

Challenges facing Michigan Local Governments

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Current Situation

- Federal funds (ARPA/CARES) has temporarily boosted local government balance sheets but only temporarily
- Structural problems remain in Michigan's local government finance system – State is the primary architect of that system
- Fixes and new tools should be put in place before the next downturn hits to improve local resiliency and stability



MI local Public Finance is a Three-Legged Stool

- Property Taxes (1)

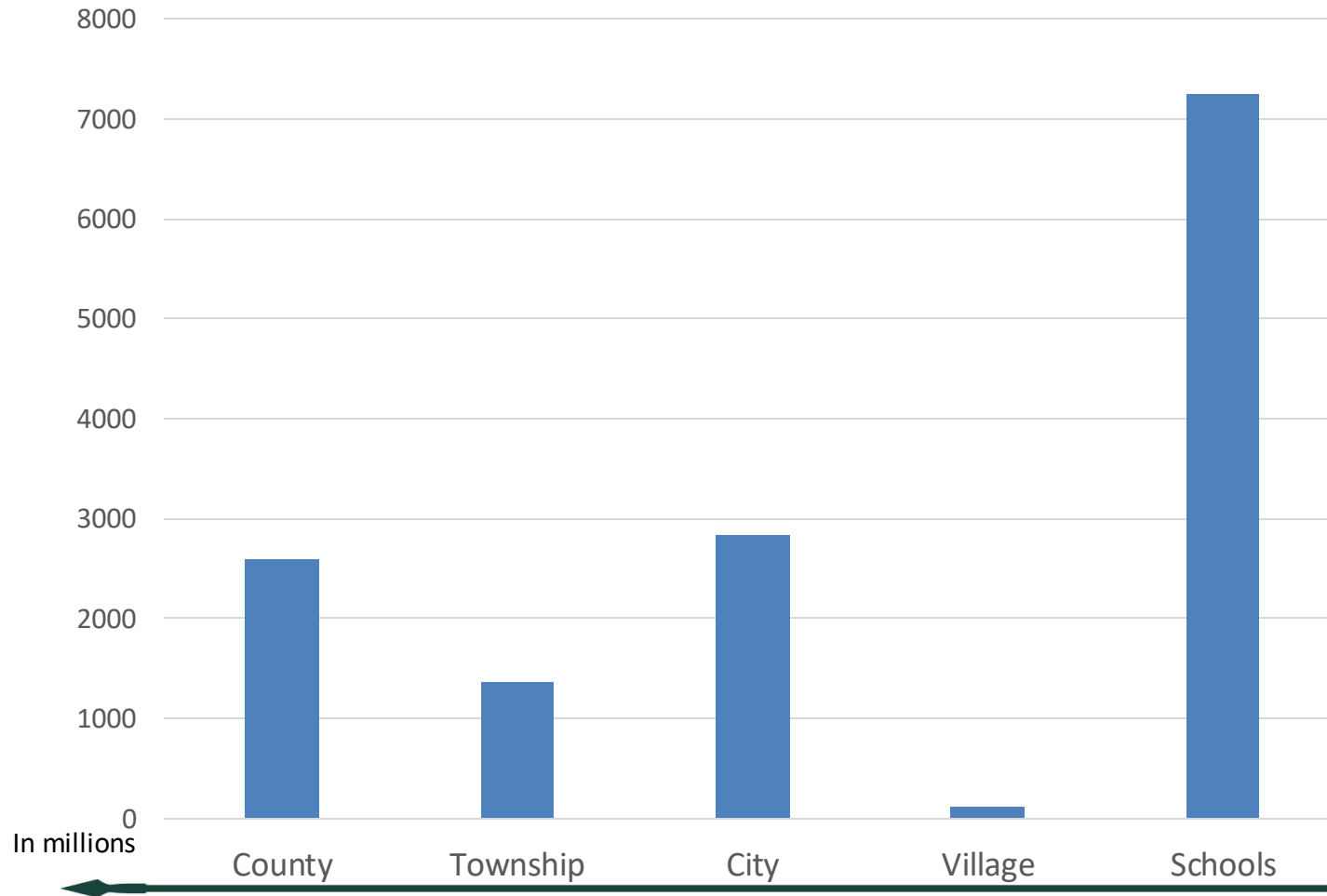
State of MI is key architect of the Stool

