AGENDA
Committee of the Whole
Monday, June 13, 2016 – 5:30 p.m.
City Council Chambers, City Hall 10th Floor

Councilmember Judi Brown Clarke, Chair
Councilmember Jessica Yorko, Vice Chair

1. **Call to Order**

2. **Roll Call**

3. **Approval of Minutes:**
   - May 9, 2016
   - May 23, 2016

4. **Public Comment on Agenda Items**

5. **Presentation:**
   - Capital Area Library Annual Report

6. **Discussion/Action:**
   - Michigan Municipal League (MML) and Great Lakes Economic Consulting (GLEC) Report

7. **Place on File**
   - Communications from the Michigan Liquor Control Commission regarding Peace of Mind Elite Club, LLC.

8. **Other**
   - {CLOSED SESSION} Active Litigation Update

9. **Adjourn**

<u>The City of Lansing's Mission is to ensure quality of life by:</u>

I. Promoting a vibrant, safe, healthy and inclusive community that provides opportunity for personal and economic growth for residents, businesses and visitors
II. Securing short and long term financial stability through prudent management of city resources.
III. Providing reliable, efficient and quality services that are responsive to the needs of residents and businesses.
IV. Adopting sustainable practices that protect and enhance our cultural, natural and historical resources.
V. Facilitating regional collaboration and connecting communities

MINUTES
Committee of the Whole
Monday, May 9, 2016 @ 5:30 p.m.
Council Chambers

CALL TO ORDER
The meeting was called to order at 5:30 p.m.

PRESENT
Councilmember Brown Clarke
Councilmember Jessica Yorko- arrived at 5:32 p.m.
Councilmember Patricia Spitzley
Councilmember Adam Hussain
Councilmember Kathie Dunbar
Councilmember Carol Wood
Councilmember Jody Washington
Councilmember Tina Houghton

OTHERS PRESENT
Sherrie Boak, Council Staff
Joseph Abood, Interim City Attorney
Angie Bennett, Finance Director- arrived at 5:42 p.m.
Jim DeLine, Council Internal Auditor
Randy Hannan, Mayor's Executive Assistant – arrived at 5:37 p.m.
Elaine Womboldt
Mary Ann Prince
Stan Shuck
Dennis Parker, UAW
Carolyn Condell
Steven Liedd
Gary Gordon, Dykema Gossett
Tom Edmiston
Deb Parrish
Eric Lacy
Todd Heywood
Art Hasbrook
Lori MacCallister, Dykema Gossett

MINUTES
MOTION BY COUNCIL MEMBER WOOD TO APPROVE THE MINUTES FROM APRIL 13, 2016 AS PRESENTED. MOTION CARRIED 8-0.

MOTION BY COUNCIL MEMBER WOOD TO APPROVE THE MINUTES FROM APRIL 18, 2016 AS PRESENTED. MOTION CARRIED 8-0.

MOTION BY COUNCIL MEMBER WOOD TO APPROVE THE MINUTES FROM APRIL 20, 2016 AS PRESENTED. MOTION CARRIED 8-0.

MOTION BY COUNCIL MEMBER WOOD TO APPROVE THE MINUTES FROM APRIL 25, 2016 AS PRESENTED. MOTION CARRIED 8-0.

Public Comment
Ms. Womboldt spoke about her continued concern with the separation agreement with Ms. McIntyre and encouraged Council to hire an independent Counsel to investigate where the tax dollars were spent.

Ms. Hasbrook referenced and earlier email he stated he sent to Council offering his services in internet safety so that what happened with LBWL lately would not affect the City. He encouraged Council to incorporate it into the budget. Mr. Hasbrook also offered suggestions for sidewalks.

Ms. Prince spoke in support of the UAW and in opposition to the elimination of employees.

Budget- Wrap Up
Mr. DeLine referenced his memo on remaining budget questions to Ms. Bennett on May 2, 2016 and the responses in the packet dated May 6, 2016. Mr. DeLine pointed out that as of the meeting there were no answers to the pending items Ms. Bennett stated would be answered May 9, 2016.

Ms. Bennett was not present so Council President Brown Clarke moved onto item C. – Reappointments.

RESOLUTION – Reappointments of 13 Individuals to Various Boards, Commissions and Authorities
MOTION BY COUNCIL MEMBER WOOD TO APPROVE THE RESOLUTION FOR THE REAPPOINTMENTS OF 13 INDIVIDUALS TO VARIOUS BOARDS, COMMISSIONS AND AUTHORITIES. MOTION CARRIED 8-0.

DISCUSSION ON CITY ATTORNEY ISSUES – DYKEMA GOSSETT
Mr. Gordon introduced himself and Lori MacCallister his ethics expert. Mr. Gordon then went into a brief overview of his job experience and apologized for not making the previous scheduled meeting date if May 2, 2016. Mr. Gordon informed the Council he was available to answer questions however his involvement was late in the process. He also noted that some topics might be covered under attorney/client privilege. Mr. Gordon went on to confirm the Dykema/Gossett was on the approved outside counsel list, and obtained by the City for this item with an engagement letter from the Mayor on January 13, 2016. Mr. Gordon assured Council that Dykema has represented the City in this matter and do not represent the Mayor as individual. The client is the City, and they only represent the Mayor in his role as Mayor. Council President Brown Clarke asked Mr. Gordon to operationalize “City”. Mr. Gordon stated that Dykema Gossett and the Mayor are privilege on administrative matters according to ethics and case law. The privileged on legislative matters is the Council. Mr. Gordon stated they

represent the City as an entity and protection goes to the City of the whole. The negotiations, technicalities and release were done to protect the City as a whole, and the Council as the City is client.

Council Member Dunbar stepped away from the meeting at 5:46 p.m.

Mr. Gordon continued by addressing a question he had heard about his time not noted on the invoices. Mr. Gordon confirmed he did not work for the file covered by the invoice in question. Mr. Gordon started on the case February 22, 2016, and the whole reason he got involved was because the original partner on the case resigned from the firm. By the time Mr. Gordon got involved in the matter the parties had already agreed on the fact of the resignation, and agreed on the sum, therefore he had no involvement in negotiating that, had no background on their agreement and no discussion with parties on that. Mr. Gordon confirmed he was brought in for the technical aspects of the release. Council President Brown Clarke asked if on February 22, 2016 the parties had already taken a position on the agreement and so he only looked at it for form, and if Dykema Gossett was used to negotiate the settlement or was it negotiated outside. Mr. Gordon confirmed Dykema was involved in the negotiations however as for the settlement numbers he could not answer.

Council Member Dunbar returned to the meeting at 5:48 p.m.

Mr. Gordon continued by stating that his review was for the technical details, and Dykema was actively involved in the drafting of the document. Mr. Gordon did state on a side note that there has been statements made by the media of his refusal to respond to the media, and as a matter of ethics his office cannot address with the media anything that will develop into privilege, therefore that is why he is not responding.

Council President Brown Clarke restated what Mr. Gordon stated earlier that as it relates, the administration is Mayor and the legislative is Council, so can Council waive the legislative part of the negotiation. Mr. Gordon answered stating there was nothing legislative, it was all administrative. He noted he understood that Council wants to waive the privilege, but in this case since it is administrative in nature, it would be the Mayor's office to determine if the privilege should be waived, and he is bound by that. Mr. Gordon then opened himself to answer questions and apologized in advance if he could not answer a question due to ethics and privilege.

Council Member Wood distributed a timeline she had created based on information that was provided to the media via a FOIA request. This lead to a request for further clarification, and Council Member Wood stared with a reference to an invoice. Mr. Gordon confirmed that KYM on the invoice that Council had a copy of was the individual that he spoke about earlier that had resigned from the firm. Council Member Wood referenced the invoice again noting that it stated on 1/7/2016 KYM did work, however Mr. Gordon stated earlier they did not start until 2/21/2016. Mr. Gordon stated a letter from the Mayor dated 1/13/2016. He stated that there could have been a lag in the paperwork that he could not explain. Many times a file is started if there is an existing client. Council Member Wood then referenced Mr. Gordon's earlier statement about the date he started on the item (2/22/2016) at which point he stated the draft separation agreement and sum were already agreed upon. Mr. Gordon agreed to that statement. Council Member Wood then referenced an interview on February 23, 2016 on the Dave Ackerly show when the Mayor stated "the City Attorney McIntyre was on leave for personal matters and President Brown Clarke was blowing up something that she didn't know anything about." Based on the time lines the Mayor already knew. Mr. Gordon clarified that the settlement negotiations some are ongoing and until signatures are on the line a lot could happen. Council Member Wood agreed however added that it did not negate the Mayor to lead people to believe that Ms. McIntyre was on leave. Mr. Gordon again stated there was no settlement agreement on February 22, 2016 but at any time things can blow up, even if they agree on a couple of terms in a settlement agreement and move forward, it is not at all uncommon for the negotiations to break down and people to walk away. Until the document is signed there is no settlement, until parties have put their names and their counsel names on the agreement nothing binding. Council Member Wood then referenced another interview the Mayor gave where he stated “the City Attorney is not just my employee but also their employee” referring to Council. Therefore the question would be how the Mayor can enter into an agreement without Council knowing. Mr. Gordon stated that the Mayor is Chief Administrative Officer of the City and the employee was a Director. Mr. Gordon noted that any other issues should be referred to the Interim City Attorney. Council Member Wood asked Mr. Gordon if he was aware that the City Council has to confirm the City Attorney position. Mr. Gordon admitted he was not aware of that. Council Member Wood then asked if that would change any of his answers, and Mr. Gordon stated it would not.

Council President Brown Clarke asked Mr. Gordon if it is the understanding that the separation agreement was solely created by Dykema Gossett. Mr. Gordon confirmed that often the parties advise the lawyers of conditions, as far as they are aware the only law firm that represented the City in this matter was Dykema Gossett. Council President Brown Clarke then asked if Council should anticipate more billings from the separation agreement, and Mr. Gordon confirmed an invoice was delivered on this date, however he did not have a copy with him. Mr. Gordon estimated it at $11,000, and he did confirm he was not billing for his or Ms. MacCallister attendance at this meeting. Council President Brown Clarke asked Mr. Gordon if Dykema negotiated or did work on the agreement, and Mr. Gordon confirmed they represented the City and no one else worked on it for the City. Council Member Wood asked who ASW on the invoice represented for working on drafting the separation agreement. Mr. Gordon confirmed it was a young associate that did research, but had nothing to do with the negotiation of the agreement and did not draft the agreement. Council Member Wood then asked for clarification on who drafted the agreement. Mr. Gordon stated it was collaboration with himself and the attorney representing the other party, but to say who the “father” of the agreement was, there was probably several involved. Mr. Gordon did admit there were previous drafts before his involvement, and his assumption is that there were collaborative drafts with Dykema’s representative and the other party attorney. Council Member Wood asked an additional question to Mr. Gordon to determine how much of the separation agreement was from the original that started on January 7th , and Mr. Gordon stated he had no answer because there were numerous drafts, and counter drafts. Council President Brown Clarke asked Mr. Gordon to confirm when he started on the separation agreement it was already draft, and if so who worked on it. Mr. Gordon noted KYM worked on the original, and that would be K. Ford and she was the lead, and ASW was only doing the research. So prior to handing it off K. Ford was drafting it within Dykema.

Council Member Wood asked Mr. Gordon who wrote the March 4th , 2016 press release from the Mayor, and Mr. Gordon confirmed he was not involved. Council Member Wood then asked, other than signing of the agreement on February 26, 2016, has Dykema done any other work. Mr. Gordon stated they had prepared a memorandum for Mr. Abood as it relates to the aspects of the agreement, and he would have to look at the detail billing to verify if anything else was done.

Council President Brown Clarke asked Mr. Gordon if during his involvement in the negotiation final did he see Ms. McIntyre’s 2015 contract extension. Mr. Gordon stated he had not, and they would have arrived at the compensation and amount of benefits prior and then provided that info to him by the City. The details of the release of the rest of the separation agreement, stand alone and independent of the employment contract, and he added the operation language of the employee he would not have. Council Preside Brown Clarke asked if Dykema had negotiated a separation contract, how could they not have looked at the employment contract to make the recommendation for the separation agreement. Mr. Gordon stated the document is a separation agreement and release, the employment contract ceased when the resignation was agreed to. Any numbers in the executive compensation document and leave were computations done by the City not by Dykema. Council President Brown Clarke asked if Dykema had an interest in looking at the employee agreement, or no interest because they were only looking at separation. Mr. Gordon agreed that at that point in time, if an employment contract has pay, compensation, executive decisions so by that time that is resolved not relevant. Mr. Gordon now admitted he may have seen it, and if ask if it was signed he could not recall, nor did he recall specifically referring to an employment contract nor draft the terms. Again he stated he may have seen it but could not recall.

Council Member Wood read the Mayor's March 4th press release to Mr. Gordon and asked Mr. Gordon if in his opinion it could lead someone to believe the parties had entered into a separation agreement, but Mr. Gordon could not respond to that.

Council Member Yorko asked if there are any conditions that would invalidate the separation agreement considering the clause of any party discussing it in the agreement. Mr. Gordon would be if the City did not pay her that would invalidate the agreement. The object of an agreement is not to look for a way to invalidate, but to enforce. Another example Mr. Gordon gave would be if either party were to sue, that would be invalidate the agreement. Council Member Yorko asked if, based on recent discussions from Council on hiring other legal counsel for further investigation to reveal what lead to the separation, would that pose a threat to the protections built in for the City. Mr. Gordon admitted he had not thought thru that, but was hesitant to answer without looking at the agreement itself. He continued again stating his hesitation but it could be a liability.

Council Member Spitzley referenced paragraph 14 in the agreement that addressing either party and subject to disparages. The question was asked if there was anything that says parties can speak in a non-disparaging way. Mr. Gordon stated only if the privilege was waived. Council Member Spitzley asked Mr. Gordon to explain the difference between the employment contract and the separation agreement and why they don't have to have a contract to enter into the agreement. Mr. Gordon was able to clarify that employment contracts cover terms and conditions of existing employment, and they sometimes have severance. Therefore he clarified earlier answers that he must have looked at the employment contract to reach his conclusions. Those provisions go towards what goes to the amounts between the parties, and that was already agreed when he got involved. Once both parties agree that the employment contract will cease to exist, to a certain point in time, then the severance agreement takes over. Once the separation is complete and the resignation is accepted then it is contained in the separation agreement. Mr. Gordon admitted it is typical to have an infinite number of separations, and with a volunteer resignation it is usually recommended to have a non-disparagement clause. Most other provisions are standard. If Council were to look at it as a whole and compare to other separation agreements and releases, most have terms similar but details will vary. Council President Brown Clarke asked Mr. Gordon again, based on his recent answers, if his recollection now is that there was a possibility he did see the 2015 contract extension, ensuring the employment status. Mr. Gordon admitted he probably did but could not specifically recall.

Council Member Dunbar asked how common a release of claims is in a separation agreement and does there have to be a claim to ask for release. Mr. Gordon stated a release of claim is always in a separation agreement.

Council Member Washington asked Mr. Gordon if these types of separation agreements typically benefit the employer or employee, and Mr. Gordon confirmed it is mutual, and the release of claims is worth something, and always an element, and always had compensation tied to it, but hopefully both parties have a benefit.

Council Member Wood referred to an interview done by the Mayor with the Editorial Board where the Mayor stated there were many more separation agreements that the media were not aware of, and so she asked if Dykema had written any other agreements. Mr. Gordon clarified that the agreement in this discussion is the only one he represented, and he could not speak for the firm. Council Member Wood asked Mr. Gordon to check with his firm, and provide a list, and if they can't release anything, at least provide a number. Council Member Wood asked if Dykema was involved in the separation agreement for Peter Lark, and Mr. Gordon stated no they were not.

Council President Brown Clarke stated to the rest of the Committee that she was hesitant on what the next steps are, and if they secure outside counsel, where those funds would come from, but Council does need to go thru due diligence. Therefore she then posed the question to Council if there would be a vote on a resolution for outside counsel, and to invest more money into this. Council President Brown Clarke then presented details on funds available since the Internal Auditor is currently part time contracted at 32 hours a week. This would allow for unallocated dollars and dollars unspent. Council President Brown Clarke then proposed that Council look at outside counsel, and places a cap on the spending and what that person can look at. Council Member Spitzley asked what the process would be for seeking outside counsel, and Mr. Abood answered that if there are legal matters the City needs managed legally it will go thru the City Attorney office, and if they can't answer it then they can seek outside counsel. Questions can be brought to the City Attorney's office and if they determine there is a conflict, and secondly he noted this is not the same situation as when the Mayor assigned approved counsel to represent the city. That was when the active City Attorney was involved and that is not the case now. Council President Brown Clarke noted it is still a conflict. Mr. Abood encouraged questions from Council to be submitted and confirmed they had not received any questions yet. Council President Brown Clarke reminded Mr. Abood that Council has asked for clarification before and he has always stated he cannot answer. Mr. Abood agreed but stated those questions before had been items they wanted to be looked at about the outside counsel. Mr. Abood again stated that in regards to the former City Attorney, his office has been recused. If there are other questions, he stated that his office has a history of legal opinions that can be reviewed for determination. Council Member Washington noted that procedurally Council would go to Law, then Law would advise Council if it was a conflict and then Council would seek outside counsel. Recently Mr. Abood has repeatedly come to say it is a conflict. Council Member Yorko stated that it appeared that legal questions were not presented to Mr. Abood, so Mr. Abood needs to clarify the nuance of legal questions and other questions. Mr. Abood stated it is difficult to indicate because some are political and some are fact. Legal questions are things law does, and can look at and if they are conflicted to a question they can recuse themselves on a lot of legal principals. In regards to specific to this situation, if a legal questions regarding Ms. Janene McIntyre specifically and Law is at conflict that would lead to special counsel request. Council Member Washington pointed out that during most cases Council does not know what questions they will have until they confer with Council's counsel and many times Council's counsel will lead to them to ask the right questions. She continued by adding that since this situation involves the former City Attorney, it is not appropriate to provide a list of questions for his office to determine. Council needs to be lead in the right direction. Mr. Abood again stated his belief that he will not know if there is a conflict unless he knows the question. Council Member Washington reminded Mr. Abood that Council might not know what questions to ask and that is why counsel assists. Council Member Spitzley added to the conversation that Council does not have the expertise to know which questions are appropriate, do how do they get to the point where we write the questions, does Council sit with the City Attorney and discuss generalities. Mr. Abood compared it to other issues, where Law always get tasks from Council all the time, and it would be treated the same way. The City Attorney office will do research, get answers and look to outside counsel to assist if needed. If it is technical or if there is a conflict there is a process and Law routinely follows it.

