



December 2006

Intergovernmental Relations

Budgeting For Outcomes: The Importance of Local Government

Michigan's Goals (FY 2006 State Budget)

- ❖ Education
- ❖ The Economy
- ❖ Health and Human Services
- ❖ Hometown Security
- ❖ The Environment
- ❖ Better Government

The Importance of Local Government

(1) Provide Necessary Services

- Local government services are **fundamental** to the provision of a basic level of public good across the state.
- State's ability to protect welfare of citizens and attract business is tied to provision of Local Government Services

(2) Fiscal Stability

- The financial health of local units is crucial to the economic wellbeing of the state

The Importance of Local Government

EXAMPLES:

-The Economy-

- Local Government services are crucial part of economic growth
- Financial stress among local units may negate economic development efforts

-Health & Human Services-

- County Mental Health facilities

-Hometown Security-

- Police/Fire Service
- Courts/Jails

-Better Government-

- As the unit of government closest to citizens, local government can provide services effectively and efficiently

Local Government Fiscal Stress

The Basic Problem:



Expenditures

- Health Care
- Pensions
- Homeland Security



Revenues

- Structural limitations in property tax collection
- Decreasing intergovernmental aid

Local Government Fiscal Stress

- Fund balances are declining

Average fund balance as a % of general fund expenditures

	2003	2004
Municipal	26%	22%
County	12.5%	12%

- One Measure of Financial distress increasing

Units with less than 10% fund equity (*fund balance/total expenditures*)

	2003	2004
Municipal	27%	32%
County	53%	60%

Intergovernmental Relations

- **State Government – Local Government (Vertical)**
 - Counties act as “arms of the state” administering programs
 - Cities/Townships/Villages provide public safety/transportation and other services to urban/rural population
- **Local Government – Local Government (Horizontal)**
 - Sharing and cooperation to provide essential public services
 - State law/policy sets the stage for local government cooperation

Vertical Relations: Expenditures

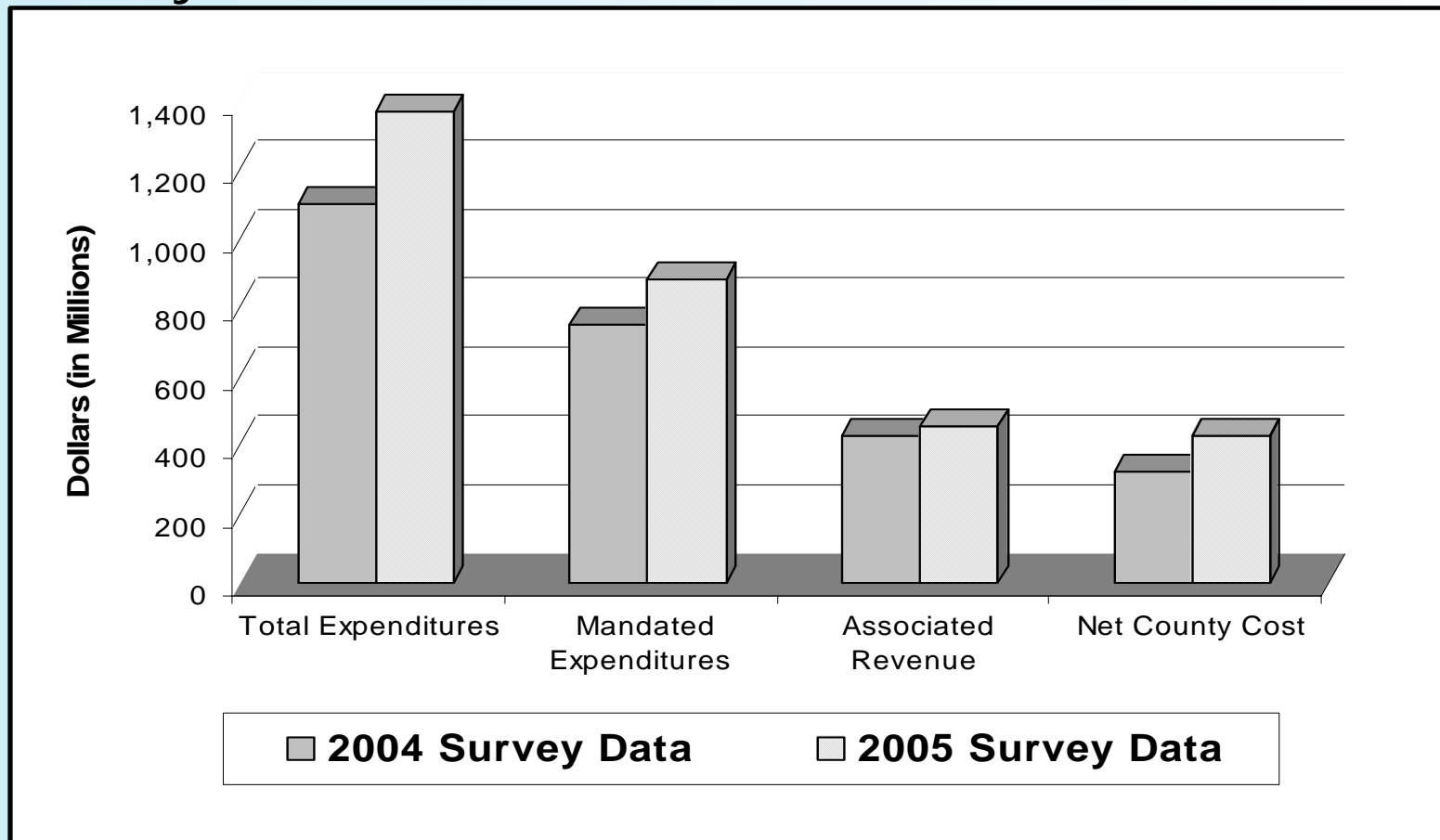
- State mandates certain functions must be done by local governments (especially counties)
 - Sheriff, Prosecutor, Clerk, Treasurer, Public Health, Courts, Jail

