



Special GVMC Legislative Committee

2 p.m. Wednesday April 27, 2011 – Metro Council Offices

AGENDA

- 1. Call to Order**
- 2. Approval of Minutes from the April 13, 2011 meeting**
- 3. Resolution of Support for Governor Snyder's "Reinvention" Agenda**
- 4. Personal Property Tax – Collaboration with Grand Rapids Area Chamber of Commerce**
- 5. Issues Update**
- 6. Other Items**

**GRAND VALLEY METROPOLITAN COUNCIL
LEGISLATIVE COMMITTEE MEETING**

April 13, 2010

8:30 a.m.

GVMC Offices
678 Front Ave., Suite 200
Grand Rapids, MI 49504

MINUTES

1. Call To Order

Chair Rick Root called the meeting to order at 8:35 a.m.

2. Roll Call

Present:

Haris Alibasic	City of Grand Rapids
Alex Arends	Alpine Township
Sam Bolt	City of Wyoming
Chris Burns	City of Cedar Springs
Bill Cousins	Cascade Township
Mike DeVries	Grand Rapids Township
Don Hilton	Gaines Township
Denny Hoemke	Algoma Township
Bob Homan	Plainfield Township
Jim LaPeer	Cannon Township
Rick Root	City of Kentwood
Ken Snow	City of Greenville
Don Stypula	Grand Valley Metro Council
Keith Van Beek	Ottawa County
Barb VanDuren	City of Wyoming
Roger Wills	City of Belding

3. Approval of Minutes

MOTION – To Approve the Minutes of the March 2011 GVMC Legislative Committee. MOVE – Bolt. SUPPORT – Hilton. MOTION CARRIED.

4. Economic Development Incentives

Don Stypula announced there was agreement on the tax component of the state budget in the House. A consensus agreement was reached and AARP is expected to fight. There may be a couple of representatives in the House who will not support it and the Senate is still concerned about passage. The phase out of economic development incentives is in the budget detail.

Eric DeLong gave a presentation on the City of Grand Rapid's position (see attachments).

Discussion ensued.

Keith VanBeek asked of all of the things discussed today and at prior meets, what does this group need to talk through to agree on a position. What issue do we need to be in agreement on to be in on the solution?

Eric DeLong stated if we want to be perceived as a partner, it can't be on an issue by issue basis. It needs to be on general tenor and if we can solve that, it will sent the one for how we move forward.

Rick Root said people have been questioning what our voice is. The diversity of the Council makes finding that voice a challenge. Can we find a unified position? The time is now. Other organizations are ready to speak for the region and we could loose the opportunity.

Haris Alibasic stated GVMC's legislative priorities mostly align with Grand Rapids' policy. The question is if GVMC can be comprehensive and support it entirely. There is a sense of urgency as people ask what GVMC's position is.

Rick Root reported GVMC has used traditional lobbying in the past, but may need to change the game. Do we need to reexamine how we do things?

Eric DeLong stated the Governor's 10 Point Plan and the Business Leaders document are good foundations.

Rick Root said the six cities have endorsed the Business Leaders for Michigan's position. These ideas are more about governance than land grab. One Kent puts us in the wrong frame of mind. We should consider how to incorporate our legislative approach and would like to get the documents on the Business Leaders position to everyone so we can determine if GVMC can support it, and then see what our overall legislative approach should be.

Eric DeLong said this is about the long-term outcome and also getting engaged positively now, which will help ensure us a stake later. There is all kind of risk, but doing nothing has higher risk. Don't let the perfect get in the way of the good.

Rick Root asked if we need endorsement to ensure a place at the table, can we get this to the GVMC Board quickly enough. We need to step up.

Bob Homan said we should put it on paper quickly so it can be debated and endorsed.

Eric DeLong stated GVMC doesn't have to accept the City of Grand Rapids' policy, but could use it as a framework to engage and be positive.

Rick Root asked if we should get the Business Leaders document out.

Bill Cousins stated we need a statement of support for the new state budget and then the elements in this document.

Don Stypula said yes, we should get out a statement on support of the state budget and then address the other issues at the next meeting.

Haris Alibasic stated a general endorsement of the Governor's budget is easier for the group to swallow. It would support the Governor's positive method for addressing the problem and working towards a solution.

Don Stypula said he would put together a resolution as a general statement of support of the Governor's attempt to reinvent Michigan and ask the Council to endorse it in May.

Bob Hoeman asked when the group would see the resolution.

Don Stypula reported soon.

Jim LaPeer asked why not pull together a 3 month working group to see if we can redevelop regional government. How would it work rather than the One Kent approach?