- State Revenue Sharing & other state revenues (2)

- User Fees (3)

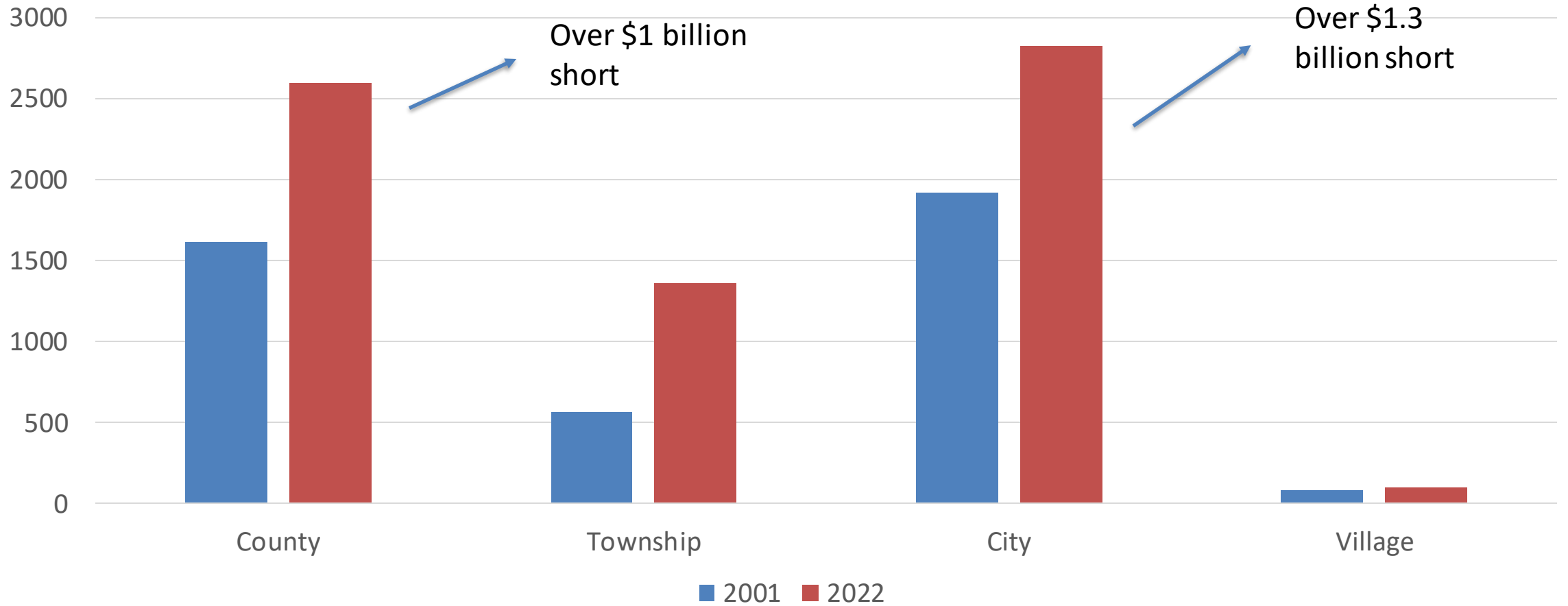


Property Taxes – one leg of the stool

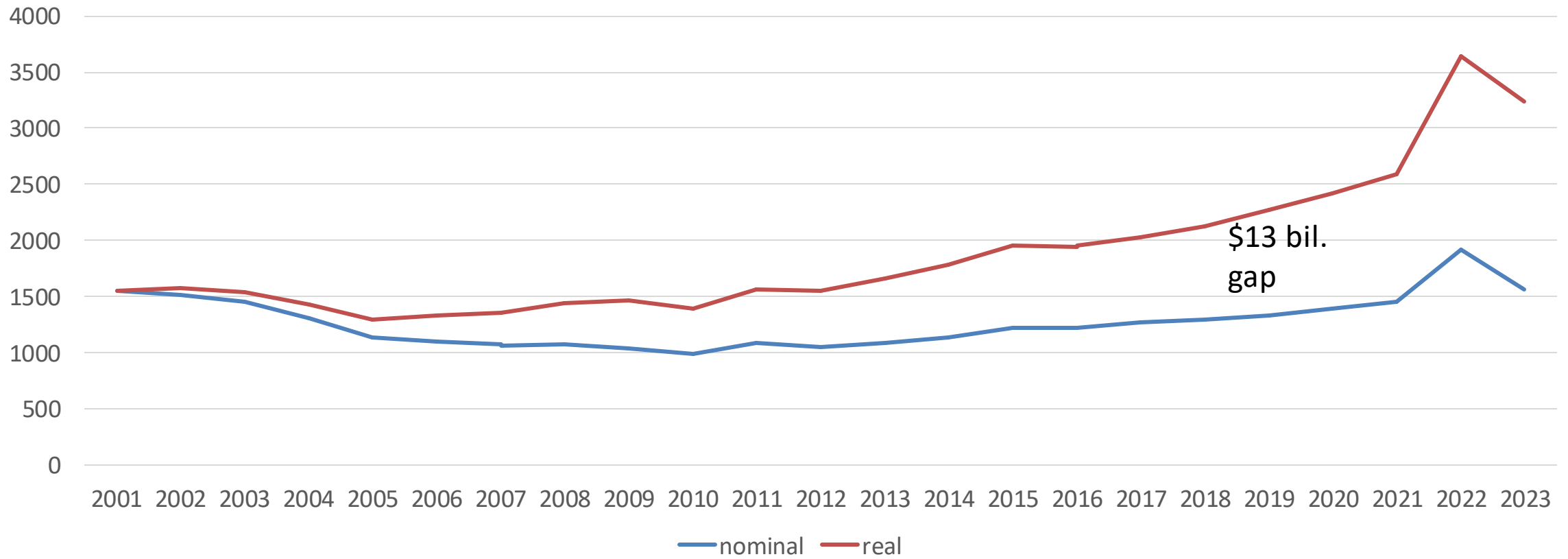


- State restricts property tax base and rate
- Michigan amongst the most restrictive in the nation
- Has a major impact on residential and business land use decisions