Council Member Wood noted the question that needs to be investigated is why, how did they go into a separation agreement. The second question to that would be in what way can Council make a policy so they don't fall into this situation again. This will involve how Council got to this point with this one, so they know how to move forward. This was addressed in the past when there was a situation and Council hired an investigator and then there were 3-4 items to look at. Mr. Abood spoke to the investigation and a way to take a policy, however those are not legal questions. Investigations are fact based and political, the City Attorney does legal and not investigations. Council Member Wood reminded everyone that Council hired an attorney before when they addressed the executive management plan, at which point that person looked at it and made recommendations. That came with outside help and Law recused themselves for that, so maybe Council should look into hiring an investigator instead of outside counsel. Mr. Abood stated in that example, the City Attorney had a conflict so they suggested outside counsel. Mr. Abood again stated he was happy to take questions, review and if there is a conflict he will make the appropriate recommendation.

Council Member Dunbar agreed with having questions in mind, however also agreed that sometimes Council does not know the questions and the City Attorney will give the questions based on a potential outcome. So the question is what is the outcome that Council is looking for and what are they hoping to find. Also, what can someone learn that Council doesn't already know. In the example given for a past situation, it was a Council employee, but that was not outside of Council staff. Council Member Dunbar appreciated the suggestion other than outside counsel because outside counsel will not investigate. Currently Council has a 2005 Law opinion that states the Charter does not give Council the authority to hire outside counsel. We need to figure out the end result. Council President Brown Clarke added that the Council needs to question the amount that was given out because it was tax payer dollars. Council Member Dunbar answered that Council already knows how much was paid so there is no question.

Council Member Hussain acknowledged Mr. Gordon was bound by attorney client privilege, however this is the 3rd meeting where Council has heard no results, and management has signed into a separation agreement with a gag order and worked hard to keep Council in the dark for months, therefore there is still not much clarity. Council Member Hussain then asked the question if it is it time to look at an outside investigation. The residents deserve to know why the tax payer's money was spent. Council Member Washington also acknowledged residents commenting to her to continue to pursue the situation for answers.

Council Member Wood stated that in her example from the past investigator it was a recommendation from Jim Smerka, however she could not recall the cost. Council Member Yorko asked her to explain the process. Council Member Wood outlined the process which included interviewing employees, Council Members, looking back thru files and information then making recommendations to Council. Council Member Yorko asked for more information about the process regarding an investigator. She also stated her frustration with the Charter Amendment last year that protected the City in paying out multi-year contracts, because that was supposed to be in the right direction. Council needs more checks and balances in general. Council has responsibility to act swiftly and create a better system. Council Member Houghton acknowledged her agreement with Council Member Yorko and it would not be the last time Council is faced with this situation until they set perimeters around the separation. She did add that she too has heard questions from her constituents, however wants to spend the funds on setting a policy change, not putting funds into an investigator or legal counsel. Council Member Wood pointed out to the Committee that the recent charter amendment is not applicable to this separation agreement. Council needs to have something under severance and needs to have all the information so they can write the policy to address it correctly.

Council Member Washington stepped away from the meeting at 7:00 p.m.

Council Member Spitzley' opinion was that the citizens do have the right to know where tax dollars are being spent, and she herself is frustrated with the process. Her example given outlined it that if Council decides to pursue outside counsel, they have to go to the City Attorney who in turn will the go to the Mayor, who will then say no outside counsel, so Council would be going in circles. Council just needs to make sure this does not happen again.

Council Member Washington returned to the meeting at 7:02 p.m.

Council Member Spitzley stated the Council has no other options than to work forcefully with Mr. Abood to get the questions answered and make a policy change is where the best efforts will be spend.

Council President Brown Clarke asked Mr. Abood if he had any roll or was in the room during discussions or negotiations for any aspects of the Janene McIntyre separation agreement here at City Hall or any other law firm. Mr. Abood stated he had already answered the question four (4) times, took offense to being asked the question but did state that he had no involvement with the separation agreement with the prior employee and the Mayor, was not in a room, and has recused his office from this. Mr. Abood moved onto the topic of hiring an outside attorney and if Council did it would be in method acting outside their authority. Council President Brown Clarke stated she was trying to proactive in a new policy and has not put anything forward yet on hiring outside counsel but they need to find out how the money was spent. Council Member Dunbar confirmed her agreement with statements by Council Member Spitzley and not hiring outside counsel. It is not unusual that the City has settled something regarding an employee where the conditions of separation and Council goes into closed session. With civil litigation nothing is disclosed and the public is not aware of where the money went. Council Member Dunbar concluded by stating that if Council wants to change , then they need to open the Charter and make the changes so Council approves all pay outs. Right now what happened, according to Law, is legal. The tenure of the discussion is to know what happened, but sometimes some Council Members do not want to speak on the record. Council needs to move forward and change the policy. Council Member Hussain gave his opinion that opening the Charter and continued search for answers on this case should complement each other, so Council can push for answers. Council President Brown Clarke apologized to Council Member Dunbar and clarified she asks for everyone to speak during discussions so they have an opportunity as a unified body. Council Members have been receiving emails from the residents asking to stay diligent and strong in finding out the answers. Council Member Washington stated her support in addressing in the Charter. Council Member Wood asked to discuss the option of an investigator at the next meeting.

Council Member Yorko referred back to a comment by Mr. Abood where he eluded to questions his office can respond to, those being legal based. Her question to Mr. Abood then was can the Office of the City Attorney instruct on any recommendations that Council can consider for conducting an investigation of separation that would not invalidate the agreement. Council President Brown Clarke also asked that the Committee consider the potential of cost and a process for an investigator, so she referred that topic to Ways and Means to organize and bring back for full discussion at Committee of the Whole.

RESOLUTION – Adoption of the Budget FY2017 and Policies
Council Member Dunbar presented an amendment to address Fleet Maintenance by taking $305,000 out of Contractual Services and $1,000,000 from Equipment Repairs and Maintenance and place into two (2) Control Accounts. This would represent the attempt to get answers on the cost savings and performance of the NAPA contract. This is not proposed to control the spending, the bills will still get paid, it is a way to ensure invoices, itemized inventory and prices of all parts used in repairs, address a procurement timeline for all parts used in repairs, review time sheets and hours of all NAPA employees and document all fuds paid to NAPA for equipment, operations, personnel including wages and fringe. The proposed period of review will be July 1, 2016 to October 31, 2016, and it will be reviewed by an Ad Hoc Committee which would include a NAPA representative on it. The Ad Hoc Committee then would make a recommendation to Council on how to proceed and release of funds.

The Council discussed timeliness of paying the bills, cost savings, turn around on parts, operational aspects and potential delays on fleet maintenance. Council Member Wood asked that it be handled in the Committee on Ways and Means not in Ad Hoc. Council Member Houghton asked for a clearer understanding of a Control account and the jurisdiction of the proposal. Mr. Abood could not provide any information on Control accounts and referred Council to Ms. Bennett. Ms. Bennett stated that appropriation is the authorization to spend, and once adopted by Council then the administration works within those. The Control account would be the appropriation account. Council Member Wood added that a Control account is like a holding place instead of a line item, and allows the Administration to spend throughout the year once they have asked Council for approval on how the money will be spent.

The Council discussed payment of bills, and funding during the Ad Hoc review so that NAPA is paid in a timely manner. Council Member Dunbar referenced the NAPA agreement which states they are paid once a month, so they have to request payment 30 days ahead, and so the Committee will review to release the funds. When the FY2017 budget is passed there will be funds and the Ad Hoc will review the month of June for payment. There is balance in both of the proposed effected accounts, so they will spend for July and then report for June, etc. The administration can ask to replenish the line item accounts from the funds in the Control Account on a monthly or quarterly request. The point would be there will be criteria for spending, and it will comply with the Council agreed upon performance based budgeting.

Council Member Washington supported the creation of an Ad Hoc Committee because there is more involved than the financial issue; there were two full time City employees in the union replaced by NAPA employees.

Council Member Yorko proposed the changing the language in the resolution to reflect the goal of doing the review with the Ad Hoc. Council needs checks and balances on contracts the Administration can award.

Council Member Dunbar clarified that this amendment is not designed to prevent NAPA from getting paid, it is to provide leverage that Council gets documentation they need. $92,000 for parts, $11,000 payroll, and operational expenses at $14,000 totals $117,000. Council would be leaving in the account $290,000 which is three month funds to be spent, and then when funds are needed to be replenished the Ad Hoc Committee can review documents.

MOTION BY COUNCIL MEMBER DUNBAR TO ADOPT THE AMENDED RESOLUTION FOR THE FY2017 BUDGET AND POLICIES TO INCLUDE THE CONTROL ACCOUNT. MOTION CARRIED 8-0.

Ms. Bennett noted that the budget does include two new mechanic positions, and the $175,000 was for NAPA and the other contractual is for other contractual services. Council President Brown Clarke pointed out that the Contractual Service account is at $350,000, and if $175,000 is for NAPA, and the balance would be for other contractual services. If all of the $350,000 is not being appropriated then there are no funds to pay other services. Council Member Dunbar noted that $175,000 in Contractual Services is NAPA, but asked how much of the $1,250,000 of Equipment was NAPA. Ms. Bennett stated she was not sure if there was a breakdown.

MOTION CARRIED 8-0.

MOTION BY COUNCIL MEMBER WOOD TO ADD "TRANSPARENCY AND ACCOUNTABILITY IN GOVERNMENT" TO THE BUDGET POLICIES, WHICH WILL STATE:

> <u>Transparency and Accountability in Government</u>
> Council will review, and when necessary, pass policies, procedures and ordinances to achieve improved transparency and accountability with respect to economic incentives, outsourcing of service and contracting within City government.

MOTION CARRIED 8-0.

Council Member Wood then moved onto a budget amendment regarding the Block by Block program. According to the budget hearings with Planning and Neighborhood Development this was a program suggested by the Fire Chief and started off in other states. Many neighborhoods already know what they want. So Council Member Wood suggested taking $75,000 from the Contractual Services and put $30,000 into restarting the Residency Incentive Program in HR, leaving the balance in the General Fund. Council Member Houghton asked how successful the Program was the last time they had it. Council Member Wood noted that people weren't applying because the City wasn't hiring. Council has recently heard of all the vacancies the departments have to fill. Ms. Bennett confirmed it was discontinued in the past due to lack of use of funds. Council Member Yorko noted in the proposed policy on it the incentive was noted for $6,000, and asked what that intended for. Council Member Wood stated in the previous program, the employee could use $6,000 for a down payment, moving, or anything that would help get them into the house. Then each year after that their amount was reduced by $1,000. If the employee moved during that time they had to pay the money back. Council Member Yorko asked if it was a 0% interest forgivable loan or grant, and Council Member Wood asked law for legal verbiage. Council Member Yorko then referenced the note $7,000 in the policy and the goal of that amount.

Council Member Houghton stepped away from the meeting at 7:53 p.m.

Council Member Wood noted that it is for rentals if someone is willing to take on a property that had been a rental and convert it and stay over 7 years.

Mr. Abood asked to research to see which language would be more appropriate. Council Member Wood amended her suggestion to consider changing the language to "reinstate the residency incentive program". This would create the policy to state:

<u>Residency Incentive Program (L-Hope Program)</u>
Human Resources will reestablish the Residency Incentive Program (L-Hope program) for City employees. This tool will also help with recruiting of new employees.

Council Member Houghton returned to the meeting at 7:55 p.m.

Council Member Yorko proposed to keep the funds in the Block to Block for research, data analysis, resident engagement, and connecting needs of the neighborhoods. Council Member Spitzley recalled the vacancy discussions during the budget hearings and supports any incentives to bring people to Lansing, but also supports keeping the Block to Block program. The Council could look at other sources out there to see what they are doing, and find a stable funding process to reestablish. Council Member Houghton asked if there are private companies they find beneficial for the Block to Block program. Council Member Hussain spoke in support of putting all $75,000 into the Residency Incentive Program. His concern with the Block to Block Program is there is no funds for implementation.

Council Member Spitzley stepped away from the meeting at 8:03 p.m.

Council Member Washington spoke in opposition to funds for the Block to Block Program.

Council Member Spitzley returned to the meeting at 8:04 p.m.

Council Member Dunbar commented there had been studies done over the years, and asked Mr. Hannan if existing City staff could handle the Block to Block Program. Mr. Hannan informed the Committee that the model is based on one done in Illinois for 20 years. As to the question of City staff, he stated they do not have the equivalent amount of staff to handle the program. This research looks at crime, health, infrastructure and neighborhoods to help drive the plans for the neighborhoods. Council President Brown Clarke asked if they have contacted HRCS who already has data for their Continuum Care program. Council Member Dunbar asked if the funds can be used to hire in house, and Mr. Hannan stated they would consider that, and would encourage a dialogue because it is a great concept. Council asked for a review of where the funds go, how determined and if the RFP for the contractor come back to Council if they decide to keep the program. Council Member Washington suggested using current in house staff since the Mayor’s office has a full time neighborhood person that can collect the information and data that is already out there. Council President Brown Clarke encouraged the in house City employee to partner with MSU and other entities and working with neighborhood associations to include a gap analysis.

Council Member Wood suggested amending her proposal to take HR Residency Incentive from $30,000 to $24,000. Then Administration can use funds as they choose and if they bring details to Council on how to use funds. Council Member Dunbar stated that if Administration hires in house then they wouldn’t need to come to Council, but if they contract outside then they should. She believed that the administration can do in house. Council Member Washington asked if she was considering a term limited employee or outside contract. Council Member Dunbar stated she would agree to put funds in temporary help to cover it. Mr. Hannan stated they could work with the suggestion and would speak to the Mayor and the Planning and Neighborhood Development office. Council Member Wood amended her suggestion to have funds from $45,000 earlier in General Fund to $51,000 to Planning and Neighborhood Development Temporary Help.

MOTION BY COUNCIL MEMBER WOOD TO ADD THE AMENDED “RESIDENCY INCENTIVE PROGRAM (L-HOPE) PROGRAM” DESCRIPTION TO THE BUDGET POLICIES AND TAKE $75,000 FROM THE BLOCK TO BLOCK PROGRAM AND PLACE $24,000 IN RESIDENCY INCENTIVE PROGRAM AND $51,000 IN THE PND TEMPORARY HELP LINE ITEMS.

Council Member Houghton asked where the $75,000 was determined, and Mr. Hannan noted that was an estimate based on retaining a consultant .

MOTION CARRIED 8-0.

MOTION BY COUNCIL MEMBER TO APPROVE THE BUDGET AS AMENDED.

Council Member Yorko asked to be recused from the HRCS Budget because her employer, Ingham County Health Department, sometimes receives funds.
MOTION BY COUNCIL MEMBER WOOD TO RECUSE COUNCIL MEMBER YORKO FROM THE HRCS BUDGET. MOTION CARRIED 7-0.

Council Member Spitzley asked to be recused from the LEAP Budget because there maybe economic incentives that will impact her employer.
MOTION BY COUNCIL MEMBER WOOD TO RECUSE COUNCIL MEMBER SPITZLEY FROM THE LEAP BUDGET.MOTION CARRIED 7-0.

Council Member Dunbar asked to be recused from the HRCS Budget because their services fund her employer.
MOTION BY COUNCIL MEMBER WOOD TO RECUSE COUNCIL MEMBER DUNBAR FROM THE HRCS BUDGET. MOTION CARRIED 7-0.

Council President Brown Clarke passed the gavel to Council Member Yorko.

Council Member Brown Clarke asked to be recused from the 54-A District Court Budget due to the fact her husband is a judge in the 54-A District Court.
MOTION BY COUNCIL MEMBER WOOD TO RECUSE COUNCIL MEMBER BROWN CLARKE FROM THE 54-A DISTRICT COURT BUDGET. MOTION CARRIED 7-0.

MOTION BY COUNCIL MEMBER WOOD TO APPROVE THE BALANCE OF THE FY2017 BUDGET. MOTION CARRIED 8-0.

<u>CLOSED SESSION – Litigation Update</u>
Council President Brown Clarke offered two options to the Committee to consider. They could move the Litigation Update out of Committee of the Whole and discuss at Council later in the evening, or move the item to the next Committee meeting.

Council Member Washington supported moving it to the next Committee of the Whole meeting. Council Member Wood asked Mr. Abood if there were any pending litigations that would have any implications on the budget they will be voting on. Mr. Abood admitted there were a number of cases in litigation currently, but he had not reviewed the budget to see if any judgements were made if there would be sufficient funds to pay. His additionally admitted that there is nothing right now that will have impact so it was difficult to answer. Council Member Yorko asked for the number of cases. Mr. Abood admitted that the time frame allotted would depend on the number of questions posed by Council. Council Member Spitzley concurred with Council Member Washington to move to the next Committee meeting, and therefore the consensus ended up being to place on the next Committee of the Whole agenda.

<u>ADJOURN</u>
The meeting was adjourned at 8:34 p.m.
Respectfully Submitted by, Sherrie Boak
Recording Secretary, Lansing City Council
Approved by the Committee on

MINUTES
Committee of the Whole
Monday, May 23, 2016 @ 5:30 p.m.
Council Chambers

CALL TO ORDER
The meeting was called to order at 5:34 p.m.

PRESENT
Councilmember Brown Clarke
Councilmember Jessica Yorko
Councilmember Patricia Spitzley - excused
Councilmember Adam Hussain - excused
Councilmember Kathie Dunbar – excused
Councilmember Carol Wood
Councilmember Jody Washington
Councilmember Tina Houghton arrived at 5:42 p.m.

OTHERS PRESENT
Sherrie Boak, Council Staff
Joseph Abood, Interim City Attorney
Randy Hannan, Mayor's Executive Assistant
Collin Boyce, IT Director
Carolyn Condell

Public Comment
No public comment.

Presentations
Mr. Boyce, outlined during his first 30 days he has reviewed the City policies, procedures, and vendor contracts. Under the contract reviews he is reviewing to determine the future plans. Included in that review is DewPoint. Additionally Mr. Boyce noted he is reviewing all FTE to make sure allocations meet the business needs.

Council President Brown Clarke informed Mr. Boyce that during the recent budget hearings many departments have uniqueness on storing data, and asked him if he had any plans. Mr. Boyce admitted he had only currently met with Fire, Police, Finance and Treasury. He is continuing to evaluate the gaps and all departments have voiced concerns on management document storage.