Don Stypula reported the Chamber of Commerce has requested to offer a get together with four of us and four of them to look at the options for revenue replacement regarding the personal property tax. They would like to talk with several individuals on how the personal property tax works.

Rick Root recapped:

- Don Stypula will draft a resolution in support of the Governor's budget and send it to everyone, then bring it to the GVMC Board for approval.
- He will send out the documents from the Business Leaders for Michigan.
- A special meeting will be held to review the resolution on April 27th at 2:00 p.m. and Don will circulate the document before.

5. Adjourn – 10:30 a.m. MOTION - To Adjourn - BOLT. SUPPORT – Cousins. MOTION CARRIED.



RESOLUTION

A Resolution Endorsing Governor Rick Snyder's Reform and Reinvention Agenda for Michigan

WHEREAS, Michigan's severe and sustained economic downturn has had a devastating impact on businesses, citizens and taxpayers, and strained the ability of counties and local units of government to serve their needs; and

WHEREAS, Michigan's business tax policy, together with the state's confusing patchwork of business tax credits and incentives has deterred business expansion, economic growth and job creation, and further impacted the ability of county and local governments to provide essential public services; and

WHEREAS, Governor Rick Snyder and his administration have embarked on a bold new course to reform and reinvent Michigan through changes in tax policy, the adoption of governmental reforms and the creation of a more positive, business-friendly environment that encourages investment and entrepreneurial ventures; and

WHEREAS, the Grand Valley Metropolitan Council has determined that while fundamental changes to traditional state tax policy, coupled with the adoption of government reforms to enhance multi-jurisdictional collaboration and cooperation could yield new challenges for county and local officials in the short term, Governor's Snyder's policy initiatives to reform, reinvent and grow Michigan would bring lasting benefit to communities and their citizens throughout West Michigan.

NOW THEREFORE BE IT RESOLVED, that the Grand Valley Metropolitan Council hereby declares its support for the efforts of Governor Rick Snyder, Lt. Governor Brian Calley and the members of the 96th Michigan Legislature to reform and reinvent Michigan through changes in business tax policy, the adoption of GVMC's policies regarding governmental reforms and by adopting other common sense solutions that will enhance Michigan's business climate and solidify the state's reputation as a wonderful place to live, work, learn and recreate; and

BE IT FURTHER RESOLVED, that the Executive Director is authorized to transmit a copy of this resolution to Governor Rick Snyder, Lt. Governor Brian Calley, together with the leadership and members of the 96th Michigan Legislature.

This Resolution declared adopted by unanimous vote of the Grand Valley Metropolitan Council on May 5, 2011.

Hon. James R. Buck
Chairman of the Board

Donald J. Stypula
Executive Director

City of Grand Rapids State Policy and Legislative Priorities for FY 2011-2012

The City is in the midst of a rapid transformative journey toward long-term sustainability. The City is a testing ground for many positive legislative agendas, and we are proving that collaboration, a strong work ethic, discipline, fiscal responsibility, a commitment to sustainability, and a relentless focus on outcomes can and do work in Grand Rapids. The same can apply to the State of Michigan.

Grand Rapids starts with a clear vision of what our community should be. This has been established through an intentional process of citizen engagement that has produced our Master Plan, new Zoning Ordinance, and Green Grand Rapids Plan, coupled with the adoption of a five-year budgeting model and establishment of a FY2011-FY2015 Sustainability Plan with outcomes, targets, and metrics. Following are the key policy and legislative priorities required of the State to make urban cities and local government units more sustainable, guaranteed to produce positive long-term outcomes. Last year, the City created a dashboard tracking our five-year Sustainability Plan progress.

We welcome the Governor's commitment to addressing urban challenges by proposing to establish the new Office of Urban Initiatives and expanding the initiative by opening an office in Grand Rapids. We believe that Grand Rapids can serve as a model to other cities in its sustainability and transformation efforts, and can provide for positive examples to other local governments and communities.

We agree with the Governor's sentiments that "government reform needs to happen at all levels from townships to cities, from counties to the state, to school districts as well." We are making progress on this each day.

The following policy changes are critical to producing important outcomes:

What Revenue Sharing Meant for Grand Rapids

In his budget proposal, Governor Snyder called for eliminating statutory revenue sharing and replacing it with a \$200 million fund that would be awarded to local governments that show best practices to reduce overall service costs.

Although we do not yet fully understand all of the potential budget cuts contained in the Governor's proposed budget, we do understand the following reductions:

- Statutory Revenue Sharing will be cut by 100%, resulting in a \$6.65 million reduction for the City. Combined with a \$504,000 projected increase in constitutional State Revenue Sharing, the expected net loss for the City is \$6.15 million. This represents about 6% of all revenues in the City's General Operating Fund and is in addition to the previous \$10 million per year reduction in revenue sharing already experienced by the City. This final \$6.15 million cut is equivalent to funding for 51 police officers, 53 fire fighters, or 61 non-public safety employees.