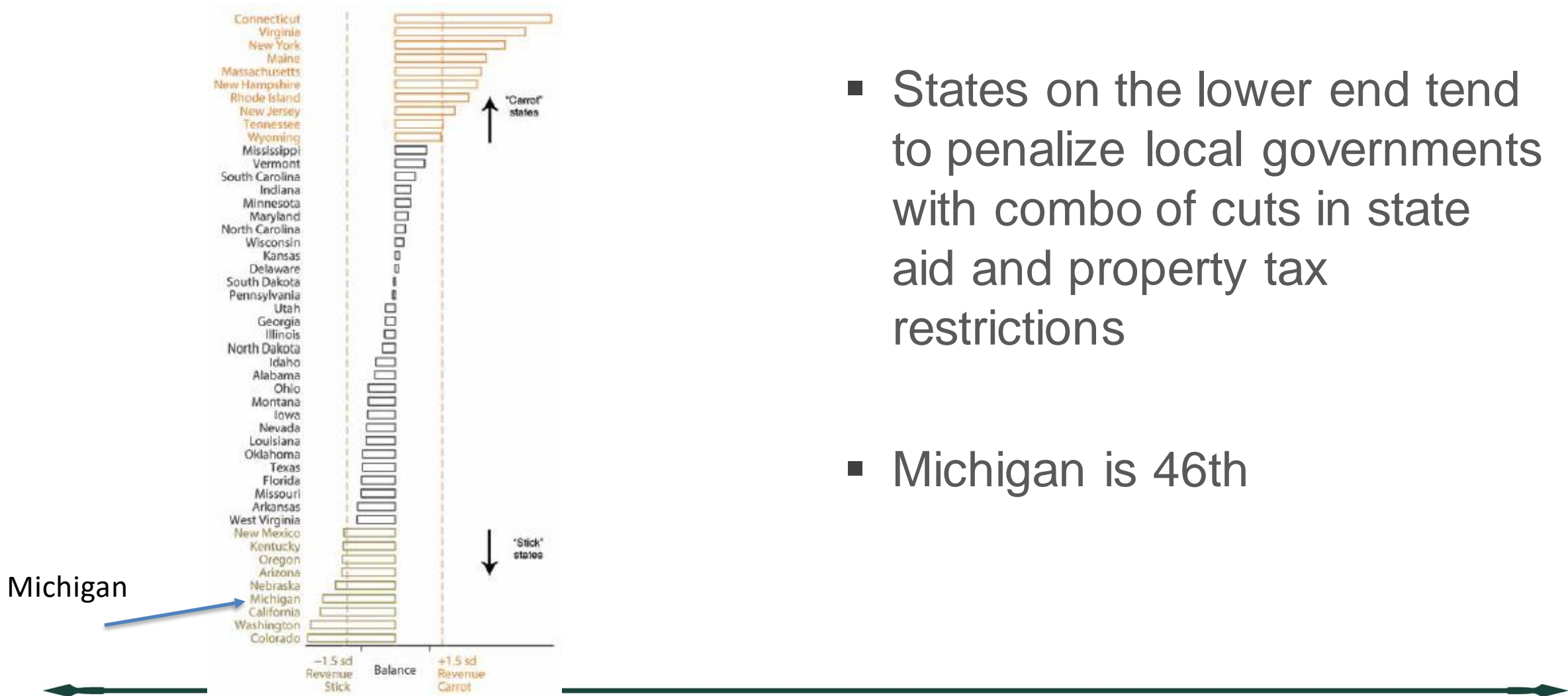
Comparing Property Taxes (2001 vs. 2022)