Council Member Wood asked if Mr. Boyce had researched the City system to understand the platform and access based on what recently occurred with BWL. Mr. Boyce affirmed he had, and had already partnered with an external firm to audit the websites, and the results were good with nothing to flag. The department is currently doing an audit on internal services.

Council Member Wood asked if the City platform on email had been reviewed. Mr. Boyce acknowledged they currently have an outside external firm that handles the email processing and they have also augmented the fire wall level and added another security level. Mr. Boyce did admit he has not met with BWL yet due to their circumstances at this time.

Council Member Wood asked Mr. Boyce to keep in his consideration that many residents do not use the website or internet for information when planning for the future.

<u>CLOSED SESSION – Litigation Update</u>
MOTION BY COUNCIL MEMBER WOOD TO GO INTO CLOSED SESSION AT 5:42 P.M. ROLL CALL VOTE 5-0.

<u>RECONVENE</u>
MOTION BY COUNCIL MEMBER YORKO TO RECONVENE AT 6:49 P.M. MOTION CARRIED 5-0.

<u>MINUTES</u>
Action on the minutes was moved to the next meeting.

<u>ADJOURN</u>
The meeting was adjourned at 6:50 p.m.
Respectfully Submitted by, Sherrie Boak
Recording Secretary, Lansing City Council
Approved by the Committee on

Capital Area District Libraries

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ANNUAL REPORT 2015

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INSIDE COVER

The Michigan Municipal League is dedicated to making Michigan's communities better by thoughtfully innovating programs, energetically connecting ideas and people, actively serving members with resources and services, and passionately inspiring positive change for Michigan's greatest centers of potential: its communities.

Great Lakes Economic Consulting is a non-partisan firm that conducts fact-based analysis. They provide studies on public policy issues and strategic advice to local governments, school districts, trade associations, lobbying firms, non-profit associations and other organizations. With 60+ years of combined experience, the firm's principals bring the knowledge, resources, and contacts needed to acquire and analyze information on almost any public policy issue with a fiscal or economic component.

The data used in this report were provided by the Michigan Municipal League, the U.S. Census Bureau, the Michigan Department of Treasury, and GLEC calculations.

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Introduction

In late 2015, the Michigan Municipal League contracted with Great Lakes Economic Consulting (GLEC) to prepare a report on the finances of Michigan's cities and villages. This report examines the changes that have affected the finances of municipalities over the past 20 years and explores ideas for improving their overall fiscal stability.

While Michigan's economic downturn during the Great Recession worsened the fiscal hardship experienced by many municipalities, our study covers a much broader time frame, from the mid-1990s to 2014. This span shows the problems Michigan's municipalities face are structural and pervasive, not the result of short-term economic woes.

Further, we have included aggregate data for all cities and villages to help ensure an accurate, broad focus on the experiences of all Michigan municipalities.[1] To frame these results in their proper context, we also sought to capture the experiences of the 15 largest cities in the state, as well as eight smaller cities selected to provide geographical balance.

Here's what we found:

Michigan's cities have very few sources of revenue—and those sources are shrinking.

Local units of government rely primarily on property taxes and intergovernmental revenue to finance essential public activities. In recent years, however, these sources have failed to keep up with the current level of services, much less rising costs.

Michigan law contains structural provisions that limit cities' ability to collect taxes on existing properties.

This situation is made more challenging by state cuts in revenue sharing to local units of government. Only once since FY 1998 have lawmakers acted to fully fund statutory revenue sharing payments (in FY 2001). What's more, the cumulative amount of cuts to statutory revenue sharing for municipalities from FY 1998 to FY 2016 is estimated to be a staggering $5.538 billion.

As a result, municipal revenues have fallen dramatically.

Over the last 15 years, Michigan cities have been hit harder than cities in any other state due to the restructuring of the auto industry, the 2008–2009 recession (which caused large drops in property values), and sharp cuts in state revenue sharing payments. While nearly all cities were affected, those located in Southeast Michigan—the center of the auto industry—were particularly squeezed.

[1] While we chose to explore the experiences of both cities and villages, we concentrated on cities as villages account for a very small percentage of municipal expenditures.

Cities have responded by cutting public services, seeking out new government efficiencies, and boosting millage rates.

The total General Fund revenue of cities declined 9.5 percent from 2008 to 2012, due largely to the impact of the Great Recession on property tax revenues and cuts in state revenue sharing. Revenues have continued to fall for all cities in the years since. Predictably, General Fund expenditures in all cities have fallen commensurately, as have fund balances.

Here's the rub: in Michigan, property tax revenues drop fast but grow slowly.

The collapse of the housing and financial sectors in 2008 resulted in the largest decline in Michigan property values since the 1930s. The taxable value of cities fell 18.1 percent from 2008 to 2012 and municipal property tax collections fell 9.1 percent.

Although housing values are recovering from the sharp decline, it will take most cities a number of years to recover their lost tax base. Why? Michigan places a constitutional cap on the annual increase in taxable value, which constrains cities' ability to return to financial health. For example, taxable value in Farmington Hills fell 30.2 percent from 2008 to 2012. Assuming an annual increase of 3 percent (an estimate that is optimistic given recent inflation trends), it will take 13 years for taxable value to return to the 2008 level. Adjusted for inflation, however, taxable value may never return to the 2008 level in Farmington Hills and many other Michigan cities.

Low revenues create a serious conundrum for Michigan cities.

Cities with low tax bases must levy high millage rates to provide a reasonable level of services. Those high tax rates encourage residents and businesses to move elsewhere.

If tax rates were kept low, however, the lack of local public services would encourage residents and businesses to move elsewhere. Thus, cities are caught in a vicious cycle that results in ongoing serious financial problems.

Low property values are the leading cause of municipal financial emergencies.

There are currently 11 cities, one township, one county and five school districts in which the state has determined there is a financial emergency. The most common characteristic shared by these local units? Very low taxable value per capita.

In the affected cities and township, the average taxable value per capita is $12,060—less than half the statewide average of about $32,000 per capita. Our best estimate is that a local unit of government will have a very difficult time providing a reasonable level of services if their per capita taxable value is less than $20,000, without having to levy tax rates that make them economically uncompetitive.

This suggests that appointing an emergency manager or signing a consent agreement with a local unit is unlikely to do much to fix their fiscal problems unless there is a case of mismanagement or corruption.

The Story Behind the Story: Michigan's Economic and Political Environment

To fully appreciate the situation in which Michigan cities and villages find themselves today, it is helpful to understand the economic and policy context that shaped their fiscal evolution.[2]

Michigan experienced strong economic growth during the 1990s, due largely to the robust growth of the national economy and the strength of the domestic motor vehicle industry. From 1990 to 2000, the Michigan economy added a whopping 748,000 wage and salary jobs. The state's unemployment and per capita income levels also were—for the first time in a long while—better than the U.S. averages.

The thriving U.S. auto industry helped propel these results, with sales reaching an all-time high of 17.4 million units by the end of the decade. Michigan motor vehicle employment increased significantly as well, with job growth of more than 18.8 percent between 1990 and 2000.

As one might expect, there were few Michigan cities with fiscal problems as we entered the new century. In fact, municipalities were able to weather the transition to new property tax and revenue sharing structures during that decade.

Michigan's economic reality changed dramatically, however, as the 2000s got underway. The nation experienced two recessions and the domestic auto industry lost its competitive edge relative to foreign competitors. From peak employment in April 2000 to the trough in March 2010, Michigan lost 844,000 jobs, 220,000 of which were in the auto sector. Our state's personal income declined at an annual rate of 0.2 percent, while U.S real personal income increased at an annual rate of 1.3 percent.

How Are Michigan's Municipalities Funded?

Local units of government rely primarily on:

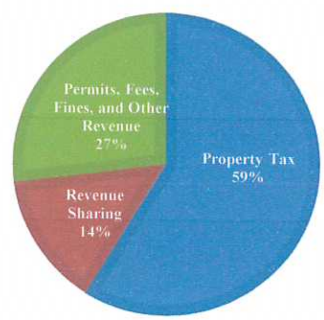
- **Local property taxes:** These taxes are levied by local units of government against the taxable value of all real estate within their boundaries. The property tax rate is called a "millage" and varies by the governmental agency collecting the tax.

- **Intergovernmental revenue:** Michigan's local units can obtain dollars from other local units, as well as state and even federal sources. These dollars can take the shape of grants, shared taxes, or loans. ***Here in Michigan, state revenue sharing is the primary source of funding for cities and villages.***

  State revenue sharing consists of two parts: constitutional payments and what is commonly referred to as statutory revenue sharing payments. Both are based on sales tax collections.

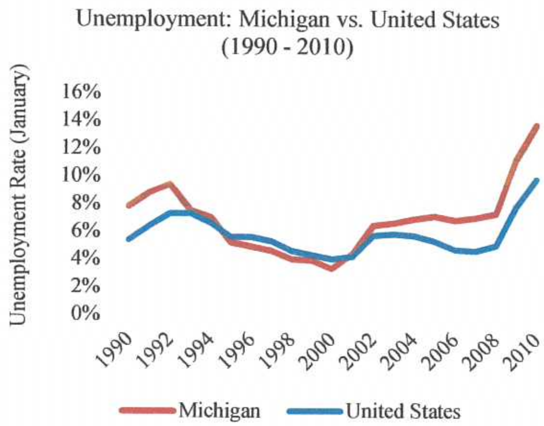
MUNICIPAL GENERAL REVENUE BY SOURCE (2014)

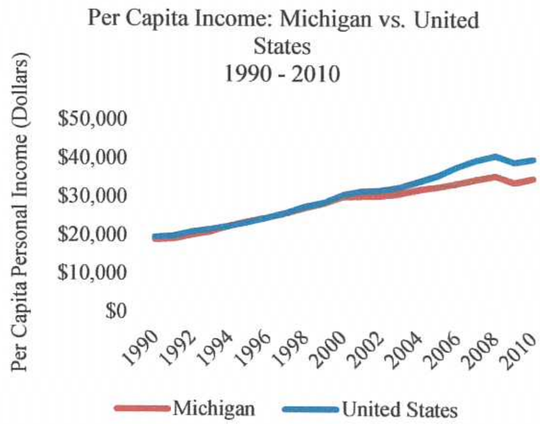
***EXCLUDES INCOME TAX CITIES**



[2] Data used in this section are from the U.S. Bureau of Labor Statistics, the U.S. Bureau of Economic Analysis, the Senate Fiscal Agency, and the Michigan Department of Treasury.

Michigan Economic Growth and Decline, 1990–2010

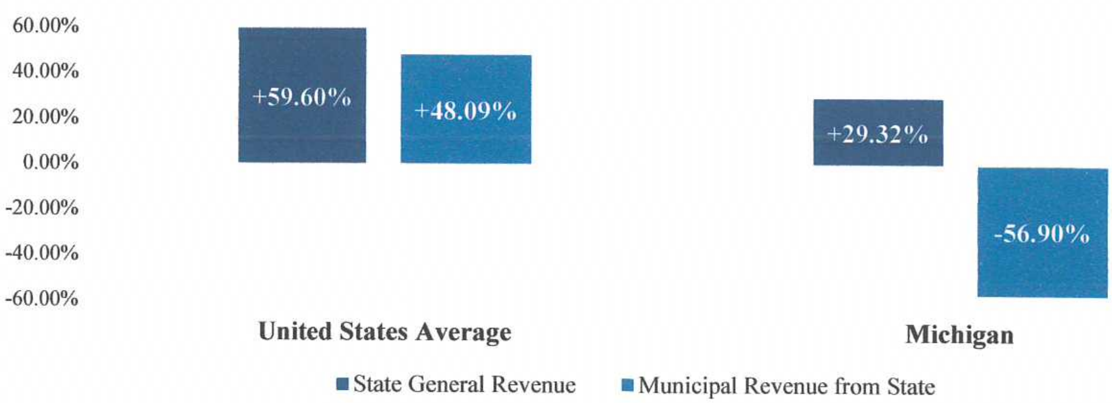




Cities and villages were particularly hard hit by Michigan's lost decade. Property values fell significantly for the first time since the 1930s, hurting local property tax revenues. Moreover, tight state budgets—coupled with a change in the political climate—resulted in sharp cuts to revenue sharing.

Since 2002, Michigan has led the nation in cuts to municipalities. The Census of Governments, published every five years by the U.S. Census Bureau, reported that from 2002 to 2012, municipal revenue from state sources increased in 45 states and the average increase was 48.1 percent. **In Michigan, municipal revenue from state sources *declined* 56.9 percent from 2002 to 2012. During this same period, total state revenue for Michigan *increased* by 29.3**

Change in State General Revenue and Municipal Revenue from State Sources (2002 – 2012)



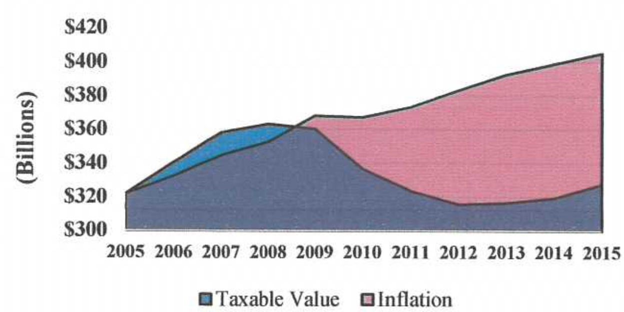
percent.

Property Taxes

Under Proposal A, Michigan changed the way it calculated real estate property values. Instead of just considering a property's State Equalized Value (or SEV), which totals 50 percent of its true cash value, policymakers and the public agreed to put a cap on how much property values could increase each year.

They created a new statutory term: taxable value. Each year, the taxable value of a property can only increase by the rate of inflation or 5 percent, whichever is less, unless there is a physical improvement or unless ownership changes hands (at which point the property value is "uncapped"). A property's value can decrease, however, which places taxing entities in a precarious position as the amount of money they can assess goes down.

Statewide Taxable Value (2005 – 2015)



Michigan taxable value increased at an annual rate of 5.7% from 1995 to 2000 and then slowed slightly from 2000 to 2008, up 5.3%. From 2008 to 2012, taxable value declined at an annual rate of 3.4%. Taxable value has recovered slowly in the last 3 years, increasing at an annual rate of 1.1%. **Figure (left) shows actual taxable value and the inflation adjusted equivalent of 2005 taxable value each year from 2005 to 2015.**

As shown above, it will be a long time before many cities recover the property values lost during the housing collapse. The inflation rate for 2016 is 0.3 percent—just a small fraction of the growth needed to right-size the property tax portion of Michigan's municipal budgets.

State Revenue Sharing

With property tax revenues declining, cities and villages knew they would be forced to rely more heavily on the funds they received through state revenue sharing in order to remain solvent.

State revenue sharing consists of two parts: (i) constitutional payments, and (ii) what is commonly referred to as statutory revenue sharing payments. Both are based on sales tax collections, which fell during the economic downturn of the 2000s.

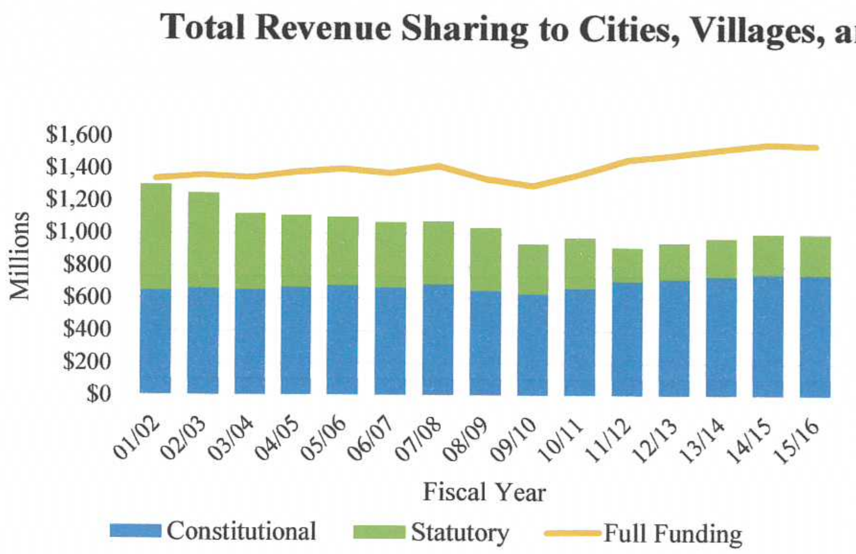
During the recession, the reasons for declining constitutional and statutory revenue sharing payments were more nuanced than they appear on the surface. While falling sales tax revenues impacted both—particularly on the constitutional side—the drop in statutory revenue sharing also resulted from state reductions in the proportion of sales tax revenue each municipality would receive. In other words, constitutional revenue sharing payments fell in direct correlation with economic changes only, while statutory declines reflected legislative policy decisions to redirect money away from municipalities in order to balance the state budget.

The impact of reductions to the sales tax base reduced constitutional revenue sharing payments to cities, villages, and townships by an estimated $27.3 million in FY 2014, and a cumulative $181.2 million since Proposal A in 1994.

In addition, statutory revenue sharing in FY 2016 is estimated to be $585 million below the full funding of the statutory dedication. Thus, since Proposal A in 1994, the cumulative amount of cuts to statutory revenue sharing is estimated to be more than $5.5 billion.

Why? Fewer state dollars have been available to bolster statutory revenue sharing, since Michigan's general fund/general purpose (GF/GP) budget declined about 20 percent from FY 2001 to FY 2010. Dollars that could have been directed to municipalities were retained by state leaders in response to ongoing budgetary pressures.

Future budgets are likely to continue to be tight as there are a number of spending pressures in the next few years including large business tax credits for the next decade. In addition, the recently enacted road funding plan will take money from the general fund and reduce the state income tax in future years.