- We will be able to compete for a proposed \$200 million in Competitive Grants for communities that 1) meet transparency and financial reporting goals; 2) meet goals related to total compensation (for example 20% health insurance premium sharing); and 3) are collaborating with their neighbors. We believe we will fare well here, but the program requirements have not been defined so we do not yet know what grant we will receive from this source.

We must now figure out how we can move forward with \$6 million less revenue after working to accommodate the prior \$10 million annual reduction. This will make our already very challenging transformation significantly more difficult. The City cannot easily withstand these reductions without significant impacts on our ability to provide important outcomes to the community. At the same time, we can assure you that this will not send the City into receivership.

Although these changes complicate our transformation, we fully support the State as they attempt to address their structural operating deficit. Unlike Grand Rapids, until recently the State did not admit that they had a problem. The State of Michigan relied on accounting gimmicks, one-time fixes, and kicking the can down the road. The Governor's plan addresses the State's financial imbalance. The City has informed the Governor that we are willing to share the pain. We will not complain, live in the past, or fight this change. We expect to be part of the future to develop new ways to ensure sustainable funding for local governments. We want to work with the State to ensure that City government can continue to provide for a strong urban quality of life.

Real Revenue Sharing for Real Results (Attachment A)

Grand Rapids can serve as a model in many ways. The outcome of strong urban areas requires a clear understanding of the infrastructure, systems, committed private investors, community engagement, and partnerships required to create the quality of life that will promote long-term success. Quality of life outcomes require the correct level of sustainable investments in parks and recreation, public safety, infrastructure, economic development, cultural services, and neighborhood preservation and development. Incredible attention to making sustainable financial decisions and measuring progress through transparent metrics is required.

Production of sustainable quality of life outcomes requires sustainable levels of investment.

Over the last decade, Michigan has not valued the outcome of strong urban centers. Revenue Sharing was the second largest source of General Fund revenue for the City of Grand Rapids and is critical if the City is to provide essential quality of life services for our citizens, businesses, and those who work in the City. The City of Grand Rapids has already absorbed nearly \$100 million in cuts in statutory revenue sharing since 2001 and those losses are now mounting at the rate of \$17 million per year based on the proposed FY2012 State budget. This is one of the most significant drivers of our current fiscal situation. The cuts to date have caused us to cut critical quality of life services—the things that make us great. Any progress we have made in the face of this disinvestment has been the result of the quality of the commitment of our partners, strategic use of available tools, citizens' personal investment in our neighborhoods, and our own ingenuity. The loss of investment from the State has directly diminished our ability to produce quality of life outcomes.

The solution is to create a new commitment between valued partners to produce jointly valued quality of life outcomes at the local level. In the old revenue sharing model, outcomes were completely disassociated from investments; and, worse yet, no one at the state level valued the compact that created revenue sharing.

The Urban Metro Mayors and Managers (UMMM) partner communities (Grand Rapids, Wyoming, Kentwood, Walker, East Grand Rapids, and Grandville) have developed a concept paper entitled, "Real Revenue Sharing for Real Results," which is included as Attachment A. We offer it to you as a framework for restoring sustainable, quality urban areas through directly linked sustainable investments.

Proceeding in this manner would ensure production of valuable local outcomes by linking investments to results.

Elimination of impediments to collaboration and consolidation (Attachment B)

Grand Rapids and its neighboring communities have been leaders in the area of intergovernmental collaboration and consolidation. The work of the Urban Metro Mayors and Managers (UMMM) and Kent County was highlighted in the Citizen's Research Council's Report 357, *Streamlining Functions and Services of Kent County and Metropolitan Grand Rapids Cities*. The conclusion of the report is that, notwithstanding commendable effort, little additional significant progress can be made without legislative changes.

We know this and have supported amendments to the Urban Cooperation Act and the Intergovernmental Transfer of Functions and Responsibilities Act. Attachment B, "*Remarks before the House Local, Intergovernmental and Regional Affairs Committee*," dated February 24, 2011, provides background on specific amendments we have sought to remove barriers to consolidation and cooperation.

We have pressed on and just recently completed the consolidation of Police/Fire Dispatch with the City of Wyoming. Together, our two cities will save \$1.6 million per year on this critical service. We are currently pursuing consolidation of Fire services with the cities of Kentwood and Wyoming. These talks are proceeding well. Our joint approach is based on the elements that drive successful private/public partnerships—trust, skill, commitment, and identification of joint interests.

