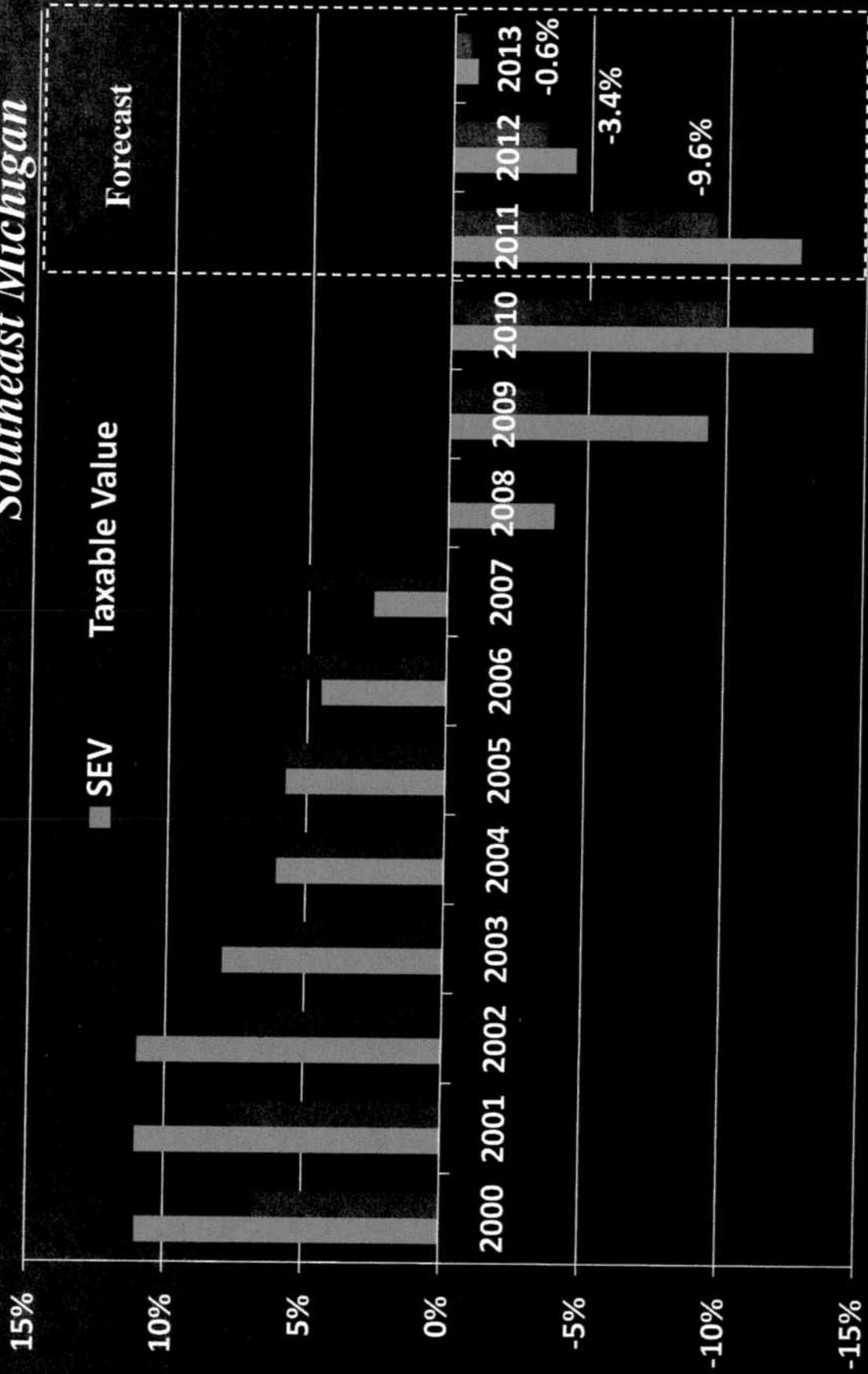
- Note that EFMs currently may renegotiate contracts, but outright modification of union contracts may face constitutional and/or federal restrictions. A legal analysis will be required.
 - Override minimum staffing requirements in charters or ordinances.
 - Direct consolidation of services with other local governments, where cost and/or service improvement can be realized.
- **Clarify that the emergency financial manager is the Chief Executive Officer of the governmental unit, not the Chief Financial Officer.**
- **Periodically convene emergency financial managers to share strategic approaches and best practices.**
- **Ensure that the emergency fiscal management process is apolitical with oversight by a non-partisan panel.**
- **Enhance the ability of local governments to address fiscal crisis before the emergency fiscal management criteria thresholds are crossed.**
 - Provide state technical assistance to local governments to improve financial management and implement best practices.
 - Once certain criteria are met, allow local governments to cap employee compensation costs, reduce compensation, and/or increase employee cost sharing for fringe benefits, subject to limits to be established.
 - As noted above, arbitrarily modifying union contracts may face constitutional restrictions, or require a constitutional amendment.