County Government and Mandated Expenditures

Functional Unit	Mandated Expenditure	Revenue Offset	Share of all Mandated Expenditures
General Government	95.65	56.21	35.45
Public Safety	82.79	20.14	21.28
Public Works	54.75	98.05	0.94
Health and Welfare	88.16	77.65	42.06
Other	10.95	597.82	0.27
TOTAL	87.21	59.42	100.00

Vertical Relations: Expenditures

County Government and Total Mandated Costs



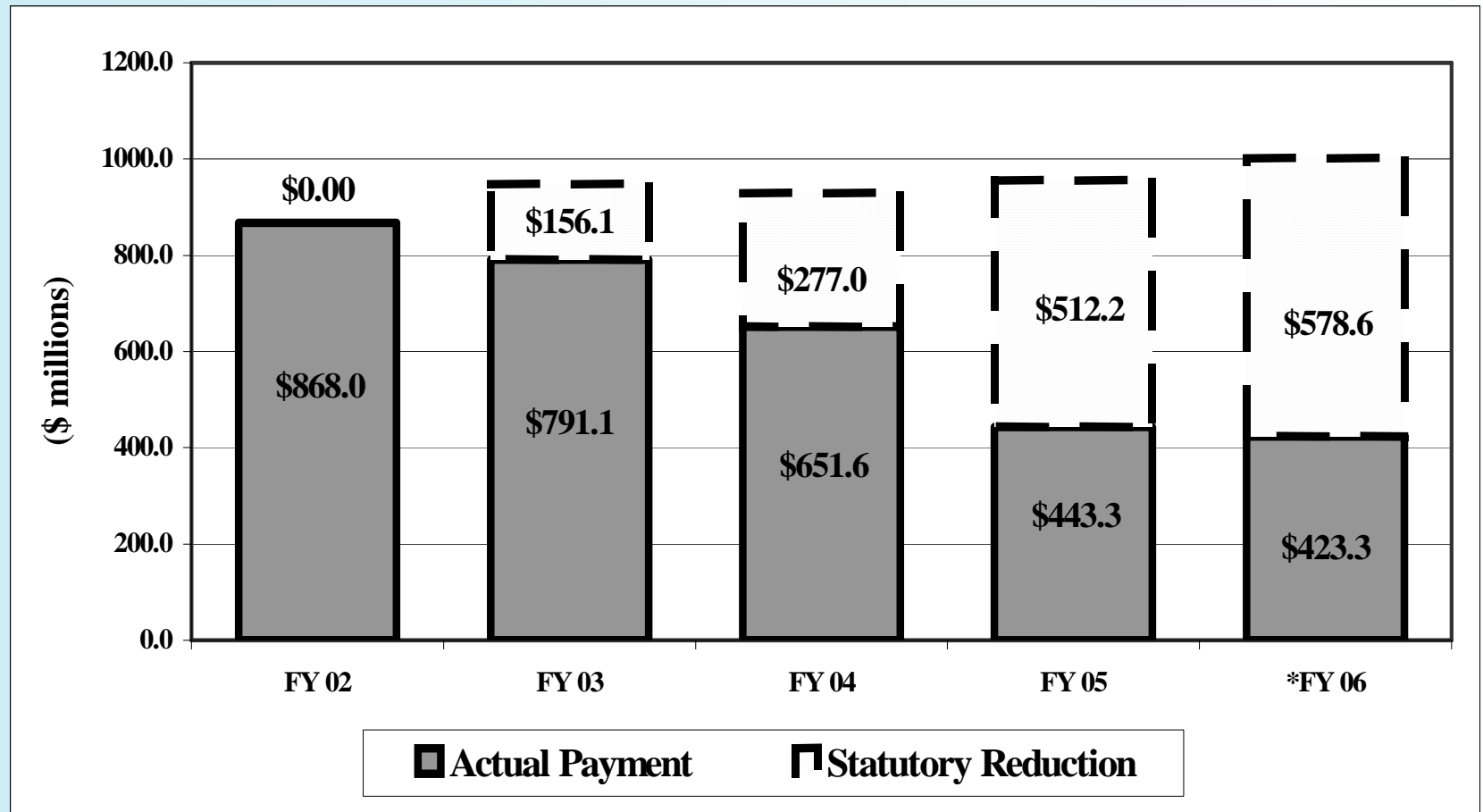
Vertical Relations: Revenues and Taxes

- **State law guides and prohibits local taxing power**
 - Headlee Amendment and Proposal A place significant restrictions on property tax revenue
 - Property tax revenue generally growing at 2% on average
 - Local tax options highly restricted