The Municipal Partnership Act – an innovative approach to accelerating progress

This approach to reform was developed by the City in collaboration with Curtis Holt, City Manager of the City of Wyoming, and Scott Smith, Attorney with Clark Hill. This concept has been introduced by Senator Mark Jansen as SBs 8-10. The legislation was initially intended to create a test site for intergovernmental innovation in Kent County. We now propose that it be expanded statewide.

Insist on asset management for transportation systems and make asset management investments to produce sustainable outcomes

Our street infrastructure and bus transportation systems are critical assets. If maintained correctly, they will have a long service life. Correctly maintained assets produce high

quality of life and do so at less cost. Failing to make maintenance investments reduces quality of life and increases overall expenses significantly. The City of Grand Rapids developed an asset management framework for its street network in 2003 and has just recently completed the establishment of a consistent data set required to operate a full asset management plan.

The City has lost significant Gas and Weight Tax revenues, at a rate of 2-3% annually. Gas and Weight Tax revenues have been squeezed to the point where they are barely covering snow plowing and pothole patching now—the very minimum of maintenance—and will be squeezed further if action is not taken. Every penny of gas tax is worth \$750,000 to \$1,000,000 annually to the City. Capital expenditures have been squeezed totally out of Gas and Weight Tax supported funds. The only source is our General Operating Fund and that is in critical shape. Our asset management plan indicates that we need to invest \$12 million annually to maintain and improve the quality of our streets. We can only invest \$1 million in local resources now in our current financial state.

We know the amount of annual investment required to attain optimal surface life. We have effectively managed our street capital funds and used ARRA investments to try to avoid losing ground. We have not been totally successful, and the pace with which we fall behind will only accelerate now that ARRA funds have been expended.

Investments in asset management systems produce proven outcomes. The current approach does not generate sufficient resources for the necessary asset management investments.

One small way to generate some additional funding would be to ensure that transfers from Gas and Weight Tax revenue to the General Fund are strictly limited. The past practice of excessive cost allocation has reduced revenues in the Motor Vehicle Fund.

One small way to increase flexibility on the local level would be to eliminate the requirement to keep a separate Major Street Fund and Local Street Fund. Enabling creation of a single street fund would permit pooling of resources for strategic investment decisions at the local level. It would eliminate complex and arcane accounting at the state and local levels and streamline the process.

To achieve complete asset management outcomes for the state, county, and local street networks will require significant additional investment beyond any additional amount generated by the above two suggestions. The City supported the recommendations of the State's Transportation Funding Task Force to increase funding dedicated to transportation infrastructure. Public transportation remains a key element to the continuation of a solid economic development engine and a significant tool for growing businesses.

Support Renewable Energy Projects

The current regulatory framework will stifle this emerging sector. Grand Rapids has been a leader in investments in renewable energy. Over 20% of our energy demand comes from renewable sources. Further progress will be exceptionally difficult due to difficulties with securing approvals for the location of wind turbines. Currently, each local unit of government is regulating land-based wind turbine location through their local zoning ordinance. This provides significant local control, but also significantly reduces the likelihood that facilities will be approved in productive shoreline wind areas. Instead of congruent state-wide policy that accelerates development of renewable energy, we have a tattered patchwork of policies that are not easily navigable. If an outcome we desire is a cleaner energy future and a renewable energy industry, then the State will need to be intentional about creating a framework that enables it.

The City supports incentives for sustainable construction and redevelopment and efforts to encourage or increase energy efficiency opportunities in Michigan.

The City supports strong programs for acceleration of renewable energy projects, energy efficiency, and other programs in the context of sustainable economic development and job creation. The State needs a framework that includes a clean and sustainable energy future which can help create new jobs.

Tax Expenditures

There is considerable discussion regarding tax expenditures. While certain credits, like the Brownfield Redevelopment Credit and the Historic Preservation Tax Credit, have produced exceptional results, we fully understand the rationale for eliminating all credits. We support this position. We support development of a targeted investment strategy focused on Brownfield investment that does not rely on tax credits.

Scale up or down to the right level of government

We are seeking ways to scale functions up or down to the right level to eliminate duplication, eliminate or reduce rework, cut wait time, reduce cost, and improve outcomes.

For example, property assessing is currently an exceedingly complex function of local and State government. Each of Michigan's 1,242 townships and 515 cities and villages must complete the annual assessment process. These results are then forwarded to each of Michigan's 83 counties for equalization. Ultimately, each county forwards their equalized results to the State. All of this takes place within a very strict rule book that includes a single recipe.