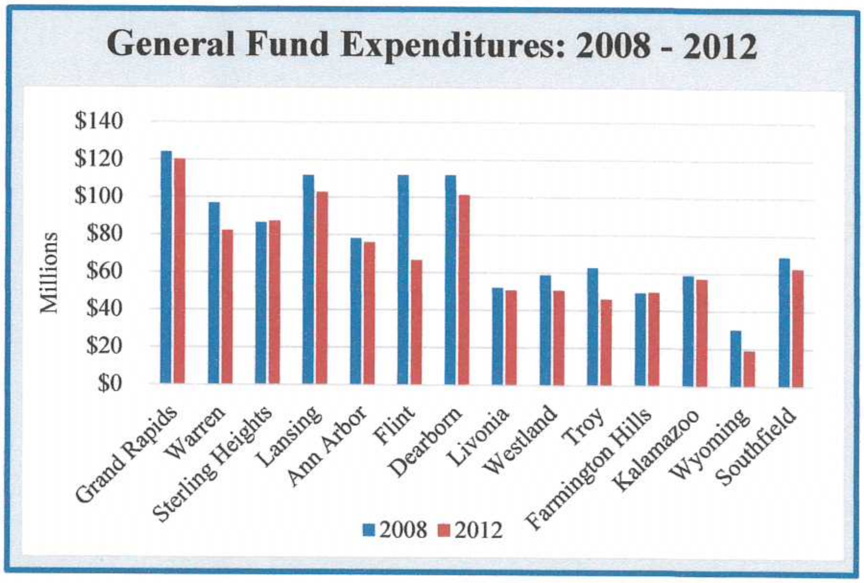


Statutory revenue sharing is estimated to be $585 million below the full funding of the statutory dedication. Since Proposal A in 1994, the cumulative amount of cuts to statutory revenue sharing for cities, villages, and townships is estimated to be **more than $5.5 billion.**

Source: Michigan House Fiscal Agency

Restrictions on Local Governments' Revenue Raising Ability

Michigan cities were hit hard by the state's 10-year economic malaise, particularly from 2008 to 2012, when their collective general fund revenues fell 9.5 percent, despite an overall millage rate increase of 11 percent.



General fund expenditures declined 7.7 percent, general fund balances for the 15 largest cities fell 16 percent, and fund balances for the eight small cities included in this analysis fell 18 percent. Total employment of cities fell about 20 percent from 2002 to 2012 (only years for which we have data). Employment for the 15 largest cities fell 18 percent from 2008 to 2012.

A major factor contributing to the financial problems of many cities is the revenue inflexibility caused by constitutional and statutory limitations. As noted, municipalities rely primarily on property taxes and intergovernmental revenue to finance essential public services. In recent years these sources have failed to keep up with the current level of services, much less rising costs.

Indeed, a recent study by MSU Extension reports that Michigan imposes some of the most stringent limitations on local revenue of any state in the nation.

> "A few states, such as Michigan and California, place strict limits on local own-source revenues while at the same time providing only meager intergovernmental aid and imposing costly labor and service obligations. We contend that these states have structured local fiscal policymaking in a way that effectively incubates local financial distress. These state contexts are the most egregious in hampering the exercise of local fiscal power; yet the nature of the problem for cities may be much worse – state-imposed budgetary imbalances can engender recurring structural deficits and diminished local service capacity, particularly among the states' older, industrial urban areas."[3]

[3] Beyond State Takeovers: Reconsidering the Role of State Governments in Local Fiscal Distress, with Important Lessons for Michigan and its Embattled Cities, MSU Extension White Paper, August 31, 2015.

Three provisions found in Michigan law—a 1964 local tax limitation, the Headlee Amendment and Proposal A— have limited the collection of taxes on existing properties, causing untold fiscal hardship for Michigan cities and villages.

The 1964 Local Tax Limitation

Michigan has a strong "local control" tradition, which means local electors have a major voice in the level and purposes of taxation. According to the 1963 state constitution, cities and villages have the authority to levy a wide array of taxes on themselves, "subject to limitations and prohibitions provided by this constitution or by law."

Within one year of the constitution's ratification, however, the state legislature reversed this broad local control by providing that no city may levy a tax except as expressly permitted by law. Statutory language now provides, "Except as otherwise provided by law and notwithstanding any provision in this charter, a city or village shall not impose, levy or collect a tax, other than an ad valorem property tax, on any subject of taxation, unless the tax was being imposed by the city or village on January 1, 1964."

Thus, cities and villages faced the first in a long series of constraints on their ability to raise much-needed revenue.

The Headlee Amendment

The people of Michigan further eroded municipal budgets in 1978, when voters approved a constitutional amendment named after Michigan businessman Richard Headlee. While the Headlee Amendment gave local electors stronger control over the decision to incur additional taxes for debt, it simultaneously reduced municipal revenue by imposing a periodic recalculation of voter-approved millage to account for inflation. This legislation and later legislation took authority away from local officials and provided no way to make up for the lost revenue.

Here's what the Headlee Amendment does:

- Limits the growth of local government property tax revenues by providing millage rollbacks whenever revenue from existing property grows by more than the rate of inflation, unless voters act to override the rollback.
- Requires voter approval for any new local taxes or increase in a tax rate not authorized at the time the amendment was adopted.
- Ensures the state provides reimbursement for any additional costs resulting from new local requirements mandated by state law (i.e., "no unfunded mandates").

Proposal A

In 1994, Michigan voters approved another amendment to their constitution: Proposal A. The change reformed school finance by shifting support for K–12 schools away from local property taxes to state sales and other taxes. Such a change, however, could not occur without major implications for local units of government, which also are funded by property taxes.

Proposal A included a limitation on assessment increases for individual parcels of property, excluding new construction, to five percent or the rate of inflation, whichever is less (see page 26 for more details). Cities lost an estimated $300 million in 2014 as a result of this provision.

Caught in a Fiscal Trap

These three changes—the 1964 prohibition on local government tax levies, the Headlee Amendment, and Proposal A—now work together to prevent cities and villages from fixing their own fiscal problems.

- Local governments are now barred from levying any tax not authorized by law.
- Cities seeking to impose an income tax for the first time must receive voter approval.
- Initial implementing legislation for the Headlee Amendment permitted rolled back millages to be adjusted upward when property taxes increased by less than the rate of inflation. However, following the Passage of Proposal A in 1994, all upward millage rate adjustments are eliminated.

Worse yet, the "no unfunded mandates" provision of the Headlee amendment has proven to provide no protection for local governments. The amendment is worded to exclude "any activity or service ... that is provided at the option of the local unit of government." Virtually all local government services are legally defined as "optional". Therefore, the state has continued to mandate costly regulations contrary to the intent of the Headlee Amendment, with no regard to the financial capability of local units.

Proposal A also eliminated Headlee protections requiring that state aid to local units could not be reduced from the percent of the budget going to local governments in FY 1978-79, which was about 41 percent. However, Proposal A shifted most school funding to the state and counted it as "aid to local governments," increasing the share of state spending to over 69 percent and making the prohibition moot.

The legislature also chose to include increases in property assessments due to Proposal A "uncapping" as part of the calculation of the Headlee millage rollback. The legislature could have chosen to treat the difference between the capped value (taxable value) and the uncapped value (state equalized value) as "exempt property". Had the legislature done so, the increase due to removing the cap would have been excluded from the Headlee millage calculation, protecting local revenues. Instead, this intersection between Headlee and Proposal A has mandated millage rollback calculations that restrict property tax revenue growth to a rate considerably less than the rate of inflation. The statute has also accelerated Headlee millage rollback requirements, thereby reducing property tax capacity.

Tax Changes That Have Reduced Local Revenue

Changes to the sales tax base that have reduced constitutional revenue sharing payments to municipalities have been costly (see Exhibit 13). Cities, villages and townships lost $27.3 million in FY 2014 alone, and $181.2 million cumulatively since Proposal A in 1994

Exhibit 13:

Impact of Sales Tax Cuts on Michigan Cities, Villages & Townships
($ Millions)

		Initial impact	FY 2014 impact	Cumulative impact Through FY 2016
PA 34 of 1994	Commercial Aircraft and Parts	$12.5	$5.5	$138.2
PA 49 of 1994	Certain Mobile Food Vendors	$6.6	$9.3	$161.1
PA 127 of 1994	Portion of Price returned from Lemon Law	$0.2	$1.3	$21.5
PA 156/157 of 1994	Exemption for non-profit purchases	$2.0	$2.9	$50.1
PA 63 of 1995	Exempt vended baked goods	$0.2	$0.7	$12.1
PA 209 of 1995	Commercial advertising exemption	$2.9	$5.4	$91.0
PA 576 of 1996	Exempt vended juice drinks	$1.7	$3.6	$53.6
PA 365 of 1998	Industrial laundry sales	$1.8	$3.2	$38.0
PA 398 of 1998	Exempt grain dryers and fuel for grain dryers	$0.1	$0.4	$5.9
PA 451-52 of 1998	Hospital construction equipment	$0.4	$1.5	$19.7
PA 490-91 of 1998	Clarify correct multiplier on earlier exemptions	$0.8	$0.8	$12.9
PA 105 of 1999	Exempt gold bullion and investment coins	$0.1	$2.6	$17.4
PA 141 of 2000	Electric deregulation	$4.6	$8.5	$108.7
PA 204 of 2000	Airplane weight and parts	$3.2	$3.2	$43.4
PA 329 of 2000	Exempt employee meals	$7.0	$14.1	$142.5
PA 390 of 2000	Electric deregulation	$131.0	$137.6	$553.0
PA 412 of 2000	Vended soft drinks	$7.7	$13.7	$172.4
PA 457 of 2002	Eliminate sales tax license fee	$0.2	$0.2	$1.8
PA 17 of 2006	Aircraft exemptions	$0.2	$0.4	$3.5
PA 428 of 2006	Exempt aircraft, postage, delivery charges on direct mail	$1.0	$0.7	$6.7
PA 116 of 2010	Exempt sawmill equipment/ industrial processing	$2.0	$2.1	$10.4
PA 467 of 2012	Include rolling stock as qualified truck	$0.1	$0.1	$0.2
PA 160 of 2013	Sales tax on the difference phased in over 24 years. Eventual cost up to $450 million.	$24.6	$30.6	$85.8
PA 159 of 2013	Sales Tax on the difference for watercraft and RV's. Phased in through 2018. Eventual yearly cost $125 to $150 million.	$12.5	$25.0	$62.5
Total		$223.3	$273.3	$1,812.2

Source: Various fiscal agency fiscal notes; Tax Expenditure Appendix, MI Department of Treasury; Wrong Turns on the Road to Prosperity, D. Drake, April 2014; GLEC calculations.

Property Tax changes that have reduced the tax base of local governments are listed in Exhibit 14. On average, 42 percent of property tax collections fund local government operations. Of the 42 percent, about 18.2 percent funds municipalities. The estimated impact of property tax cuts on local governments in FY 2014 is $5.6 million, and the cumulative impact since FY 2002 is $37 million. The cost to municipalities in FY 2014 was about $2.4 million and the cumulative impact to municipalities was about $16 million.

Exhibit 14:

Total Statewide Impact of Various Property Tax Cuts
($ Millions)

		Initial impact	FY 2014 impact	Cumulative impact Through FY 2016
PA 744 of 2002	Revise assessment of utility property.	$2.5	$3.0	$33.5
PA 290 of 2011	Exempt machinery for instillation of soil and water conservation.	$0.8	$0.8	$1.6
PA 397-407 of 2012	PPT elimination. Cost rises to $61 million in FY 2017 and increases 5.5% per year through 2028 to $113 million per year.			$25.0
PA 161 of 2013	Disabled veteran's exemption.	$9.4	$9.4	$28.2
Total		$12.7	$13.2	$88.3

Source: Various fiscal agency fiscal notes; Tax Expenditure Appendix, MI Department of Treasury; Wrong Turns on the Road to Prosperity, D. Drake, April 2014; GLEC calculations.

Revenue and Expenditure Trends

Over the last 15 years, Michigan cities have been hit harder than cities in any other state due to the restructuring of the auto industry, the 2008–2009 recession—which caused large drops in property values—and sharp cuts in state revenue sharing payments. Almost all cities were affected, particularly cities located in Southeast Michigan, the center of the auto industry. Cities have responded with cutbacks in public services, increased efficiencies, and increasing millage rates.

While the worst is over, budgets will remain tight, primarily because the cap on taxable value is limiting local increases in property tax revenue. While property values are increasing again—State Equalized Value (SEV) grew 6.1 percent in 2015— the increase in the taxable value of existing property is limited to 5 percent or the rate of inflation, whichever is less. Taxable value increased 2.1 percent in 2015, and the limit for 2016 is estimated at just 0.3 percent.

Exhibit 1:
Revenues and Expenditures, Michigan Cities, 2012

Expenditures	All Cities	15 Largest Cities	8 Smaller Cities
General Government	19.90%	18.30%	17.1%
Public Safety	47.80%	51.40%	42.3%
Public Works	8.30%	7.10%	11.4%
Parks & Recreation	3.70%	2.80%	10.1%
Other Expenditures	20.20%	20.40%	22.2%
Total	100.00%	100.00%	100.0%
Revenues			
Property Taxes	43.10%	29.70%	56.3%
State Revenue Sharing	14.90%	14.40%	10.7%
Income Taxes	11.30%	16.00%	4.5%
Licenses & Permits	2.30%	1.40%	1.3%
Fees, Charges & Penalties	13.60%	14.20%	8.7%
Other Income	14.80%	24.30%	18.5%
Total		100.00%	100.0%

Source: Michigan Department of Treasury Data. Calculations by GLEC.

Distribution of Revenues and Expenditures

As shown in Exhibit 1, property taxes and revenue sharing account for 58 percent of revenue for all cities and 44.5 percent for the 15 largest cities, which rely less on property taxes and more on income taxes and other income.

General Fund expenditures for public safety account for about half the budget for all cities, including the 15 largest.

The data used in this analysis comes from several different sources. The revenue and expenditure data for the years 2008, 2012 and 2014 are from Treasury's F65 forms and were provided to the Michigan Municipal League. All other data came from the audit reports filed by cities with the Michigan Department of Treasury.

Municipal Revenues

Pre-Recession

From FY 1997 to FY 2008, state revenue sharing payments to cities dropped by nearly one-fourth. The 24 percent decline—from $904.7 million to $689.1 million—reflected the aforementioned state budget pressures and reductions to the sales tax base.

Fortunately, local revenue sharing losses were partially offset by increases in city property tax collections. Municipal property tax revenue increased at an annual rate of 4.4 percent from 1997 to 2008. This increase was due almost entirely to an increase in taxable value as the millage rate was almost unchanged (16.20 in 1997 and 16.29 in 2008).

Income tax collections also fell sharply, from $472.4 million in 1997 to $382.3 million in 2008. This 19.3 percent decline was attributable to economic and tax rate changes in Detroit.

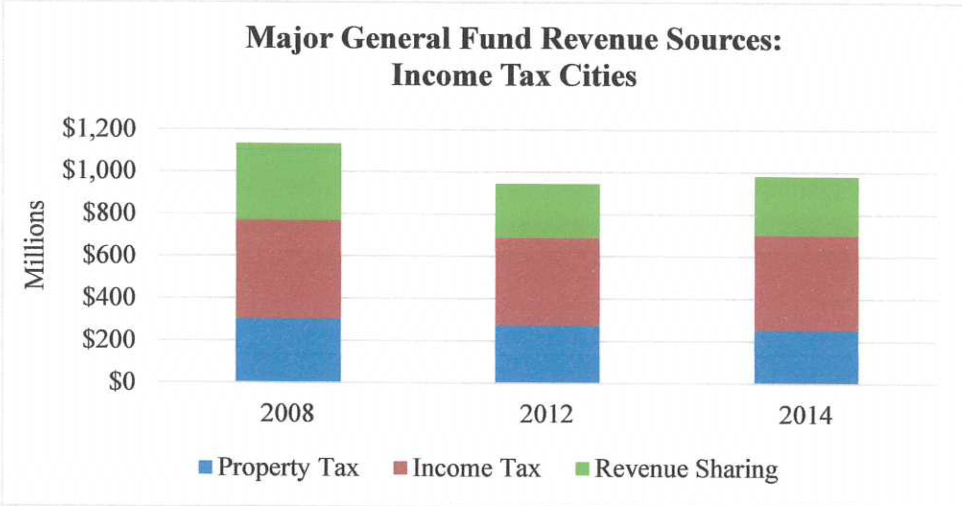
2008 to 2012

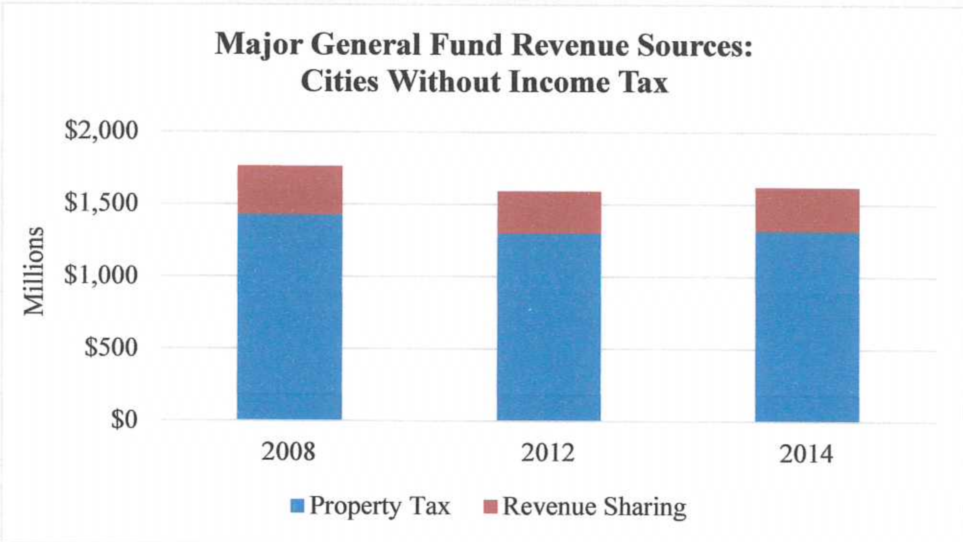
The Great Recession took a further toll on Michigan cities, whose total general fund revenue declined an additional 9.5 percent from 2008 to 2012. This drop was due largely to the impact of the Great Recession on property tax revenues and cuts in state revenue sharing.