State Revenue Sharing (nominal vs. real): leg two

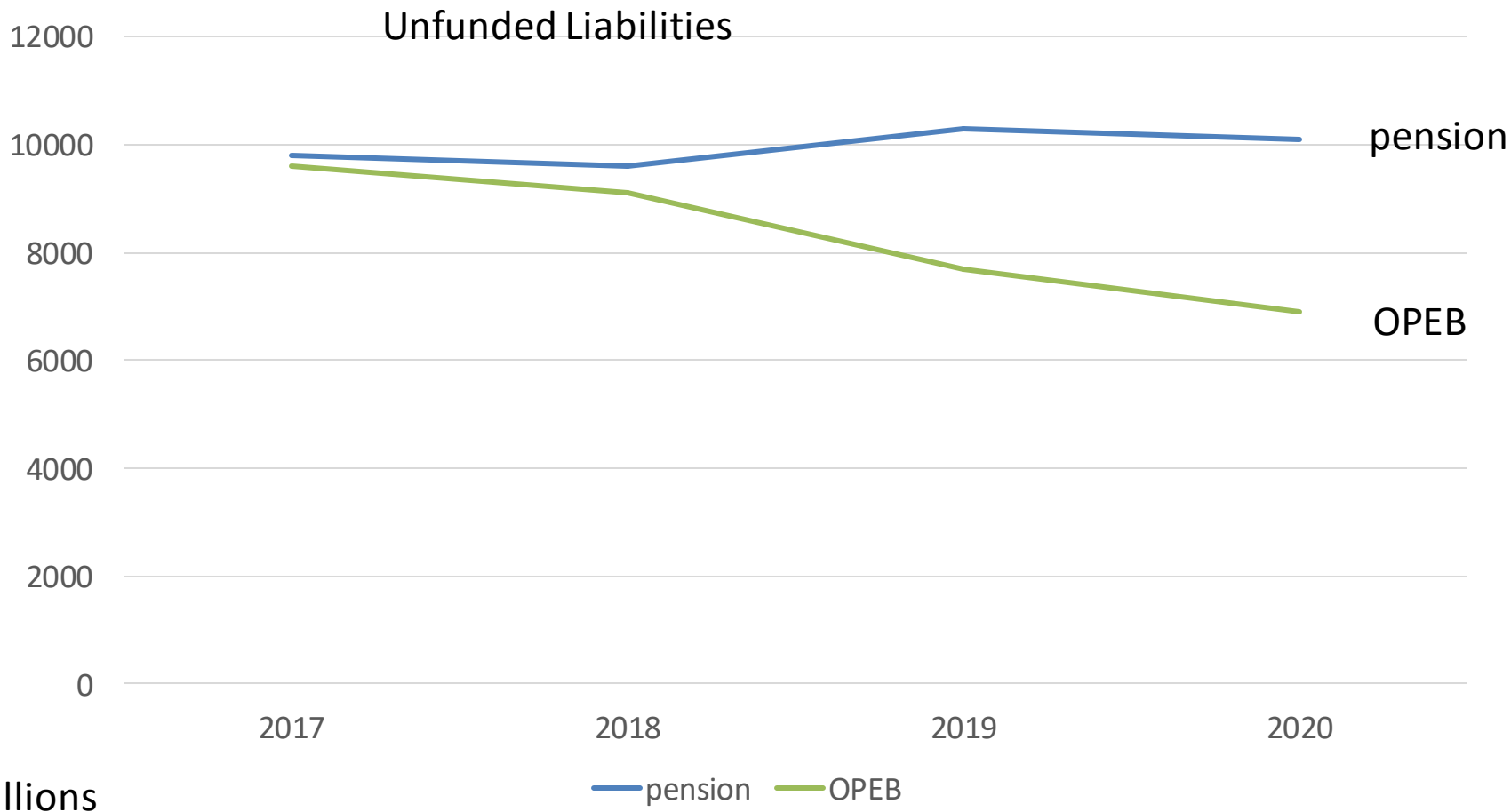


Ranking State approaches to local gov.



- States on the lower end tend to penalize local governments with combo of cuts in state aid and property tax restrictions
- Michigan is 46th

PA 202 - Legacy Costs – Pension and OPEB



- PA 202 has had more success in reducing OPEB liabilities
- State pension grant program will help many communities
- State should consider OPEB grant program