The point is, should we perform assessing at the county level in Michigan to avoid 1,840 independent turns of the crank? This would allow more expertise to be applied at the county level, reduce duplication, save local governments millions of dollars in the aggregate, and maintain the quality of the result. The current cost of the Assessor's Office in Grand Rapids is approximately \$2 million.

Court reform could proceed in the same manner. In a resource constrained environment, do we need both district and circuit courts? Courts should be consolidated at the county level. Grand Rapids' annual subsidy from its General Operating Fund to the 61st District Court is over \$4 million.

Relentlessly seeking the right level for such services will streamline operations and reduce overall system costs. There will be a shift in local control, but now is the time to make the argument that this is more than a fair trade off.

The following specific legislative initiatives would enable the City to produce better outcomes:

- **Cut costs through establishment of employee compensation standards** Require that Michigan governmental employees, including lawmakers and teachers, pay at least 20 percent of their taxpayer funded health care costs (Grand Rapids currently has employee groups at 10% and 20% premium sharing and is seeking to increase that to 20% for all groups). We are seeking a permanent reduction in our total cost of compensation (total wages and benefits) of 10% through collective bargaining with our employee groups. State guidance regarding standards in the cost of health care, retirement, and other elements of total compensation could expedite progress.
- **Collect unpaid Parking Tickets (HB 4308 / SB 130)**
The City is seeking a change in the minimum number of unpaid parking tickets a person may have before the Secretary of State will not issue or renew a person's driver's license. The number would be reduced from the current six outstanding violations to three. The threshold of three is used for enforcement in Chicago. There is an additional \$1,115,337 in initial parking fine revenue the City can queue up and collect if the threshold is lowered. The City will recoup over \$350,000 per year in much needed fine revenue with this legislative change.

At present, the Parking Violations Bureau sends a past due notice telling a person with multiple parking violations that they must answer and appeal the citation or pay the parking fines. If no response, a final notice goes out after 90 days. Once they owe six or more unpaid parking violations, the City can collect most of the fines by sending the case to court.

Currently, the City Treasurer's Office forwards cases with six parking violations as a civil infraction to the 61st District Court. The District Court notifies the person of the change of venue and informs the person that they must answer or pay the civil infraction parking fines within 10 days. If the person fails to answer or pay the fines, the District Court "electronically" informs the Secretary of State that a person failed to satisfy the civil infraction. The Secretary of State, upon being informed of the failure of the person to comply with the requirements to answer or pay the parking fines, will not issue a license to the person or renew a license for the person until the person has resolved all outstanding matters regarding the notices and has paid the \$45 driver's license clearance fee to the State.

The cities of Detroit and Lansing are similarly structured with the parking violations first being adjudicated at the Municipal Parking Violations Bureau. Both the City of Detroit and the Lansing District Court are very much in favor of this legislative initiative.

- **Legislation to allow discretionary authority for some local units to collect all their property taxes in the summer (SB 322 and SB 323 of 2011)**

The City is seeking legislation to allow the option to have a County Allocation Board authorize one tax bill for cities. The proposed legislation involves altering how the current winter property taxes are levied so cities (and their affiliated counties) are given the option to consolidate the property tax billing. The City of Grand Rapids and its citizens could save money and make its work more efficient. The bills at a certain level, either \$50 or \$100 or less, would be moved to summer tax collection. The City of Grand Rapids' winter 2007 property tax billing had a total millage levy of only 1.1137. This levy represents only 2.3% of the annual property tax levy for businesses and 3.7% of the annual bill for a homeowner. The City emailed 4,189 property tax bills to property owners that were for \$10 or less. Many citizens consider this small bill an annoyance. A total of 29,544 bills were for \$50 or less. Analysis of our records show that consolidating the tax bill into one levy next summer would save City of Grand Rapids citizens \$14,350 of their own postage expense and the City's budget \$40,749. Attached are the sections of the statutes which need to be amended to provide the authority to move the entire winter levy to the summer tax cycle. MCL 211.44a was tweaked to remove the phrase "provided the tax bill previously billed as part of the winter property tax levy is under \$100".

- **Invest in stormwater management**

Stormwater is an orphan outcome. All Michigan municipalities operate under a National Pollutant Discharge Elimination System (NPDES) Permit that establishes requirements for stormwater management. Few municipalities have the financial capacity to produce the required outcomes. SB 256 (2009-2010 Session) would have established state standards for the creation of stormwater utilities. Establishing a utility basis for paying for the cost of producing this outcome would free up at least \$1.5 million of resources in Grand Rapids. This cap space could be reallocated to produce valuable General Operating Fund, Major and Local Street Fund, or Capital Fund outcomes. Such investments would reduce flooding, reduce property damage, and improve water quality.