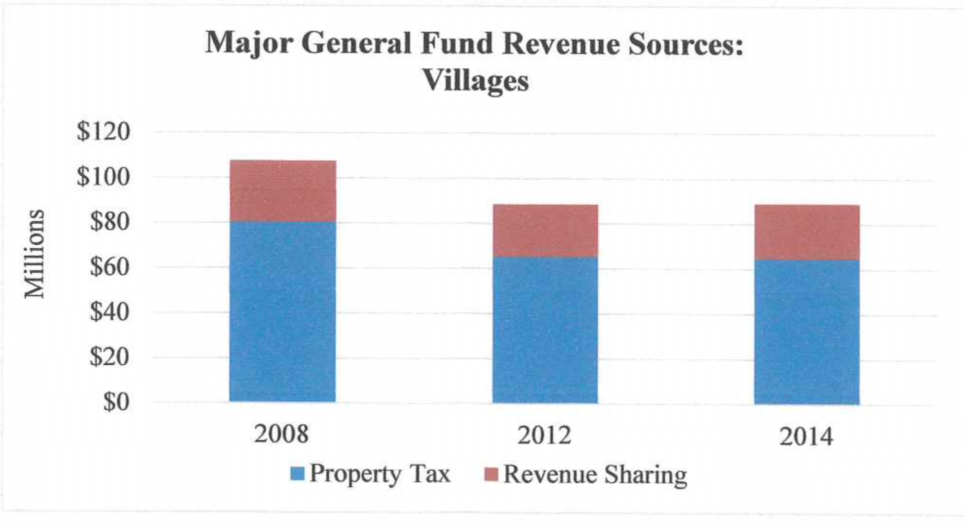
At this point, the economic challenges being experienced by the city of Detroit grew more pronounced. Indeed, it was during this period that many of the circumstances leading to the city's 2013 bankruptcy declaration reached their peak. For this reason, this report includes aggregated data views that both include and exclude Detroit, to ensure the city's experiences don't unduly shade the fiscal results achieved in all Michigan cities (see Exhibit 2, for example).

Cities Used for Analysis in this Report		
15 Largest Cities		**8 Smaller Cities**
Ann Arbor	Livonia	Alpena
Dearborn	Southfield	Marquette
Detroit	Sterling Heights	Midland
Farmington Hills	Troy	Niles
Flint	Warren	Petoskey
Grand Rapids	Westland	Port Huron
Kalamazoo	Wyoming	Traverse City
Lansing		Sault Ste. Marie

Major Sources of General Fund Revenue for Michigan Municipalities 2008, 2012, and 2014 Comparison





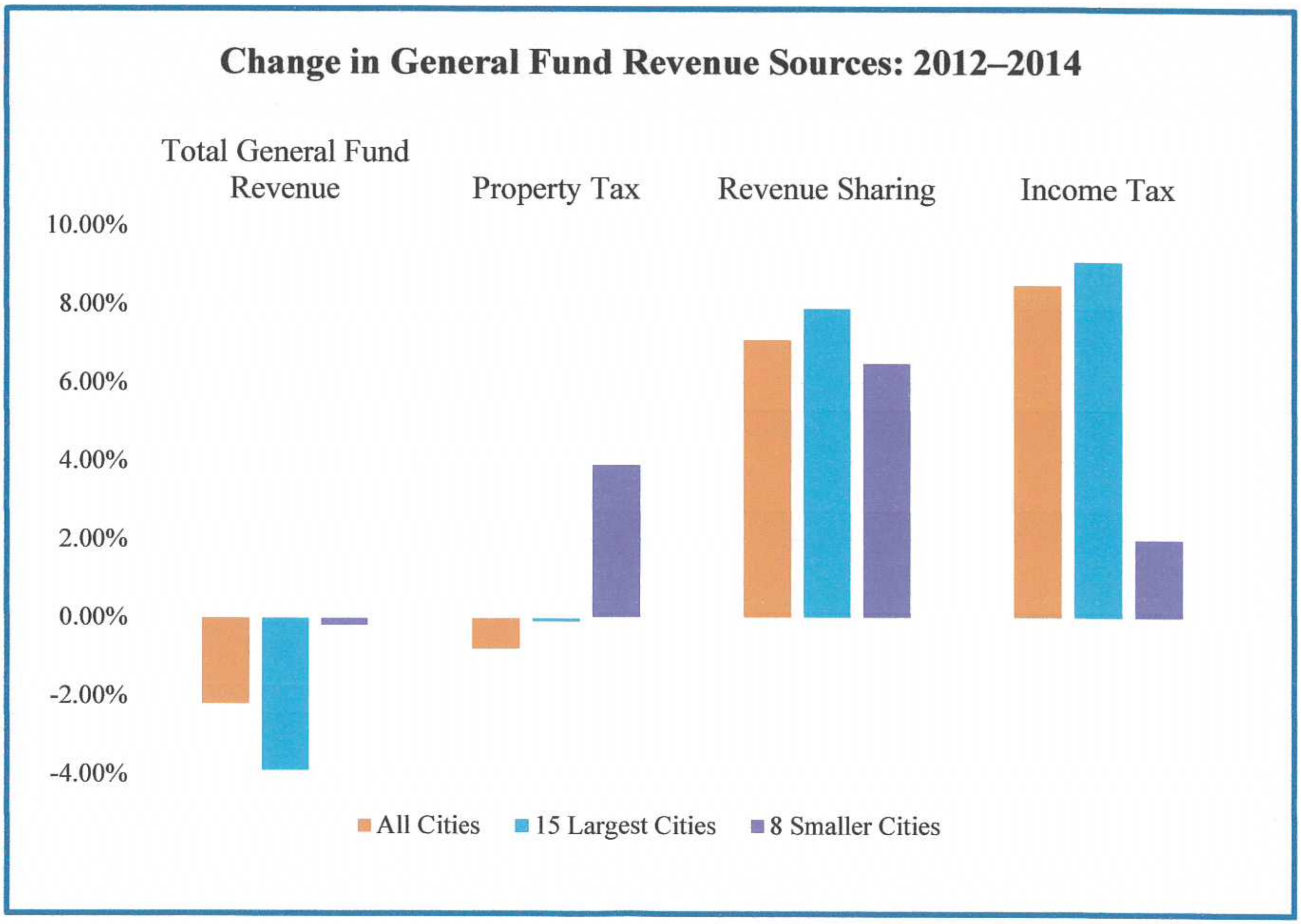


Revenues for Michigan's 15 largest cities declined 11.8 percent (or 8.1 percent, excluding Detroit). The revenues of the eight smaller cities included in this analysis declined 4.2 percent.

- Revenue sharing payments to cities declined by $145 million, or 21.1 percent, from 2008 to 2012.
- Property tax collections for all cities dropped by about $140 million, or 8.1 percent. The decline would have been $367 million (or 21.4 percent) if the average tax rate had not been increased by 1.79 mills.
- Of the 15 largest cities, only four levy an income tax. Income tax collections in these four cities fell by about $50 million, or 12.8 percent. Only one of the smaller cities, Port Huron, levies an income tax; collections declined by almost 29 percent.

<u>2012 to 2014</u>

A number of cities began to see revenue increases again by 2014, due to the improving economy and modest increases in taxable value in 2013 and 2014. There was also an increase in constitutional revenue sharing due to an increase in sales tax collections.



Expenditures

Pre-Recession[4]

Total municipal general expenditures increased at an annual rate of 3.2 percent from 1997 to 2008. Public safety expenditures increased at an annual rate of 3.7 percent and general government expenditures increased at rate of 5.2 percent.

Adjusted for inflation, total general expenditures increased at an annual rate of only 0.7 percent.

2008–2012

From 2008 to 2012, General Fund expenditures for all cities were reduced by $335 million, or 7.7 percent. General government expenditures were reduced by almost 15 percent, public safety expenditures by 2.3 percent ($45 million), and all other expenditures by 10.3 percent ($149 million).

The 15 largest cities reduced their expenditures by $254 million, or 10.3 percent. General government expenditures were reduced by 23 percent ($121 million), public safety expenditures by 5.5 percent ($66 million), and other expenditures by 9.2 percent ($67 million).

The eight smaller cities reduced their expenditures by 14.1 percent (about $20 million). General government outlays were reduced by 8 percent, but public safety outlays actually increased by 7.7 percent due mainly to a large increase in Traverse City. All other outlays were cut by almost 31 percent.

2012–2014

From 2012 to 2014, expenditures for the 15 largest cities declined by five percent due entirely to a 10 percent decline in Detroit. Excluding Detroit, outlays increased 1.2 percent. General government expenditures excluding Detroit increased six percent (Detroit was up about 27 percent due to some accounting adjustments). Public safety outlays, excluding Detroit, increased 0.9 percent (Detroit outlays fell by about 27 percent or $156 million). All other outlays, excluding Detroit, increased 7.4 percent (Detroit outlays fell by about 10 percent).

From 2012 to 2014, the smaller cities increased spending modestly as the economy rebounded. Total outlays increased two percent, with general government up 2.8 percent, public safety up 2.7 percent and other spending up 0.9 percent (see Exhibit 2).

[4] Only partial data is available for years before 2004.

Exhibit 2:

Michigan Cities' General Fund Revenue and Expenditures

	% Change, 2008-2012					% Change, 2012-2014				
Revenue	All Cities	Less Detroit	15 Largest Cities	Less Detroit	8 Smaller Cities	All Cities	Less Detroit	15 Largest Cities	Less Detroit	8 Smaller Cities
Property Taxes	-8.1%	-8.5%	-8.4%	-9.5%	-1.0%	- 0.8%	0.4%	-0.1%	3.8%	3.9%
Revenue Sharing	-21.1%	-15.9%	-26.1%	-41.9%	-25.3%	7.1%	6.0%	7.9%	5.7%	6.5%
Income Taxes	-11.6%	-5.6%	-12.8%	-5.0%	-28.8%	8.5%	8.0%	9.1%	9.6%	2.0%
Total	-9.5%	-7.3%	-11.8%	-8.1%	-4.2%	- 2.2%	1.5%	-3.9%	4.7%	-0.2%
Expenditures										
General Govt.	-14.9%	-8.8%	-23.0%	-16.2%	-8.1%	6.8%	-4.7%	17.7%	-5.6%	2.8%
Public Safety	-2.3%	-0.6%	-5.5%	-4.9%	7.7%	- 9.7%	-2.3%	-13.1%	1.4%	2.7%
All Other	-10.3%	-16.3%	-9.2%	-27.1%	-30.6%	- 0.9%	4.1%	-5.0%	5.8%	0.9%
Total	-7.7%	-7.0%	-10.3%	-11.9%	-14.1%	- 3.6%	-0.9%	-5.0%	1.1%	2.0%

Source: Michigan Department of Treasury – F65 Data

Fund Balances

During the pre-recessionary period (2005 to 2008), general fund balances for the 15 largest cities (excluding Detroit) were fairly stable, up 2.3 percent. From 2008 to 2012, however, fund balances fell by $35.2 million, or 15.6 percent. Fund balances have recovered quickly from 2012 to 2014, up $81 million or 42.6 percent.

Detroit is, of course, a special case. The city's fund balance fell from a negative of $33.6 million in 2005 to –$141.7 million in 2008 and –$269.5 million in 2012, which put Detroit in bankruptcy. Thanks to actions required by the bankruptcy process and outside assistance from the state and private foundations, Detroit no longer faces critical financial distress, at least temporarily. In 2014, Detroit's fund balance was reported as a positive $53.4 million.

Pre-recession, the general fund balances of the eight smaller cities fell $10.9 million, or 18 percent from 2005 to 2008. Balances dropped further—by $6.8 million, or 13.7 percent—from 2008 to 2012. Fund balances have recovered some of these losses from 2012 to 2014, increasing $4.2 million, or 9.7 percent. However, fund balances in these municipalities were still about 22 percent below the 2005 level.

Exhibit 3:

General Fund Balances (Millions), Michigan Cities, Selected Years						
	1997	2000	2005	2008	2012	2014
Ann Arbor	$11,848	$15,380	$10,660	$19,780	$15,293	$22,579
Grand Rapids	NA	NA	$19,001	$19,173	$26,359	$35,530
Dearborn	NA	NA	$42,591	$29,995	$19,806	$23,623
Detroit	$200,612	$217,086	-$33,594	-$141,685	-$269,487	$53,406
Farmington Hills	$20,372	$13,197	$15,591	$18,676	$18,010	$24,797
Flint	NA	-$13,097	$6,099	-$6,869	-$19,184	-$8,961
Kalamazoo	NA	NA	$3,357	$4,218	$7,687	$7,718
Lansing	NA	NA	$7,192	$7,230	$5,372	$9,208
Livonia	NA	NA	$5,331	$6,169	$9,263	$11,351
Southfield	NA	NA	$14,737	$17,306	$13,113	$21,278
Sterling Heights	$13,138	$15,532	$14,001	$15,292	$5,248	$5,229
Troy	$11,454	$21,211	$23,807	$23,632	$33,911	$37,592
Warren	$19,394	$27,774	$47,228	$57,557	$32,301	$56,967
Westland	NA	NA	$5,794	$7,241	$10,990	$11,351
Wyoming	$4,399	$4,968	$4,835	$5,822	$11,900	$12,807
Total			$186,630	$83,537	-$79,418	$324,475
Total less Detroit			$220,224	$225,222	$190,069	$271,069
Alpena	$4,499	$3,572	$2,058	$2,169	$3,095	$2,984
Marquette	$3,001	$4,620	$4,140	$7,680	$10,803	$12,649
Midland	$7,752	$27,654	$40,388	$24,877	$8,739	$11,171
Niles	NA	NA	$1,934	$2,357	$2,038	$2,192
Petoskey	NA	NA	$2,558	$1,826	$3,663	$3,843
Sault Ste. Marie	NA	NA	$2,413	$2,427	$2,462	$2,398
Traverse City	NA	NA	$3,023	$3,819	$7,593	$7,153
Port Huron	NA	NA	$3,829	$4,253	$4,373	$4,478
Total			$60,343	$49,408	$42,766	$46,868

Source: Michigan Department of Treasury – F65 Data

Village Revenues and Expenditures

The financial view from Michigan villages is little different than it has been in cities. All municipalities were hard hit by the Great Recession and are subject to the same statutory and constitutional limitations that prevent rapid fiscal recovery.

<u>2008–2012</u>

Total general fund revenues in Michigan villages fell 10.6 percent from 2008 to 2012, slightly more than in cities. Property tax collections fell 17 percent, compared with an 8.1 percent drop for cities. Villages increased their average millage rate slightly, from 11.24 mills to 11.44 mills.

These lower property tax collections were offset by lesser declines in revenue sharing payments relative to Michigan cities. Revenue sharing payments fell 12 percent in villages during this time period, compared with a 21 percent decline for cities. Other revenue increased 5.2 percent.

General fund expenditures were cut by 5.3 percent in Michigan villages. General government expenditures declined 8.3 percent and public safety expenditures fell 13.2 percent.

<u>2012–2014</u>

Revenues and expenditures continued to decline from 2012 to 2014, but at a much slower rate.

Revenues fell only 0.1 percent in Michigan villages. Property tax collections declined 5.2 percent, a level that would have been larger but for an increase in the average millage rate from 11.44 mills to 11.83 mills.

Revenue sharing payments to Michigan villages declined 0.2 percent. Other revenues, however, jumped 9.5 percent.

General fund expenditures fell another five percent from 2012 to 2014, with general government outlays down 5.4 percent and public safety outlays down 7.2 percent.

Impact of Property Tax on Local Finances

As noted, municipal property taxes have declined sharply over the last decade. Currently, property taxes account for 43.1 percent of cities' general revenue.

There are 277 cities in Michigan with a total population of 4,804,000, which is about 48 percent of all state residents. However, cities account for only 39 percent of state taxable value, down from 48 percent in 1996. The reason for this change is simple: growth in suburban areas has been much faster than in cities.

Property taxes provided a steady, growing source of revenue for cities during the pre-recessionary period between 1996 and 2008. During that time, taxable value increased by 67 percent and property tax collections rose by 69.3 percent. The average city millage rate changed little, only rising from 16.07 mills in 1996 to 16.29 mills in 2008. Over the same period, state taxable value increased 89.5 percent as suburban areas grew faster than cities.

The collapse of the housing and financial sectors in 2008 resulted in the largest decline in Michigan property values since the 1930s. The taxable value of cities fell 18.1 percent between 2008 and 2012, and property tax collections fell 9.1 percent. The decline in taxable value was partially offset by an increase in the millage rate from 16.28 mills to 18.07 mills. Over the same period, state taxable value fell 13.1 percent.

Michigan's economy hit bottom in March 2010. While there has been a modest recovery in the housing market in the last few years, the taxable value of cities has continued to decline (albeit at a much slower rate). From 2012 to 2014, the taxable value of cities fell 1.6 percent, while statewide taxable value increased 1.2 percent.

Municipal property tax collections declined 0.1 percent between 2012 and 2014. The drop in taxable value was largely offset by an increase in the tax rate from 18.07 mills to 18.30 mills.

Taxable Value Analysis—All Cities

From 2008 to 2012, only 57 cities recorded increases in taxable values. Only three of these cities had a population of 20,000 or more: Midland, Mt. Pleasant, and Marquette. Four cities had an increase of 20 percent or more: Milan (39 percent), Hart (31.1 percent), Ithaca (28.5 percent), and Harbor Beach (23.1 percent). Of these cities, only Milan is located in Southeast Michigan.

Of the 57 cities, 21 are located in the Upper Peninsula. There are three possible reasons for the increases in the UP:

- There is little dependence on the auto sector
- Homes in the UP did not experience the pre-recessionary run-up in prices that many locations in the Lower Peninsula did
- Housing prices in the UP are much lower than housing prices in southeast Michigan.

There were 69 cities where taxable value declined by 20 percent or more. In five of these cities, the decline was 40 percent or more: Pontiac (46.3 percent), Hazel Park (44.4 percent), Harper Woods (42.1 percent), Eastpointe (40.6 percent), and Flint (40.6 percent). Of the 69 cities where taxable value declined by 20 percent or more, only two were located outside Southeast Michigan: Evart and Otsego. Assuming a 3 percent annual increase, it will take Pontiac 21 years to recover its taxable value losses.

Taxable Value and Assessed Value

One consequence of the decline in taxable value from 2008 to 2012 is that the ratio of taxable value to assessed value increased from 85.2 percent in 2008 to 90.4 percent in 2012.

The gap between assessed value (state SEV) and taxable value provided a cushion for cities during the downturn. Why? Lower assessments do not translate directly into taxable value reductions if taxable value is well below assessed value. From 2008 to 2012, the assessed value of cities fell 22.4 percent while taxable value declined 18.1 percent. Statewide, assessed value fell 23 percent while taxable value fell only 13.1 percent.

In 2008, 227 cities had a taxable to assessed value ratio below 90% and 62 of these cities were below 80%. In 2012, only 48 cities were below 90% and only six cities were below 80%.

The statewide average ratio of taxable value to assessed value increased from 81 percent in 2008 to 90.4 percent in 2012. The ratio in 2014 was 88.6 percent.