LOCAL GOVERNMENT REVENUES

- **Recognize that any changes to the state tax or financial system impact all levels and must include repairs to the broken system for generating local government revenue.**
- **The two limits on increasing property taxes should be changed to reflect the reality that property-tax revenues were severely reduced as a result of the crash in property values.**
 - The Proposal A cap on increases to the rate of inflation or five percent, whichever is less, should be changed to allow greater capture of future property value growth.
 - The calculation of Headlee tax rate rollbacks should be amended so that increases in taxable value triggered by property sales/transfers do not cause unit-wide tax rate reductions.
- **Local governments should be allowed greater flexibility in creating new revenue sources.**
- **Existing and newly formed regional or metropolitan entities should be allowed greater flexibility in creating new revenue sources to better address regional infrastructure and demand for quality of life assets.**

The Governmental Work Group appreciates the opportunity to provide this input and would be pleased to assist with future information, evaluation, and implementation.

Yearly Percent Change in SEV and Taxable Value; With Preliminary Forecasts, 2011-2013 *Southeast Michigan*

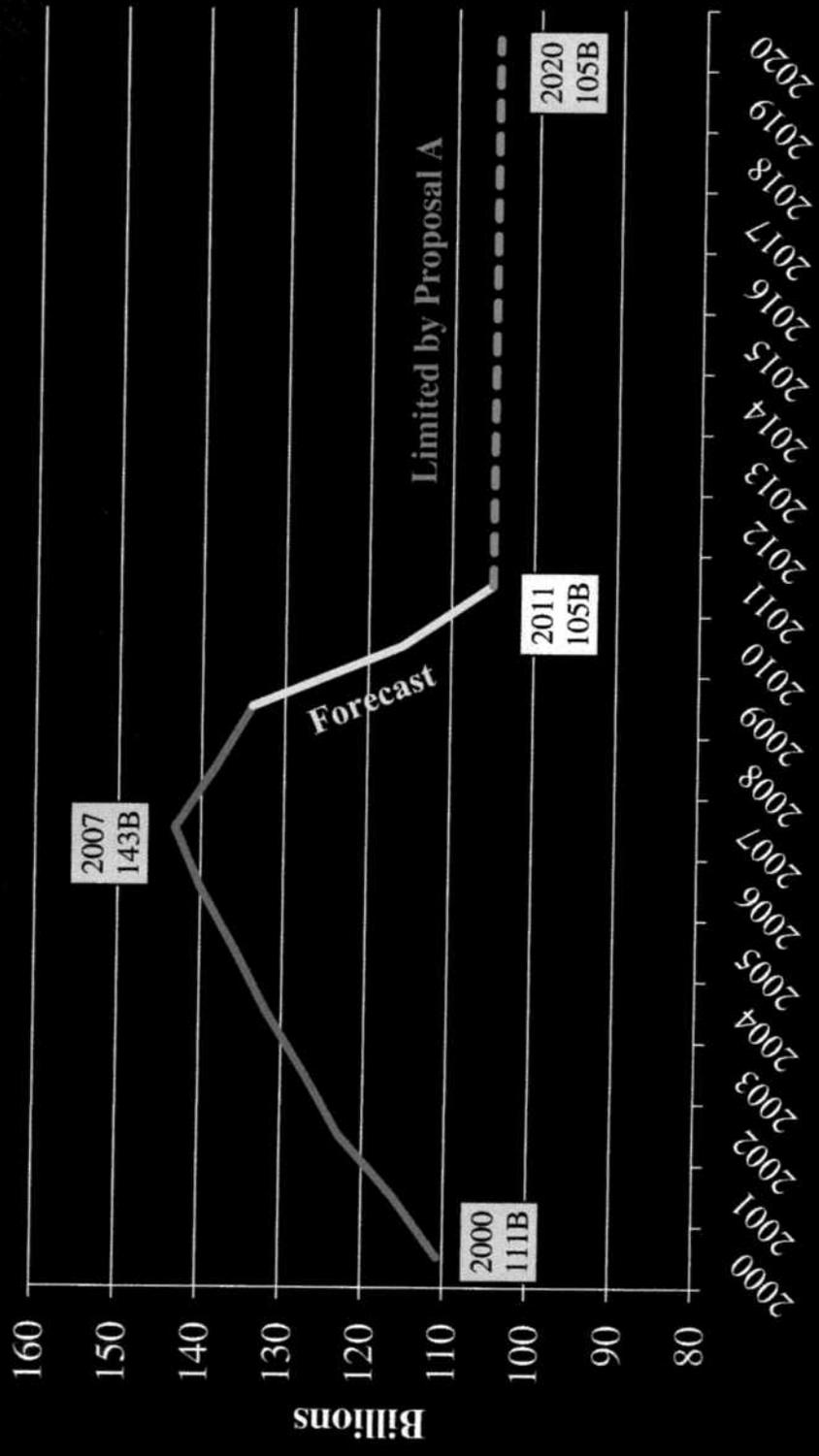


Source: SEMCOG

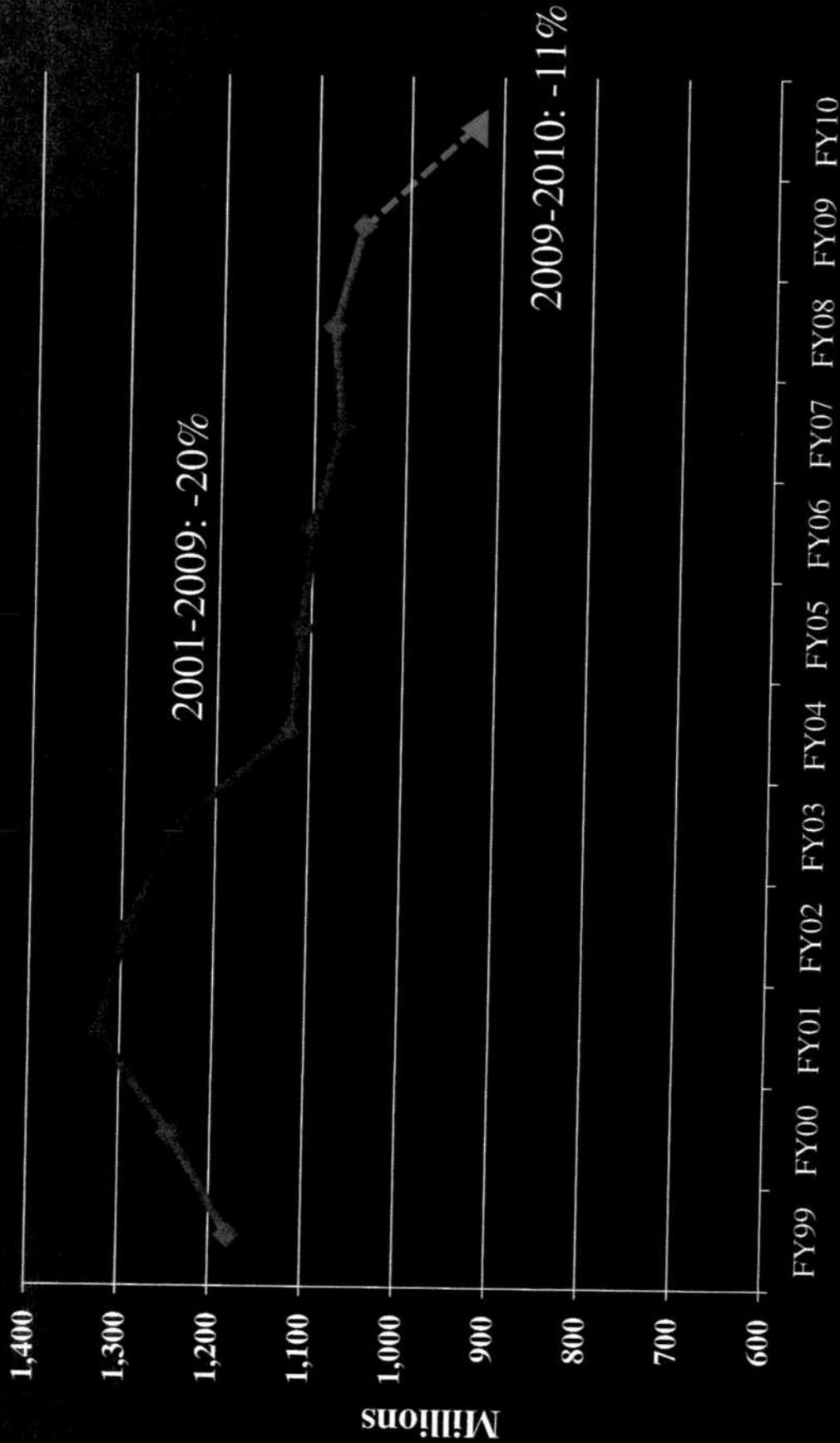
Description of the Problem

Fiscal resources constrained, not temporary

Taxable Property Value – Constant Dollars (2000)



State Revenue Sharing Payments to Cities, Villages, and Townships



SEMCOG

Source: Michigan House Fiscal Agency