- **Oppose HB 4265 and HB 4266 that seek to put yard clippings in landfills**

This would reverse a state law that required composting of yard waste to reduce the impact on landfills. Yard waste is a significant portion of the waste stream. Opening new landfills in the State has historically has been received very negatively by residents and communities. Composting tip fees are typically less expensive than solid waste disposal charges.

- **Elimination of the Personal Property Tax.**

We have supported elimination of the personal property tax in conjunction with remaking the compact with local government for production of critical quality of life outcomes. Grand Rapids has determined that personal property administration costs three times the amount of administering real property, and personal property taxes serve as an impediment to investment. One solution would be tying Personal Property Tax elimination to implementation of Real Revenue Sharing for Real Results (see Attachment A). Another would be eliminating the Commercial and Industrial classes of Personal Property Tax only and keeping the Utility class. Yet another would be trading elimination of the Personal Property Tax for addition of two mills to the levy to the Commercial and Industrial property class.

- **Create Neighborhood Improvement Districts**

Grand Rapids and other Michigan communities have produced good outcomes through Business Improvement Districts. In Grand Rapids' case, the Downtown Improvement District collects special assessments that pay for outcomes over and above the base level of service the City can provide. The assessments are used to contract with the not-for-profit Downtown Alliance to produce outcomes that include a beautiful and clean environment, special events that help create a lively downtown, and promotions that assist business. The results are outstanding and are driven by assessment payers in the district that serve on the Downtown Alliance Board of Directors.

We believe that this model would also work for neighborhood associations. In this setting, neighbors would establish a special assessment level that would be paid by each property in the district. The neighborhood association or other not-for-profit entity would then manage the provision of outcomes which would be in addition to those base outcomes delivered by the City. Examples could include additional crime prevention interventions, supplemental levels of parks maintenance, neighborhood organizing, beautification, and tree planting. The premise is one of self-imposed and self-guided investments to produce additional valuable outcomes.

Attachment A

Real Revenue Sharing for Real Results

March 2011

The Problem:

The statutory revenue sharing promise was broken a decade ago and has been eliminated in the Governor's FY2012 Budget. The Governor's budget points to prospects for piecing the shattered compact between the State and its communities back together through a competitive grants program that encourages necessary transformative action by local units of government. The State's current financial disaster has only accelerated a trend that started years ago. The State's realistic new beginning offered by the FY2012 budget presents a perfect opportunity to establish a new compact designed to produce quality urban areas that will drive Michigan's rebirth.

The very direct result of this disinvestment has been the predictable rapidly deteriorating quality of life in Michigan's communities. Residents of cities, villages, counties and townships have been steamrolled by the current loss of nearly \$950 million per year that is due to them. Michigan's local units of government are doing the only responsible thing; they are cutting or eliminating police, fire, and other core services—the very services that make Michigan's communities attractive for residents and investors—or they are increasing taxes in those communities that have the tax capacity or where residents have voted for new resources (precious few communities).

Looking ahead, the remaining funding for the proposed statutory revenue sharing replacement must compete in a State general fund dominated by free-falling revenues and crushing burdens for corrections, Medicaid, and other major cost centers. The competition will only become more intense in coming fiscal years as the State deals with its own annual budgetary shortfall, including staggering pension and retiree health obligations.

This decade of default has devastated Michigan's communities. The current loss is \$950 million annually.

If Michigan is to succeed, its local units of government must be able to sustain environments that are a prerequisite to prosperity, business investment, and quality of life. These environments can only be created through strategic investments in quality of life outcomes. At one time, statutory revenue sharing made up approximately 25% of a typical city's general operating fund budget. This investment must be replaced to ensure future prosperity outcomes for Michigan.

In their free fall, past administrations clearly abandoned local government and other partners in a futile effort to save themselves. In their desperation, the State resorted to using the same old tools.

In this environment, alternatives that relieve the State of obligations are valuable. Alternatives that relieve the State of obligations, free up revenue for direct State spending, improve the business climate, and find a way to fund current obligations would be powerful.

Two Solutions:

The required appropriation to fully fund statutory revenue sharing is approximately \$950 million per year.

In the past, the State has not prioritized statutory revenue sharing as highly as funding for corrections, Medicaid, and other State services. In real terms, corrections, Medicaid, community health, and social service spending are crowding out all other State general operating fund services. Now, statutory revenue sharing has been crowded out as well. The State financial situation is that desperate.

Michigan's local units of government traded local sources of revenue for statutory revenue sharing in the early 1970's. The reasons for this trade were logical – more uniform application of tax laws and efficiencies of collection. The problem did not arise until the State began the practice of collecting the revenue, but not sharing it based upon the agreed upon formula.