Analysis of 15 largest Cities

Michigan's largest cities were hit harder by the 2008–2009 recession than the state as a whole. The taxable value of the 15 largest cities fell 19.8 percent from 2008 to 2012. Most of the larger cities are located in Southeast Michigan, which was hit the hardest by the recession due to the heavy reliance on the auto sector (see Exhibit 4).

Exhibit 4:

Taxable Value and Millage Rates, Selected Michigan Cities, 2008, 2012, and 2014 ($ amounts in thousands)									
	2008			2012			2014		
	TV	Taxes	Rate	TV	Taxes	Rate	TV	Taxes	Rate
Detroit	$10,031,267	$315,628	31.46	$8,447,370	$274,638	32.51	$7,313,418	$232,730	31.82
Grand Rapids	$4,868,590	$43,271	8.89	$4,470,723	$41,955	9.38	$4,364,655	$45,454	10.41
Warren	$4,708,678	$77,848	16.53	$3,321,789	$91,247	27.47	$3,268,039	$90,550	27.71
Sterling Heights	$5,095,797	$54,962	10.79	$3,957,035	$50,191	12.68	$3,984,215	$60,488	15.18
Ann Arbor	$4,898,327	$91,609	18.7	$4,683,218	$84,869	18.12	$4,969,658	$81,771	16.45
Lansing	$2,496,989	$50,827	20.36	$2,028,452	$48,555	23.94	$1,975,388	$47,074	23.83
Flint	$1,643,424	$30,229	18.39	$942,226	$20,720	21.99	$754,826	$16,619	22.02
Dearborn	$4,349,520	$75,290	17.31	$3,195,697	$85,836	26.88	$3,209,416	$85,370	26.6
Livonia	$5,028,791	$57,504	11.44	$3,847,518	$53,434	13.89	$3,831,607	$54,752	14.29
Troy	$5,562,596	$54,903	9.87	$4,312,692	$47,741	11.07	$4,371,580	$50,273	11.5
Westland	$2,311,265	$30,935	13.36	$1,665,350	$23,216	13.94	$1,576,585	$29,731	18.86
Farmimngton Hills	$4,410,277	$53,770	12.19	$3,080,204	$44,706	14.51	$3,054,060	$45,669	14.95
Kalamazoo	$1,723,990	$44,799	25.99	$1,504,880	$37,458	24.89	$1,482,368	$37,800	25.5
Wyoming	$2,276,643	$28,662	12.66	$1,896,009	$26,880	14.18	$1,858,486	$27,240	14.66
Southfield	$2,752,556	$63,927	17.04	$2,520,912	$61,568	24.42	$2,391,992	$60,589	25.33
Total	$62,158,710	$1,074,164	16.33	$49,874,075	$993,014	19.33	$48,406,293	$966,110	19.94

Source: Michigan Department of Treasury – Comprehensive Annual Financial Reports

2008–2012

Property tax collections fell only 7.6 percent from 2008 to 2012 among Michigan's 15 largest cities, due mainly to large millage increases approved by voters in Dearborn and Warren. Dearborn increased its millage rate from 17.31 mills to 26.88 mills, which kept property tax collections almost flat despite a 26.5 percent decline in taxable value. Similarly, Warren realized nearly flat tax collections despite a 29.5 percent decline in taxable value by increasing its millage rate from 16.53 mills to 27.71 mills.

The average millage rate for Michigan's 15 largest cities increased from 16.33 mills in 2008 to 19.32 mills in 2012. Ann Arbor and Kalamazoo were the only cities that did not increase their millage rates during that time period. Ann Arbor experienced the smallest drop in taxable value and Kalamazoo the fourth smallest.

2012–2014

While the taxable value of all Michigan cities fell only 1.6 percent from 2012 to 2014, the taxable value of the 15 largest cities fell further, by 2.9 percent. Much of this decline was due to sharp drops in Detroit and Flint, two cities with long-term economic woes. Excluding Detroit and Flint, taxable value fell only 0.4 percent.

Property tax collections dropped 2.7 percent from 2012 to 2014, with large upturns in Sterling Heights and Westland (due to large millage increases) offsetting sharp declines in Detroit and Flint. Excluding Detroit and Flint, property tax collections increased 2.6 percent.

Included in Exhibit 5 is taxable value per capita, which ranges from $52,783 in Troy to $7,566 in Flint. The average of the 15 cities is $27,727 ($29,880 when Detroit and Flint are excluded). The average for all cities is $26,017 and the state average is $32,244.

Any city with a tax base much below $20,000 per capita will struggle financially and be forced to levy higher than average property tax rates or income taxes. Note that Troy—with a tax base of $52,783 per capita—levies only 11.5 mills. Kalamazoo, which has a tax base of $19,622, levies a millage rate of 25.5 mills. As shown in Exhibit 6, the lower the taxable value per capita, the higher the millage rate. This illustrates why revenue sharing is so important.

Exhibit 5:

Taxable Value and Millage Rates, 15 Largest Cities

City	TV Per Capita 2014	% Change, TV 2008-2012	% Change, TV 2012-2014	% Change, Property Taxes 2008-2012	% Change, Property Taxes 2012-2014	Millage Rate 2008	Millage Rate 2012	Millage Rate 2014
Detroit	$10,619	-15.8%	-13.4%	-13.0%	-15.3%	31.46	32.51	31.82
Grand Rapids	$22,698	-8.2%	-2.4%	-3.0%	8.3%	8.89	9.38	10.41
Warren	$24,230	-29.5%	-1.6%	17.2%	-0.8%	16.53	27.47	27.71
Sterling Heights	$30,362	-22.3%	0.7%	-8.7%	20.5%	10.79	12.68	15.18
Ann Arbor	$42,467	-4.4%	6.1%	-7.4%	-3.7%	18.7	18.12	16.45
Lansing	$17,332	-18.8%	-2.6%	-4.5%	-3.1%	20.36	23.94	23.83
Flint	$7,566	-42.7%	-19.9%	-31.5%	-19.8%	18.39	21.99	22.02
Dearborn	$33,472	-26.5%	0.4%	14.0%	-0.5%	17.31	26.88	26.6
Livonia	$40,245	-23.5%	-0.4%	-7.1%	2.5%	11.44	13.89	14.29
Troy	$52,783	-22.5%	1.4%	-13.0%	5.3%	9.87	11.07	11.5
Westland	$19,092	-27.9%	-5.3%	-25.0%	28.1%	13.36	13.94	18.86
Farmington Hills	$37,568	-30.2%	-0.8%	-16.9%	2.2%	12.19	14.51	14.95
Kalamazoo	$19,622	-12.7%	-1.5%	-16.4%	0.9%	25.99	24.89	25.5
Wyoming	$25,081	-16.7%	-2.0%	-6.2%	1.3%	12.66	14.18	14.66
Southfield	$32,764	-8.4%	-5.1%	-3.7%	-1.6%	17.04	24.42	25.33
Total	$27,727	-19.8%	-13.4%	-1.0%	-2.7%	16.33	19.32	19.94

Cities with low tax bases must levy high millage rates to provide a reasonable level of services. Unfortunately, these high tax rates encourage residents and businesses to move elsewhere. If tax rates were kept low, however, the lack of services would encourage residents and businesses to move elsewhere as well.

A strong revenue sharing program, as Michigan used to have, allows communities with low tax bases to maintain a reasonable level of services without needing to levy uncompetitive tax rates. Without revenue sharing, cities are caught in a vicious cycle that results in ongoing serious financial problems as demonstrated by the fact that Michigan has had more communities under emergency manager control than any other state.

Exhibit 6:

Taxable Value and Millage Rates by Quintile

	TV Per Capita	Millage Rate
Top Quintile	$73,324	15.14
Second Quintile	$32,376	17.8
Third Quintile	$24,365	17.79
Fourth Quintile	$19,254	19.2
Bottom Quintile	$13,714	20.53
Total	$26,102	17.98

Source: Michigan Department of Treasury. Calculations by GLEC.

Under the Proposal A cap there are two ways taxable value can exceed the inflation cap: new or improved property or the sale of existing property. However, Article IX, Section 31 of the state constitution (Headlee Amendment) reads as follows.

> "If the assessed valuation of property as finally equalized, excluding the value of new construction and improvements, increases by a larger percentage than the increase in the General Price Level from the previous year, the maximum authorized rate applied thereto in each unit of Local Government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the General Price Level, as could have been collected at the existing authorized rate on the prior assessed value."

This means, in effect, that the only increase allowed above the rate of inflation is new and improved property which is relatively small in most Michigan cities. This provision can be overridden with a vote of the people.

Although housing values are recovering from the sharp decline they experienced during the Great Recession, it will take most cities a number of years to recover their lost tax base due to the constitutional cap on the annual increase in taxable value. For example, taxable value in Farmington Hills fell 30.2 percent from 2008 to 2012. Assuming an optimistic annual increase of 3 percent, it will take 13 years for the city's taxable value to return to 2008 levels. At a lower inflation rate of 1.5 percent, the return to 2008 levels would take 30 years. Adjusted for inflation, however, taxable value may never return to the 2008 level in Farmington Hills and many other Michigan cities.

Such a sharp drop in property values was not anticipated when Proposal A was enacted in 1994, as Michigan had only experienced one year (1960) when property assessments had fallen, and the decline was only 1 percent.[5]

Other Selected Cities

In order to provide some geographical balance to the report, property tax data from eight smaller Michigan cities was analyzed (see Exhibit 7).

The declines in property values were not as large in cities outside southeast Michigan, particularly those cities on the Great Lakes. The taxable value of the eight cities outside southeast Michigan fell only 0.9 percent from 2008 to 2012. Taxable value actually increased in Marquette, Traverse City, Midland, and Sault Ste. Marie. Port Huron and Petoskey suffered the largest declines. Property tax collections increased by three percent in the eight cities, with only Midland and Ste. Sault Marie raising their millage rates by a significant amount.

Taxable value increased 4.1 percent from 2012 to 2014 compared with a 2.9 percent decline for the 15 largest cities. Tax collections rose 2.7 percent compared with a 2.7 percent decline for the 15 largest cities. Property tax collections increased 14 percent in Marquette due to a 14.7 percent increase in taxable value.

Taxable value per capita averaged $38,549 compared with $27,727 in the 15 largest cities. The average is inflated by Petoskey, where the taxable value per capita is $91,612, one of the highest in the state. The average for the other seven cities is $30,968.

[5] Due to the exemption of inventories from the property tax base in 1976, property assessments fell in that year.

Exhibit 7: Taxable Value and Millage Rates, Eight Smaller Cities								
	TV Per Capita 2014	% Change, TV 2008-2012	% Change, TV 2012-2014	% Change, Property Taxes 2008-2012	% Change, Property Taxes 2012-2014	Millage Rate		
						2008	2012	2014
Midland	$49,594	5.3%	6.0%	17.7%	2.7%	12.91	14.45	14
Port Huron	$27,077	-21.2%	-6.4%	-21.2%	-6.5%	16.94	16.94	16.93
Marquette	$26,129	11.2%	14.7%	12.3%	14.0%	17.4	17.56	17.47
Traverse City	$49,748	8.2%	5.2%	9.8%	5.0%	13.72	13.91	13.89
Sault Ste. Marie	$19,836	3.1%	-2.5%	7.7%	-0.8%	21.44	22.39	22.79
Niles	$18,674	-7.5%	-0.9%	-7.5%	-0.9%	16.12	16.12	16.12
Alpena	$25,757	-9.1%	-0.5%	-16.2%	-0.8%	18.12	16.71	16.65
Petoskey	$91,612	-16.1%	2.5%	-14.7%	2.5%	14.08	14.3	14.3
Total		-0.9%	4.1%	3.0%	2.7%	130.73	132.38	132.15

Source: Michigan Department of Treasury. Calculations by GLEC.

Villages

There are 257 villages in Michigan with a total population of 270,000, for an average population of 1,050. Only three villages have a population of 5,000 or more: Beverley Hills, Milford, and Holly. The taxable value of all villages is only 2.3 percent of the state total.

From 2008 to 2012, the taxable value of villages fell 18 percent and tax collections declined 16.5 percent. The average millage rate increased from 11.24 mills to 11.44 mills. From 2012 to 2014, taxable value increased 0.1 percent and property tax collections were up 2.6 percent due to an increase in the property tax rate from 11.44 mills to 11.83 mills.

Underfunding of Revenue Sharing

State revenue sharing began in the 1930s, when Michigan began taxing enterprises that held licenses for alcoholic beverages. At that time, the state returned 85 percent of liquor license tax collections to the municipalities of origin. As time passed, however, Michigan's revenue sharing base changed. In 1946, the state constitution was amended to provide a constitutional revenue sharing payment based upon a percentage of sales tax collections, to be distributed to municipalities on a per capita basis.

There have been numerous changes to the statutory revenue sharing base since the 1930s, including dedications of revenue from the intangibles tax (repealed), the income tax, the sales tax, and the single business tax (repealed). However, statutory revenue sharing always was fully funded until the state temporarily reduced statutory revenue sharing during the recessions of 1980–1983.

Cuts to statutory revenue sharing began again in FY 1991 and—with the exception of FY 1998 when the base was revised, and FY 2001 when statutory revenue sharing was fully funded—actual statutory revenue sharing payments have been below full funding each year since.

Exhibit 8:

Statutory Revenue Sharing Cuts Prior to 1998

In Millions

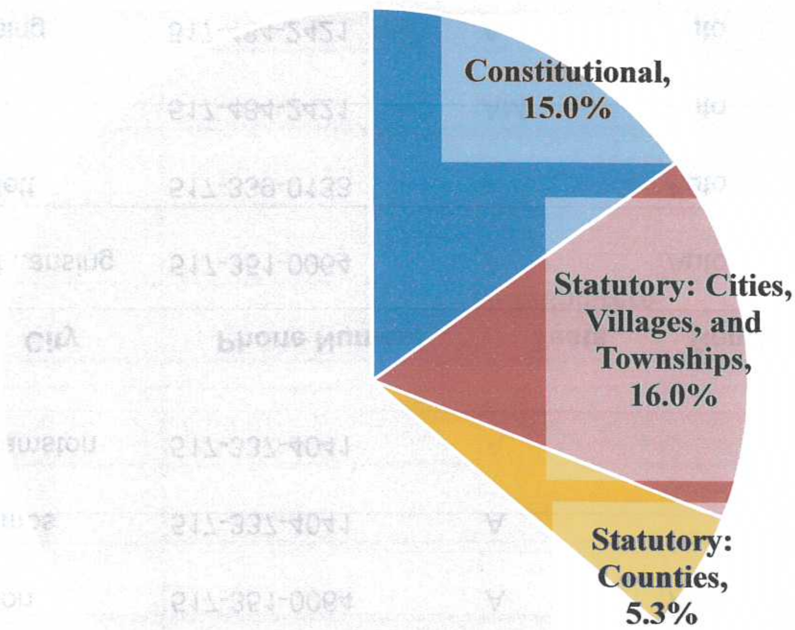
FY 81	**FY 82**	**FY 83**	
$43.5	**$40.0**	**$11.9**	
FY 91	**FY 92**	**FY 93**	**FY 94**
$10.7	**$112.2**	**$45.5**	**$54.5**
FY 95	**FY 96**	**FY 97**	
$67.0	**$81.3**	**$140.4**	

Source: Michigan Senate Fiscal Agency.

In 1998, state policymakers amended the law to provide that statutory revenue sharing would be based upon a percentage of sales tax collections. The statutory revenue sharing base was specified to be 21.3 percent of the sales tax collections at a rate of four percent. For municipalities, the base was specified as an amount equal to 74.94 percent of 21.3 percent of the sales tax collections at a rate of four percent.

Under current law, state revenue sharing consists of two parts: constitutional payments and what is commonly referred to as statutory revenue sharing payments. Constitutional revenue sharing payments are based upon a percentage of actual sales tax collections.

Percent of Sales Tax Revenue Dedicated to Revenue Sharing in Constitution and Statute (4% Rate)



But only once since FY 1998 have lawmakers acted to fully fund statutory revenue sharing payments (in FY 2001). Statutory revenue sharing in FY 2016 is estimated to be $585 million below the full funding of the state's statutory dedication. What's more, the cumulative amount of cuts to statutory revenue sharing for municipalities from FY 1998 to FY 2016 is estimated to be a staggering $5.538 billion.

Exhibit 9:

Statutory Revenue Sharing Cuts to CVT's Since FY 1998

($ Millions)

	FY 99	FY 00	FY 01	FY 02	FY 03
Full Funding	$1,197.9	$1,297.2	$1,326.7	$1,340.3	$1,363.0
Actual	$1,180.2	$1,247.9	$1,326.7	$1,299.8	$1,248.8
Cut	$17.7	$49.3	$0.0	$40.5	$114.2

	FY 04	FY 05	FY 06	FY 07	FY 08
Full Funding	$1,348.2	$1,380.3	$1,403.9	$1,374.7	$1,420.6
Actual	$1,122.6	$1,112.1	$1,102.5	$1,070.9	$1,076.2
Cut	$225.6	$268.2	$301.4	$303.8	$344.4

	FY 09	FY 10	FY 11	FY 12	FY 13
Full Funding	$1,339.8	$1,298.7	$1,372.0	$1,460.4	$1,490.6
Actual	$1,037.1	$938.9	$944.6	$917.2	$946.9
Cut	$302.7	$359.8	$427.4	$543.2	$543.7

	FY 14	FY 15	FY 16	TOTAL CUTS SINCE FY 98
Full Funding	$1,525.5	$1,569.1	$1,618.0	
Actual	$974.8	$1,009.0	$1,032.7	
Cut	$550.7	$560.1	$585.3	$5,538.0

Source: Michigan House Fiscal Agency.

Even though the percentage of actual collections dedicated to constitutional revenue sharing payments has not changed, as previously discussed, constitutional payments have also been effectively reduced due to tax changes that reduce the sales tax base.

In addition to the reductions to statutory revenue sharing payments listed above, the impact of reductions to the sales tax base have reduced constitutional revenue sharing payments an estimated $27.3 million in FY 2014, and a cumulative $181.2 million since Proposal A was adopted in 1994.