Vertical Relations: Revenues and Taxes

- State Revenue Sharing
 - State collects taxes and redistributes to local governments; in exchange local governments levy lower local taxes
 - Constitutional: \$600 million; Statutory: \$423 million
 - Cuts to state revenue sharing account for 33% of total state budget reductions (FY 01-06)
- City/Village/Township revenue sharing started in 1933
- County Revenue Sharing started in 1963

Vertical Relations: State Revenue Sharing



Horizontal Relations: Intergovernmental Cooperation

- What do local governments cooperate on?
- PA 321 of 2000: Two or more municipalities may establish recreational authority
- Act 138 of 1917: County or regional library may enter into agreement with other local governments to provide service
- PA 236 of 1967: allows local govt. to agree to work together on mutual police assistance
- PA 57 of 1988 Emergency Services Authority
- Urban Cooperation Act (PA 7 of 1967)
- A total of more than 60 state laws dealing with local intergovernmental cooperation

Horizontal Relations: Intergovernmental Cooperation

- So, what is the problem?
 - One, intergovernmental cooperation entails significant startup and transition costs
 - Financial incentives for new cooperative ventures
 - Two, state law is a problem in some areas
 - “hold harmless” provision for employees
 - Relaxation of certain state regulations and mandates

Horizontal Relations: Intergovernmental Cooperation

- Why should the state be interested?
 - One, local governments provide essential services that are relied on by state government
 - Two, lower cost, efficient local governments can help boost state economic development efforts

Governor's Task Force On Local Government Services and Fiscal Stability

GOAL:

**Make recommendations
regarding State level policy
that will help foster local
government stability and
efficient service provision**

Task Force: Objectives

- ❖ Examine existing sources of revenue for local government
- ❖ Review services provided by local governments including mandated and non-mandated services
- ❖ Identify state laws, policies and regulations and formulas that contribute to fiscal constraints on local governments
- ❖ Identify policies that reduce incentives for intergovernmental cooperation
- ❖ Discuss policy changes that would allow local governments to better provide services, spur economic development and develop better relations between state and local government

Task Force: Organization

- Executive Order 2005-9
- 15 members representing cities, counties, and townships, and State Treasurer and State Budget Director
- Organized and directed by the Michigan Department of Treasury
- Staffed by Michigan State University Extension State and Local Government Program

Task Force: Organization

MSU Staff

Eric Scorsone

Joe Martin

Lena Stevens

Melissa Gibson

Lynn Harvey

Leslie Barner

Governors Task Force on
Local Government Services
and Fiscal Stability

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graph TD; A[Governors Task Force on Local Government Services and Fiscal Stability] --> B[Revenue and Fiscal Constraint]; A --> C[Local Service Delivery and Expenditures]; A --> D[Intergovernmental Cooperation];
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Revenue and
Fiscal Constraint

Local Service
Delivery and
Expenditures

Intergovernmental
Cooperation

Task Force: Members

Name	Unit Represented	Position
Karl S. Tomion	City of Midland	City Manager
Rillastine R. Wilkins	City of Muskegon Heights	Mayor
Gerald W. Ambrose	Ingham County	County Controller
Patricia J. Pikka	Wakefield Township	Township Clerk
Larry T. Rutledge	LaSalle Township	Supervisor
Tom L Hickner	Bay County	County Executive
Ruth Ann Jamnick	Charter Township of Ypsilanti	Supervisor
David M. Diegal	Macomb County	Finance Director
Alex R. Allie	City of Huntington Woods	City Manager
Sean K. Werdlow	City of Detroit	Former Chief Financial Officer
Scott D. Buhner	City of Grand Rapids	Asst. City Manager for Fiscal Services
David M. Hieber	Oakland County	Manger of Equalizations
Donald H. Gilmer	Kalamazoo County	County Administrator
Timothy J. Braun	Charter Township of Saginaw	Township Supervisor

Principles for Recommendations

- Revenues Must be Adequate to Support and Sustain Essential Services
- Equate Local Government Financial Responsibility with Local Control
- Financial Flexibility is Crucial to Local Government Operations
- Communication and Coordination Should be Fostered Among State and Local Government

Policy Recommendations

- Allow local governments to levy new local option taxes or begin to restore statutory revenue sharing
- Avoid the imposition of further mandated expenditures on local government w/o reimbursement
- Create incentives and remove barriers to intergovernmental cooperation among local entities

Intergovernmental Cooperation Policy Conference

May 17th-18th, 2007

Kellogg Center @ MSU

Goal: Produce a policy document on needed
changes to intergovernmental law to facilitate
local government cooperation

Contact information

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