What is needed is a return to an assured, dependable source of revenue that will permit investment in essential services that create quality communities.

There are at least two approaches to achieving this goal.

Approach One - Local Return Sales Tax:

Many states authorize sales taxes to be collected on behalf of both the State and local units of government. The Michigan Constitution reserves the right to levy a sales tax solely for the state.

Each 1% of sales tax levy yields approximately \$1 billion on a Statewide basis. So, authorization of a local sales tax of 1% would fully replace statutory revenue sharing.

This concept entails the following:

1. Retaining the current constitutional revenue sharing provision as is without change.
2. A new 1% local sales tax to be levied by the State with a provision that would require the State to return the tax revenue to the county of origin that would be implemented and enforced by amendment of the State constitution.
3. Much like Proposal A before it, the 1% levy would be mandatory in each county of the State.
4. The levy would be required to be used to support essential services of police and fire.
5. At the county level, funds would be distributed to local units of government based upon a formula that focuses on where people work, where people live, and other metrics that will be responsive to communities in need and where existing capacity (e.g. water and sewer services, electrical grid capacity, etc.) already exists, which are generally urban core communities.
6. Counties should be enabled to have optional additional sales taxes levied and collected on their behalf for transportation and other services if approved by a county-wide referendum.
7. An opportunity exists for elimination of the Personal Property Tax if the sales tax rate is increased by a second 1%. A hold harmless provision would need to be implemented for communities that rely extensively on the Personal Property Tax.

Approach Two – Broaden the Sales Tax Base:

Michigan’s current sales tax applies to fewer services than almost any other state in the union. Broadening the base would significantly increase sales tax revenues, depending on the final formulation. Broadening the base while maintaining the current sales tax rate would provide the revenue required to fund local government essential services – if allocation promises could be relied upon.

The concept entails the following:

1. Retaining the current constitutional revenue sharing provision as is without change.
2. Modernizing the current sales tax by broadening the base of the sales tax to conform to current and future economic activity. Careful attention would need to be paid to business impacts. The enabling statute would include language requiring return of an amount equal to revenues that would be generated by a 1% local sales tax to the county of origin. Initially, this would be implemented by statute and could later be enforced by amendment of the State constitution or other suitable method.
3. The revenue would be required to be used to support essential services of police and fire.
4. Establishing a mechanism to limit the impact of the current “annual appropriation” approach.
5. At the county level, funds would be distributed to local units of government based upon a formula that focuses on where people work, where people live, and other metrics that will be responsive to communities in need and where existing capacity (e.g. water and sewer services, electrical grid capacity, etc.) already exists, which are generally urban core communities.
6. Opportunity exists for elimination of the Personal Property Tax if the application of sales tax is broadened sufficiently. A hold-harmless provision would need to be implemented for communities that rely extensively on the Personal Property Tax.

Challenges:

Discussion has surfaced about local tax option remedies of all sorts. Local option remedies have been handicapped in the past by sporadic application, lack of focus, competition between communities, and more. Although legislation has been passed to provide local options in the past (vehicle registration fees), the history of such efforts has not been stellar.

Past attempts to lock in State funding have been doomed by lack of clarity, attacks by interest groups with individual agendas, poor construction, apathy, and complexity.

Two recent efforts, “Let Local Votes Count” in 2000 and the K-16 School Funding proposal to establish mandatory school funding levels in 2006, both failed.

This effort would be differentiated by:

- Ensuring that it applies to cities, villages, counties and townships;
- Providing clarity about revenue collection and use;
- Assuring that it provides new revenues not redirecting revenues from a limited tax base;
- Tying it to some other broad solution to expand the base of support such as elimination of the Personal Property Tax;
- Tying it to essential services that residents identify most with and are willing to support; and
- Tying it to essential services which increases the expectation that reliable local units of government will deliver as promised rather than depending upon a distant State government.

This novel approach to creating sustainable communities will drive economic prosperity by assuring that Michigan’s communities will be able to provide quality of life services most important to residents,

investors, and new talent. Real Revenue Sharing will produce real results by providing a stable foundation to transform Michigan.

The alternative is failed cities, villages, townships and counties without services for residents and businesses and flight of residents and businesses from Michigan.

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Remarks before the House Local, Intergovernmental and Regional Affairs Committee

February 24, 2011

Eric DeLong, Deputy City Manager, City of Grand Rapids

The City of Grand Rapids would like to thank you for your interest and efforts in trying to help local government break down existing statutory barriers that prevent communities from achieving economic and service efficiencies. We believe that addressing the shortcomings of the Urban Cooperation Act (P.A. 7 of 1967) and Intergovernmental Transfer of Functions and Responsibilities Act (P.A. 8 of 1967) through real reform will accelerate progress toward real cost savings for local taxpayers and the effective delivery of local services.