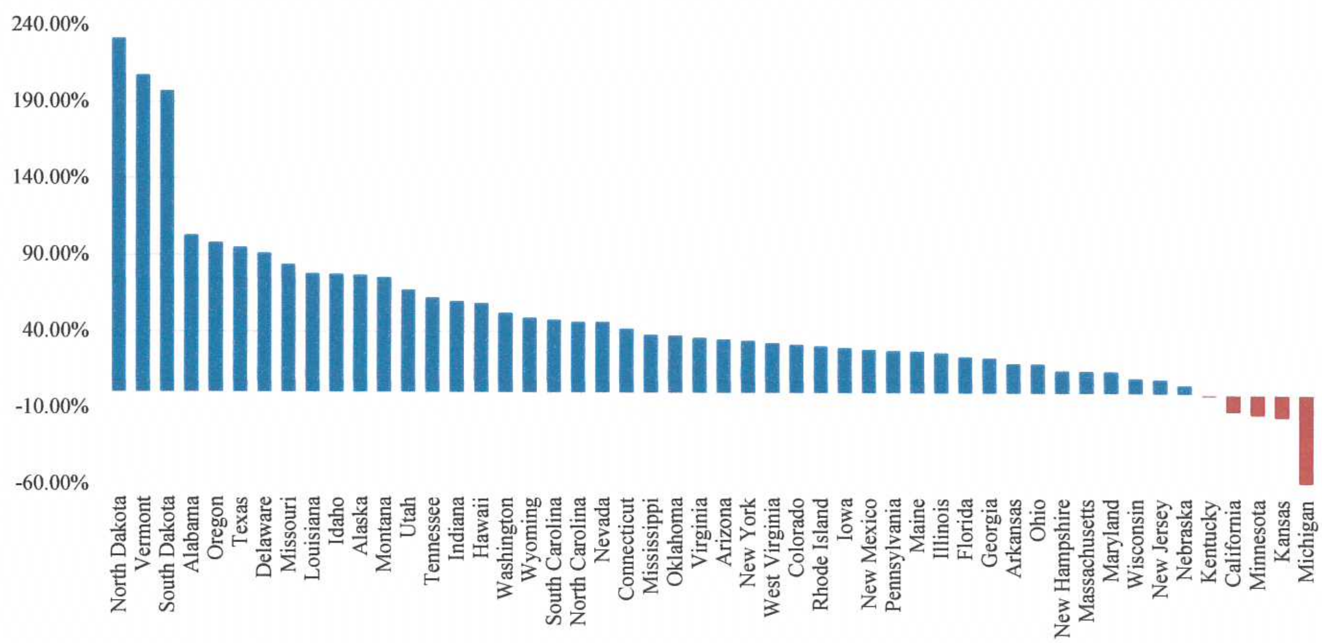
Cuts in state revenue sharing have been a major contributor to the fiscal problems of Michigan's cities. A recent MSU study (Beyond State Takeovers, August 31, 2015) concluded:

> "The importance of a well-designed state aid system is hard to overstate. It allows local officials greater flexibility in responding to economic pressures and the service needs of residents. This flexibility is particularly valuable during periods of economic downturn. Because local governments vary widely in their tax bases and in their ability to raise critical own-source revenues, influential research illustrates the equalizing potential of state aid, particularly in helping to smooth out revenue gaps between wealthier and poorer local jurisdictions. In the past few decades, very few states target aid to local governments as a function of local need. The level of state aid that is available can make it possible for certain jurisdictions – for instance, older, industrial cities experiencing significant job loss coupled with a much reduced tax base – to at least afford minimum levels of services and possibly respond to growing service demands on the heels of a crippling state or national recession."

Since 2002, Michigan has led the nation in cuts to municipalities (see Exhibit 10). The Census of Governments published every five years by the U.S. Census Bureau reported that from 2002 to 2012, municipal revenue from state sources increased in forty-five states and the average increase was 48.1 percent. In Michigan, municipal revenue from state sources declined 56.9 percent from 2002 to 2012.

Exhibit 10:

Growth in Municipal Revenue from State Sources (2002 - 2012)



Only four other states reduced municipal revenue from state sources during that period. California, Minnesota, Kansas, and Kentucky reduced state sources to municipalities by an average of 9.41 percent. Kansas was the next largest decline at 14.3 percent – compared to a 56.9 percent decline in Michigan.

Six states increased revenues to municipalities by 90 percent to over 200 percent; and another 14 states increased municipal revenue between 40 percent and 90 percent. In total, 46 states increased municipal revenues during the period at an average rate of 48.1 percent.

We only have numbers for Michigan through the current budget year so we cannot do a multi-state comparison past 2012, but from 2002 to 2016 as enacted, Michigan's statutory revenue sharing has declined 61 percent. As other states are increasing municipal revenues, Michigan continues to reduce funding for municipalities and a comparison of all 50 states from 2002 to 2016 would likely show an even greater relative decline for Michigan.

Municipal Economic and Employment Trends

The most recent municipal employment data available comes from the U.S. Census Bureau and is for 2002. The total number of full-time equivalent (FTE) employees working for municipal government in Michigan was 80,212, representing 52.4 percent of general government employment (municipalities, counties, townships and special districts). In 2012, general government employment was 122,600. Assuming municipalities maintained the same share, municipal employment is estimated at about 64,000, about 20 percent below the 2002 level.

In 2012 (latest data), Michigan cities and villages paid $2.42 billion in wages and salaries and spent $11.93 billion on public safety, transportation, housing, sewerage and waste management, and other services.

The total payroll for municipalities increased 20 percent from 1997 to 2002, and then declined 8.4 percent from 2007 to 2012. Payroll as a share of total expenditures fell from 27.2 percent in 1997 to 22.4 percent in 2002 and 20.3 percent in 2012.

Total employment (FTEs) for the 15 largest cities fell 14 percent from 1995 to 2008, with only five cities recording increases. From 2008 to 2012, employment fell 17.8 percent with only Ann Arbor (2.9 percent) increasing employment (see Exhibit 11).

We only have partial employment data for the eight smaller cities included in this analysis. We have 1995 data for all of the cities except Alpena, and 2012 data for all eight cities. Employment declined 6.1 percent from 1995 to 2012 for the seven cities for which we have data for both years.

The direct and indirect economic impact of payroll and spending can be calculated, but local government offers intangible benefits upon which it is impossible to place a dollar value.

Exhibit 11:

Employment (FTEs), Selected Michigan Cities

City	FTES 1995	2008	2012	% Change 1995-2008	% Change 2008-2012
Ann Arbor	1,303	985	1,014	-24.4%	2.9%
Dearborn	976	1,392	923	42.6%	-33.7%
Detroit	17,193	13,640	10,525	-20.7%	-22.8%
Farmington Hills	394	498	445	26.4%	-10.6%
Flint	3,815	3,503	3,484	-8.2%	-0.5%
Grand Rapids	1,967	1,803	1,502	-8.3%	-16.7%
Kalamazoo	990	804	737	-18.8%	-8.3%
Lansing	1,317	1,126	888	-14.5%	-21.1%
Livonia	755	854	675	13.1%	-21.0%
Southfield	918	762	690	-17.0%	-9.4%
Sterling Heights	648	689	579	6.3%	-16.0%
Troy	506	583	515	15.2%	-11.7%
Warren	997	468	409	-53.1%	-12.6%
Westland	385	455	341	18.2%	-25.1%
Wyoming	406	438	303	7.9%	-30.8%
Total	32,570	28,000	23,030	-14.0%	-17.8%
Alpena	NA	95	86	NM	-9.5%
Marquette	303	283	277	-6.6%	-2.1%
Midland	440	438	384	-0.5%	-12.3%
Niles	154	143	125	-7.1%	-12.6%
Petoskey	78	79	84	1.3%	6.3%
Port Huron	423	314	265	-25.8%	-15.6%
Traverse City	200	217	211	8.5%	-2.8%
Sault Ste. Marie	NA	159	150	NM	-5.7%
Total	1,598	1,728	1,582	NM	-8.4%

Source: U.S. Census Bureau. Calculations by GLEC.

Impact of Funding Cuts on Local Services

Although there are many factors that determine the economic health of a region or state, quality of life factors play a major role in attracting "new economy" businesses and workers (Florida, 2000). Research shows quality of life factors that attract a highly educated and competent workforce are integral to taking advantage of the current economic climate.

Local communities and governments must strike a balance between providing a reasonable portfolio of services while maintaining reasonable tax levels. An imbalance in either direction will be potentially damaging.

Quality of life factors are partially determined by local government service provision in items such as transportation systems, health care and food safety, parks and recreational opportunities and public safety. Businesses' and residents' bottom lines are affected by the delivery of public services, as well as by tax rates.

A review of the relevant economic research published by Ronald Fisher, Professor of Economics at Michigan State University, demonstrates a link between the provision of public services such as public safety and transportation and economic development. Research also shows that this link exists even after factoring in tax rates. Therefore, local communities and governments must strike a balance between providing a reasonable portfolio of services while maintaining reasonable tax levels. An imbalance in either direction will be potentially damaging.

Local Service Reduction

Michigan cities (excluding Detroit[6]), reduced their general fund expenditures by 7.4 percent between 2008 and 2012.

As is shown in Exhibit 12, **every category of spending except health and human services—which is very small—and other public safety declined**. As might be expected, the smallest declines were for police and fire services.

The largest declines were generally those services that are considered nonessential or can be deferred such as transfers out and parks and recreation.

The decline in local government revenues bottomed out for most cities in 2012. Expenditures continued to decline from 2012 to 2014, but at a much slower rate—1.1 percent. Most expenditure categories declined at slower rates or increased, with the notable exception of police and fire services, which declined 3.5 percent from 2012 to 2014, compared with a decline of 1.1 percent from 2008 to 2012.

[6] We are separating the analysis of Detroit from all other cities as their expenditures are 30 percent of the total for all cities and given their special circumstances their inclusion would distort the analysis. Also we do not have data for Detroit that is strictly comparable to the other cities.

Exhibit 12:

Expenditures by Michigan Cities, 2008, 2012 and 2014 (Excludes Detroit)					
	2008	2012	2014	% Change 2008-2012	% Change 2012-2014
General Government	$640,575,293	$584,440,311	$556,760,973	-8.8%	-4.7%
Police/Sheriff	$800,492,684	$791,894,054	$770,602,656	-1.1%	-2.7%
Fire	$421,472,593	$416,951,761	$401,282,899	-1.1%	-3.8%
Other Public Safety	$192,198,610	$194,165,124	$205,279,609	1.0%	5.7%
Parks & Recreation	$157,916,325	$130,696,145	$127,438,925	-17.2%	-2.5%
Public Works	$277,617,063	$263,314,249	$268,474,215	-5.2%	2.0%
Health & Human Services	$7,702,342	$8,614,938	$7,896,591	11.8%	-8.3%
Redevlopment, Planning & Housing	$52,570,245	$48,526,535	$52,064,051	-7.7%	7.3%
Cultural	$32,392,495	$28,727,494	$22,100,963	-11.3%	-23.1%
Capital Outlay	$33,811,359	$31,112,380	$36,736,770	-8.0%	18.1%
Debt Service	$23,123,172	$21,973,319	$16,957,449	-5.0%	-22.8%
Fringe Benefits	$143,273,752	$92,891,895	$87,101,521	-35.2%	-6.2%
Transfers Out	$209,528,959	$166,740,281	$193,858,561	-20.4%	16.3%
Other Expenditures	$15,321,600	$5,416,281	$9,608,135	-64.6%	77.4%
Total Expenditures	$3,007,996,492	$2,785,464,765	$2,756,163,317	-7.4%	-1.1%

Source: Michigan Department of Treasury. Calculations by GLEC.

The impact of the funding cuts on services is difficult to quantify. One obvious impact is on employment. We do not have good data on employment, but we estimate that municipal employment fell about 20 percent from 2002 to 2012 (see discussion on page 34).

We do have data for the 15 largest cities. Their employment fell by 4,570 from 1995 to 2008, or 14 percent from 1995 to 2008, and by another 4,970 from 2008 to 2012, or 17.8 percent. A large share of this decline was in Detroit. Excluding Detroit, employment fell 13.1 percent from 1995 to 2008 and 6.6 percent from 2008 to 2012.

A Look at Detroit

Detroit reduced its general fund expenditures by $185 million, or 15.7 percent from 2008 to 2012. Public safety, which accounts for over 60 percent of the budget, actually increased 1.7 percent. General government was reduced by about $122 million, or 40.8 percent.

From 2012 to 2014, Detroit reduced its expenditures another 5.3 percent, or about $53 million. Public safety expenditures were reduced by one-third, ($204 million) while general government spending increased 68 percent, or $120 million. Most of the increase was in the category of non-departmental expenditures. Obviously, there were changes in the classification of expenditures.

The only complete data we have for the eight smaller cities analyzed in this report is for 2008 and 2012. These cities reduced their employment by 146, or 8.4 percent.

Lansing is a typical example. As property values and state revenue sharing dropped, it had no choice but to slash payroll and cut costs where it could.

Bridge

News & Analysis from The Center for Michigan

From 2006 to 2013, the city cut its work force by 30 percent, from 1,220 to 852. It negotiated increases in employee health care premiums and pension contributions. It closed three fire stations and reduced minimum staffing requirements for firefighters. It closed two municipal golf courses.

Roads suffered. From 2004 to 2013, the percentage of federally funded roads in that city that were in poor condition soared from 4 percent to 40 percent.

In November 2011, voters approved a 5-year, 4-mill tax increase to fund the police and fire departments – avoiding threatened cuts of 120 employees in the police and fire departments. They turned down the same request six months earlier.

Saginaw, on the high side of fiscal stress, has managed to avoid emergency management. But the city is barely recognizable from what it was decades ago.

According to the Municipal League, it lost more than $30 million in projected revenue sharing from 2003 to 2014. A 2013 report by Michigan State University on municipal legacy debt found that Saginaw's unfunded retiree health care debt in 2011 was about $200 million. It had more than $100 million in unfunded pension debt and spent more than $8 million – a fourth of the general fund budget – on retiree health care in 2013, leaving much less to pay for basic services for residents.

That includes police and fire, normally the last services a municipality cuts. The city has slashed its police force to 55, a quarter of its staffing level in 1975 – and a cut twice as steep as the drop in population during that time. Its fire department is staffed at 50, half what it was in 1995.

Its streets have steadily deteriorated, with 57 percent of its federal aid roads in poor condition in 2013.

The same year, city officials decided to stop cutting weeds in the hundreds of vacant parcels scattered around town – a measure to save $200,000 a year. The resulting weed-choked lots left many residents complaining the city no longer cared about their neighborhoods. The Saginaw Land Bank in 2014 agreed to pay the city $45,000 to cut some of the lots while the city mulls a long-term solution.

Source: Bridge Magazine, "City Blues: MSU study finds state tax policies cripple cities". November 2015.

Causes and Effects of Fiscal Distress

There are currently 11 cities, one township, one county and five school districts in which the state has determined that there is a financial emergency.

In the cities and township, the average taxable value is $12,060. If Detroit is excluded, the average taxable value is $13,115. The state average is about $32,000 per capita.

Our best estimate is that a local unit of government will have a very difficult time providing a reasonable level of services if their per capita taxable value is less than $20,000 without having to levy tax rates that make them economically uncompetitive. The average property tax rate in the cities and township, under state supervision is 29.3 mills compared to the average for all cities of 18.3 mills. Royal Oak Township levies 15.11 mills compared to the average for all townships of 4.71 mills. Only one of the cities, Pontiac, levies less than 22 mills. Detroit, Flint, Highland Park, Hamtramck, and Pontiac also levy an income tax.

This suggests that appointing an emergency manager or signing a consent agreement with a local unit is unlikely to do much to fix its fiscal problems. There may be cases of mismanagement or corruption where an emergency manager is required, but unless the state is willing to address the underlying economic problems the intervention is likely to be unsuccessful. This has been proven time and again in Michigan.

A recent study by MSU reached a similar conclusion.

> "In light of the clustering of distressed localities within Michigan's borders, it comes as little surprise that Michigan lawmakers would value a policy that allows state officials to help struggling local governments meet conditions of chronic fiscal stress. However, as we discuss below, what is quite striking is the relationship between the policy's goals and design – which favors state takeover of local government– and the nature and underlying causes of the problem of acute fiscal distress. The financial consequences of deep-rooted economic and social forces are unlikely to be fully alleviated via temporary suspension of local self-government. Neither are the often overlooked but critically important state-imposed causes analyzed above." *(MSU, Beyond State Takeovers, August 31, 2015)*

Issues for Further Exploration

Michigan's Revenue Sharing Formula

Until the state fully funds statutory revenue sharing to cities, villages and townships, many municipalities will continue to have fiscal problems—even in a growing state economy. For FY 2015–16, the total amount of underfunding is estimated to be $585 million.

Our best estimate is that a local unit of government will have a very difficult time providing a reasonable level of services if their per capita taxable value is less than $20,000 without having to levy tax rates that make them economically uncompetitive. The average property tax rate in the cities and township under state supervision is 29.3 mills, compared to the average of 18.3 mills for all cities. There are 90 cities in Michigan that have taxable value per capita of less than $20,000.

This issue could be addressed through new statutory revenue sharing formula which takes into account factors such as population, per capita income, per capita property tax base, and cost of essential services.

In addition, local units have little or no say about changes to the state tax base yet bear some of the burden of tax cuts. The state should consider effective ways to hold local units harmless to the negative impact of sales tax base/rate reductions and property tax base/rate reductions.

Artificial Reductions in Property Tax Revenues

Under Proposal A and its subsequent implementing legislation, the uncapped value of property upon its transfer is treated as growth in the existing value of the property. In combination with the Headlee Amendment, the effect has been to artificially reduce property tax revenues since 1994. This interaction disproportionately affects aging communities that can no longer support new growth and rely on the increase in property value from the uncapping.

Although initial implementing legislation for the Headlee Amendment permitted rolled back millages to be adjusted upward when property tax value increased by less than the rate of inflation, the Legislature eliminated any millage rate recovery for this situation following the passage of Proposal A.

A 2002 Michigan Supreme Court decision (WPW Acquisition v. City of Troy) barred complete implementation of 1994 Proposal A legislation regarding property taxation on commercial rental property. That legislation provided that, in calculating the cap for determining the taxable value of commercial rental property, both increases and decreases in occupancy would be treated differently from market value changes affecting other types of property.

The Michigan Supreme court ruled that an increase in value due to an increase in a commercial rental property's occupancy could not be used to increase the property's taxable value beyond the constitutional assessment cap established by Proposal A. As a result of this court decision, commercial rental property taxes are based on occupancy decreases and are not adjusted upward if the property's occupancy rate increases.