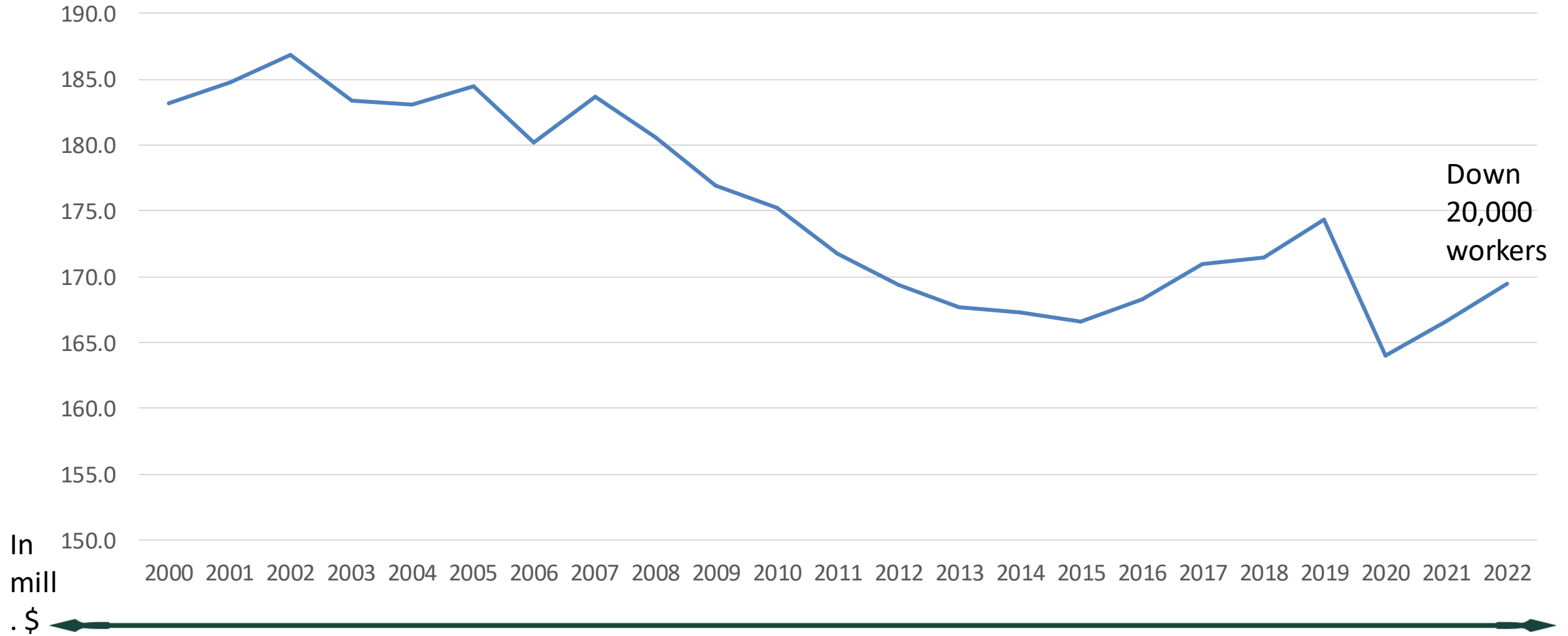
In millions \$

Bottom line

- State restrictions have curtailed local government revenue and spending with big implications
 - Reduced critical public services
 - Deferred infrastructure maintenance and lack of investment
- Not equal across communities, some places have been severely impacted whereas others can afford these state policies



Local govt. workforce (2000-2022)




Policy Options

- Statutory changes for property tax law to relieve some pressure especially for distressed communities
- Continue to push for fully restored state revenue sharing and revenues for county programs
- Need long-term plan to stabilize infrastructure funding (water and sewer) to ensure rate affordability



Local Government Pension Grant Program

- Very important program to help stabilize local finances especially for those communities most harmed by previous state policies
 - Program may come up short for some communities to reach 60% funding mark
 - \$170 million cap may be an issue
 - Consider supplemental funds to ensure target is **achieved for everyone**
 - **Program expansion to OPEB funding should be considered as well**
 - **Even a small amount of pre-funding for communities can reduce annual payments and improve budgets**
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User fees and charges - policies

- State should take action to consider policies for ongoing and long-term support for water and sewer infrastructure
- Water and sewer affordability issues are rising rapidly



Emergency Manager Law changes

- Law does not work as written – major revisions needed
 - Fails to ensure long-term stability, balances budget in short-term only
 - No need to remove local democracy
- Tools already exist (or can be strengthened) for Treasury to monitor local government finances
 - New state oversight board for DEP's
 - Craft a new stand-alone municipal bankruptcy law for extreme cases
 - Consent agreement process can be added to existing laws such as uniform budget act and municipal finance act



- Thank you
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