We also believe that the Municipal Partnership Act, which has been introduced as Senate Bills 0008 -0010, creates a vehicle that will accelerate progress in consolidation and service sharing.

Real reform could be transformative for this State and its local government partners. And that is just what is needed- real transformative reform.

The time to act is now. The State is making necessary, radical, and painful changes in its budget. The State's past budget practices and required state budget changes have and will continue to impact our communities.

The City of Grand Rapids and its local partners in Urban Metro Mayors and Managers have achieved a significant level of service cooperation and consolidation. Together these six cities have formed effective inter-governmental Police teams (cold-cases, drug enforcement, vice, cyber-crime, and auto theft), have shared park services, have formed partnerships with public schools, and have developed fire service innovations like ground-breaking automatic aid agreements.

The Cities of Wyoming and Grand Rapids formed an innovative biosolids partnership in which we will face the future together. Those two cities have also formed a Dispatch Partnership that began operations ahead of schedule in July of 2010. The first year savings are \$1.6 million for

the City of Grand Rapids and \$500,000 for the City of Wyoming. Currently we are engaged in discussions between three communities about fire consolidation. Preliminary talks are underway about motor pool consolidation. Many of us share building inspection services, and discussions are underway to expand those relationships.

The cities of UMMM and Kent County have been the focus of a Citizen Research Council report entitled, Streamlining Functions and Services of Kent County and Metropolitan Grand Rapids Cities, that highlights the 200 interlocking service agreements we have achieved. The report concludes that the Acts we are discussing today are significant barriers to real progress.

We know how to deliver results. We know how to craft combined services that preserve quality of life and save money. Our joint approach is based on the elements that drive successful private/public partnerships – trust, skill, commitment, and identification of joint interests.

We are prepared to do more, and discussions are underway; but we have to remove key barriers to innovation and progress. We have reached the limit of what we can do without legislative action. If you want different results, and we all do, effective changes must be made.

The barriers in the Urban Cooperation Act and the Intergovernmental Transfer of Functions and Responsibilities Act are real. They are a road block to consolidation of services and service sharing and savings. Under current law, when two or more political subdivisions combine services or functions, no employee working under the combined subdivision can be made worse off than he or she was before. This means that when two sets of employees with different pay and benefit scales are combined under a new system or are transferred from one political subdivision to another, employees with the same responsibilities might be compensated differently. If the employer wishes to offer its employees equal wages and benefits for equal responsibilities, it must increase the total compensation given to the employees on the lower scale. This increases costs and eliminates savings.

You might call this the “hold harmless clause.” It is a barrier, but there is more:

1. **Local charter provisions can be a problem:** quirky provisions in some city charters might be interpreted to require a local unit to operate a specific function like police or fire. This barrier could slow critical progress.
2. **The Urban Cooperation Act is trumped by other statutes** – if consolidation and cooperation is important, the Urban Cooperation Act must be amended to supersede other law. It must provide authority in addition to other statutes so it can stand on its own.
3. **Eliminate confusion over the sharing of revenue, Section (5a) of the UCA** – this provision could be twisted into requiring a referendum for simple service sharing agreements. Section 5a should be amended to clear up this unintended confusion.
4. **Collective bargaining should not prevent, impede, or otherwise delay cooperation and consolidation** - There is full agreement that the terms and conditions of employment are bargainable in a consolidated operation. However, bargaining should not need to occur over whether consolidation can even be considered. That is a decision that must be wholly reserved for the governing body of each unit of government.

Consolidation and service sharing are key survival tools. Grand Rapids has lost over \$100 million over the last decade in revenue sharing payments. What had been a \$10 million loss per year will now be even more because of the necessary reductions and welcome realignment of revenue sharing payments.

Grand Rapids is in the process of transforming to a new form of service provider. We do five-year budgeting. We match current revenues with current expenses. We are working with our bargaining units to reduce the total cost of compensation of our workforce by 10%. Our voters have approved a temporary income tax increase to help support certain police and fire operations and to provide additional resources to give us time to transform. We remain focused on quality of life despite all of this and have succeeded in some measure so far.

The City of Grand Rapids, our partners, and local governments throughout Michigan are seeking efficiencies and ways to consolidate in order to save taxpayers' dollars. Our regional partners are among the most innovative in the nation.

Please help us enhance our ability to efficiently consolidate services at the lowest cost to the taxpayers and their communities.

We can do the work if we have the tools that fit the job ahead of us.

Thank you again for your work on this issue. The City stands ready to assist you and your staff in any way as action on this important local government reform moves forward.