The following changes could help address this problem:

- When property is transferred, treat the increases from the previously untaxed value, as exempt property.
- Allow local units of government to roll up their millage rates in years when property tax values on existing property increase by less than the rate of inflation.
- Remove certain commercial rental property from the General Property Tax Act and create a new specific tax for that property.

Explore alternative revenue sources.

Municipalities need access to revenue sources in addition to the property tax. Sales taxes, fuel taxes, vehicle registration fees, alcohol taxes, tobacco taxes, public utility sales taxes, real estate transfer taxes, and other sources should be considered. Indeed, Ohio, Indiana and Illinois allow several of these.

Permit broader service sharing for public safety.

Public safety expenditures account for almost half of the general fund budgets of Michigan municipalities. Crime does not stop at a city's border. It would be more appropriate—and could help relieve pressure on larger cities' budgets—if the costs of providing public safety were spread across the county or shared on a regional basis.

Determine how to better address unfunded mandates.

One of the intents of the Headlee Amendment was to prevent the state from imposing unreimbursed mandates on local governments. However, the amendment has been ineffective in preventing such mandates from being imposed.

Local units of government have been forced to pick up the tab for numerous services that are deemed "optional" by the state, but which truly are not optional for taxpayers (e.g., 9-1-1 certification requirements, smoking ban enforcement, tattoo parlor inspections).

Worse still, the courts have been slow to act on Headlee enforcement (17 years, in the *Durant* case). Local governments end up covering the costs of various mandates while litigation slowly moves through the court system. And further, Michigan courts seem unwilling to tell the Legislature to appropriate necessary funds, based on the separation of powers. These have left Headlee essentially moot when it comes to unfunded mandates.

A better method must be developed to address this issue.

Data Appendix

Revenues and Expenditures, Selected Michigan Cities, 2014

	Ann Arbor	Dearborn	Detroit	Farmington Hills	Flint	Grand Rapids
Expenditures						
General Government	$11,659,610	$15,028,031	$296,530,041	$9,479,476	$13,294,648	$22,924,381
Public Safety	$38,761,781	$52,144,105	$426,103,004	$17,498,574	$34,991,883	$70,333,167
Public Works	$13,862,594	$12,045,751	$59,575,884	$6,430,421	$415	$4,849,519
Parks & Recreation	$6,741,131	$9,926,253	$15,979,864	$6,703,160	$1,235,568	$0
Other Expenditures	$10,561,143	$9,880,845	$314,721,000	$9,717,827	$1,151,940	$18,289,547
Total	$81,586,259	$99,024,985	$1,112,839,573	$49,829,458	$50,674,454	$116,396,614
Revenues						
Property Taxes	$50,671,753	$71,863,633	$129,143,195	$27,852,944	$5,122,740	$12,883,112
State Revenue Sharing	$10,153,056	$8,860,349	$189,756,901	$6,317,081	$14,140,573	$14,496,658
Income Taxes	$0	$0	$253,769,874	$0	$13,038,276	$64,612,270
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Revenues and Expenditures, Selected Michigan Cities, 2014

	Kalamazoo	Lansing	Livonia	Southfield	Sterling Heights	Troy
Expenditures						
General Government	$10,020,544	$18,149,864	$8,100,021	$15,563,803	$12,170,535	$6,583,538
Public Safety	$30,975,369	$66,701,402	$32,284,721	$38,539,418	$48,577,037	$25,849,679
Public Works	$4,362,897	$10,095,380	$2,737,881	$3,487,573	$12,487,492	$5,675,847
Parks & Recreation	$1,833,212	$7,741,209	$366,745	$0	$1,666,722	$5,879,055
Other Expenditures	$5,718,212	$14,024,217	$7,650,357	$4,968,733	$6,840,598	$8,773,564
Total	$52,910,234	$116,712,072	$51,139,725	$62,559,527	$81,742,384	$52,761,683
Revenues						
Property Taxes	$29,993,668	$36,924,955	$30,746,396	$44,846,301	$50,107,694	$29,591,708
State Revenue Sharing	$8,249,754	$13,630,527	$8,044,682	$6,304,301	$10,541,415	$6,502,877
Income Taxes	$0	$31,450,913	$0	$0	$0	$0
Licenses & Permits	$2,058,568	$1,508,133	$1,983,859	$2,445,398	$1,735,413	$2,429,459
Fees, Charges & Penalties	$7,576,868	$10,662,156	$8,313,339	$7,679,467	$13,717,835	$8,625,986
Other Income	$2,826,403	$23,048,376	$3,547,147	$6,072,775	$5,620,939	$6,444,321
Total	$50,705,261	$117,225,060	$52,635,423	$67,348,242	$81,723,296	$53,594,351

Revenues and Expenditures, Selected Michigan Cities, 2014

	Warren	Westland	Wyoming	Total
Expenditures				
General Government	$17,946,135	$13,434,892	$4,790,744	$475,676,263
Public Safety	$56,468,660	$30,742,406	$14,147,669	$984,118,875
Public Works	$7,123,952	$7,341,612	$971,406	$151,048,624
Parks & Recreation	$0	$1,538,287	$0	$59,611,206
Other Expenditures	$4,748,294	$6,237,156	$700,203	$423,983,636
Total	$86,287,041	$59,294,353	$20,610,022	$2,094,368,384
Revenues				
Property Taxes	$66,479,677	$21,286,912	$9,479,724	$616,994,412
State Revenue Sharing	$12,687,778	$7,670,418	$6,019,005	$323,375,375
Income Taxes	$0	$0	$0	$362,871,333
Licenses & Permits	$2,700,351	$1,268,316	$1,109,032	$32,340,170
Fees, Charges & Penalties	$6,895,761	$7,098,825	$2,212,283	$308,624,237
Other Income	$9,530,543	$18,851,464	$1,699,941	$353,715,901
Total	$98,294,110	$56,175,935	$20,519,985	$1,997,921,428

Revenues and Expenditures, Selected Michigan Cities, 2014

	Alpena	Marquette	Midland	Niles	Petoskey
Expenditures					
General Government	$2,349,147	$3,127,542	$5,812,138	$1,558,370	$1,531,204
Public Safety	$3,430,172	$6,779,514	$14,740,646	$3,772,217	$2,748,537
Public Works	$658,396	$3,936,500	$5,867,712	$966,407	$596,935
Parks & Recreation	$725,430	$425,087	$4,625,415	$98,002	$1,855,406
Other Expenditures	$1,797,309	$3,710,091	$7,124,643	$306,182	$1,251,907
Total	$8,960,454	$17,978,734	$38,188,554	$6,701,178	$7,983,989
Revenues					
Property Taxes	$3,834,498	$13,442,528	$30,780,923	$2,910,128	$3,218,867
State Revenue Sharing	$1,126,128	$2,582,215	$3,323,642	$1,206,489	$508,435
Income Taxes	$0	$0	$0	$0	$0
Licenses & Permits	$171,795	$35,462	$514,354	$43,402	$15,265
Fees, Charges & Penalties	$919,489	$2,141,410	$2,427,661	$0	$1,299,444
Other Income	$3,162,218	$14,988,809	$3,327,904	$2,193,456	$2,423,314
Total	$9,178,128	$19,700,424	$40,374,484	$6,353,475	$7,465,325

Revenues and Expenditures, Selected Michigan Cities, 2014

	Port Huron	Sault Ste. Marie	Traverse City	Total
Expenditures				
General Government	$2,998,897	$2,089,447	$2,384,278	$21,851,023
Public Safety	$12,646,923	$4,090,602	$5,891,957	$54,100,568
Public Works	$1,531,993	$954,319	$1,329,368	$15,841,630
Parks & Recreation	$2,485,950	$1,273,330	$1,704,842	$13,193,462
Other Expenditures	$1,427,307	$3,513,647	$2,805,852	$21,936,938
Total	$21,091,070	$11,921,345	$14,116,297	$126,941,621
Revenues				
Property Taxes	$6,715,401	$7,220,537	$8,109,109	$76,231,991
State Revenue Sharing	$3,314,544	$1,464,462	$1,317,895	$14,843,810
Income Taxes	$5,934,153	$0	$0	$5,934,153
Licenses & Permits	$601,331	$30,170	$288,269	$1,700,048
Fees, Charges & Penalties	$614,293	$2,478,583	$383,023	$10,263,903
Other Income	$1,003,446	$1,093,197	$3,620,205	$31,812,549
Total	$21,183,168	$12,123,949	$13,718,501	$130,097,454

Revenues and Expenditures, Selected Michigan Cities, 2012

	Ann Arbor	Dearborn	Detroit	Farmington Hills	Flint
Expenditures					
General Government	$12,834,042	$11,722,656	$214,180,790	$10,380,197	$16,081,579
Public Safety	$39,454,457	$51,229,100	$582,003,880	$21,111,697	$34,917,050
Public Works	$12,687,232	$9,728,616	$71,131,633	$6,725,743	$2,738,279
Parks & Recreation	$5,123,587	$8,396,021	$16,967,327	$7,433,857	$3,792,290
Other Expenditures	$5,830,303	$20,033,850	$348,666,961	$4,108,972	$8,891,499
Total	$75,929,621	$101,110,243	$1,232,950,591	$49,760,466	$66,420,697
Revenues					
Property Taxes	$48,856,539	$62,375,793	$147,790,000	$29,937,954	$6,952,418
State Revenue Sharing	$9,748,477	$8,391,595	$173,292,222	$6,024,718	$13,103,186
Income Taxes	$0	$0	$233,035,540	$0	$14,839,999
Licenses & Permits	$1,270,419	$2,164,269	$7,406,093	$828,944	$1,325,459
Fees, Charges & Penalties	$13,139,876	$9,805,183	$163,699,593	$12,032,012	$11,622,289
Other Income	$4,491,556	$16,611,211	$386,063,983	$4,237,985	$6,668,635
Total	$77,506,867	$99,348,051	$1,111,287,431	$53,061,523	$54,511,986

Revenues and Expenditures, Selected Michigan Cities, 2012

	Grand Rapids	Kalamazoo	Lansing	Livonia	Southfield
Expenditures					
General Government	$23,842,467	$10,675,655	$22,439,973	$8,683,695	$16,842,415
Public Safety	$71,193,879	$32,974,994	$58,696,097	$32,531,956	$37,687,006
Public Works	$5,525,318	$5,121,793	$6,225,177	$2,998,708	$3,705,999
Parks & Recreation	$0	$2,372,033	$6,996,074	$394,571	$0
Other Expenditures	$19,509,180	$5,911,847	$8,284,943	$5,948,207	$4,310,509
Total	$120,070,884	$57,056,332	$102,642,264	$50,557,137	$62,545,929
Revenues					
Property Taxes	$13,294,640	$33,550,607	$32,261,651	$32,624,955	$44,974,595
State Revenue Sharing	$13,854,586	$8,063,444	$12,710,114	$7,802,553	$5,973,225
Income Taxes	$56,757,578	$0	$27,943,070	$0	$0
Licenses & Permits	$489,182	$1,895,004	$1,538,325	$1,970,353	$2,132,043
Fees, Charges & Penalties	$13,293,260	$8,761,398	$12,231,932	$7,629,239	$7,651,151
Other Income	$17,043,701	$9,738,443	$15,998,787	$3,524,020	$5,937,923
Total	$114,732,947	$62,008,896	$102,683,976	$53,551,120	$66,668,937

Revenues and Expenditures, Selected Michigan Cities, 2012

	Sterling Heights	Troy	Warren	Westland	Wyoming
Expenditures					
General Government	$15,372,116	$6,662,743	$16,686,698	$12,911,234	$4,670,482
Public Safety	$51,944,911	$25,313,540	$53,518,894	$26,948,888	$12,541,176
Public Works	$11,950,296	$5,840,492	$6,025,283	$5,817,581	$1,091,136
Parks & Recreation	$1,927,659	$5,850,905	$0	$2,625,353	$0
Other Expenditures	$6,041,557	$2,094,226	$5,994,874	$2,333,563	$652,030
Total	$87,236,539	$45,761,906	$82,225,749	$50,636,619	$18,954,824
Revenues					
Property Taxes	$51,654,412	$30,424,031	$49,422,658	$23,784,101	$9,958,345
State Revenue Sharing	$9,615,531	$6,202,317	$11,918,173	$7,276,022	$5,721,122
Income Taxes	$0	$0	$5	$0	$0
Licenses & Permits	$2,271,967	$1,686,633	$2,368,083	$1,203,536	$1,042,766
Fees, Charges & Penalties	$13,247,116	$8,094,685	$5,875,540	$5,279,325	$2,018,786
Other Income	$4,704,777	$5,794,408	$7,317,810	$14,338,016	$1,899,070
Total	$81,493,803	$52,202,074	$76,902,269	$51,881,000	$20,640,089

Revenues and Expenditures, Selected Michigan Cities, 2012

	Alpena	Marquette	Midland	Niles	Petoskey
Expenditures					
General Government	$1,933,590	$2,687,271	$6,068,308	$1,260,757	$1,646,863
Public Safety	$3,526,560	$6,379,872	$13,943,545	$3,734,732	$2,569,227
Public Works	$580,662	$3,425,611	$5,239,605	$1,075,230	$606,421
Parks & Recreation	$623,847	$389,644	$4,753,469	$117,704	$1,732,536
Other Expenditures	$1,660,188	$3,367,758	$8,819,463	$873,954	$2,659,815
Total	$8,324,658	$16,250,156	$36,958,588	$7,062,377	$9,214,862
Revenues					
Property Taxes	$4,087,635	$12,005,150	$29,386,385	$3,105,915	$3,309,570
State Revenue Sharing	$1,153,459	$1,969,333	$3,104,647	$1,303,270	$461,664
Income Taxes	$0	$0	$0	$0	$0
Licenses & Permits	$163,870	$35,076	$505,260	$37,367	$8,955
Fees, Charges & Penalties	$910,589	$2,584,477	$2,527,038	$940,958	$1,145,232
Other Income	$2,629,878	$1,865,532	$2,883,821	$1,334,906	$5,171,930
Total	$8,945,431	$18,459,568	$38,407,151	$6,722,416	$10,097,351

Revenues and Expenditures, Selected Michigan Cities, 2012

	Port Huron	Sault Ste. Marie	Traverse City	Total
Expenditures				
General Government	$3,318,936	$2,131,744	$2,210,370	$21,257,839
Public Safety	$12,693,947	$4,092,983	$5,735,950	$52,676,816
Public Works	$1,452,687	$718,694	$1,118,839	$14,217,749
Parks & Recreation	$2,063,530	$1,176,136	$1,680,362	$12,537,228
Other Expenditures	$1,359,502	$4,298,868	$4,654,365	$27,693,913
Total	$20,888,602	$12,418,425	$13,356,415	$124,474,083
Revenues				
Property Taxes	$7,344,599	$6,336,901	$7,814,118	$73,390,273
State Revenue Sharing	$3,379,551	$1,374,648	$1,192,663	$13,939,235
Income Taxes	$5,818,786	$0	$0	$5,818,786
Licenses & Permits	$667,464	$63,173	$254,302	$1,735,467
Fees, Charges & Penalties	$522,360	$2,353,093	$369,171	$11,352,918
Other Income	$3,337,328	$2,043,471	$4,882,911	$24,149,777
Total	$21,070,088	$12,171,286	$14,513,165	$130,386,456

Revenues and Expenditures, Selected Michigan Cities, 2008

	Ann Arbor	Dearborn	Flint	Farmington Hills	Grand Rapids
Expenditures					
General Government	$13,240,407	$19,176,682	$19,128,177	$11,315,090	$28,125,172
Public Safety	$39,628,111	$45,270,166	$51,047,048	$22,480,837	$70,222,608
Public Works	$9,574,677	$13,933,670	$2,696,461	$6,374,051	$5,413,118
Parks & Recreation	$6,841,863	$8,407,600	$3,362,358	$6,996,260	$6,707,579
Other Expenditures	$8,756,793	$25,151,301	$35,705,375	$2,184,295	$13,659,854
Total	$78,041,851	$111,939,419	$111,939,419	$49,350,533	$124,148,331
Revenues					
Property Taxes	$51,151,231	$72,479,894	$12,861,659	$31,539,600	$13,962,103
State Revenue Sharing	$11,116,813	$9,533,493	$18,959,082	$6,683,814	$22,780,195
Income Taxes	$0	$0	$16,516,416	$0	$57,116,488
Licenses & Permits	$1,284,685	$2,103,672	$1,154,444	$933,024	$293,500
Fees, Charges & Penalties	$2,469,309	$13,775,814	$13,241,885	$10,186,521	$16,000,775
Other Income	$15,404,121	$8,327,216	$4,125,261	$3,388,380	$9,946,584
Total	$81,426,159	$106,220,089	$66,858,747	$52,731,339	$120,099,645

Revenues and Expenditures, Selected Michigan Cities, 2008

	Kalamazoo	Livonia	Lansing	Southfield	Sterling Heights
Expenditures					
General Government	$9,673,785	$8,843,364	$26,794,259	$15,836,641	$17,160,292
Public Safety	$31,862,397	$31,576,105	$61,577,212	$41,367,400	$44,235,490
Public Works	$509,114	$3,698,461	$5,581,912	$6,865,903	$12,751,660
Parks & Recreation	$2,329,358	$527,592	$7,980,546	$0	$2,554,032
Other Expenditures	$14,498,827	$7,304,665	$9,921,590	$4,838,432	$9,814,666
Total	$58,873,481	$51,950,187	$111,855,519	$68,908,376	$86,516,140
Revenues					
Property Taxes	$33,572,221	$29,552,531	$35,815,537	$43,438,386	$56,266,066
State Revenue Sharing	$9,681,563	$8,857,907	$16,453,361	$7,444,899	$10,683,045
Income Taxes	$0	$0	$31,168,012	$0	$0
Licenses & Permits	$2,074,479	$2,110,827	$1,429,075	$2,234,008	$1,352,594
Fees, Charges & Penalties	$4,978,843	$5,985,863	$13,717,275	$7,240,602	$12,414,978
Other Income	$8,889,559	$5,745,630	$13,618,561	$9,671,144	$5,374,472
Total	$59,196,665	$52,252,758	$112,201,821	$70,029,039	$86,091,155

Revenues and Expenditures, Selected Michigan Cities, 2008

	Troy	Westland	Warren	Wyoming	Detroit
Expenditures					
General Government	$7,317,785	$15,148,847	$25,741,709	$9,050,182	$298,231,422
Public Safety	$28,642,914	$29,680,080	$61,388,282	$19,611,134	$619,516,107
Public Works	$8,277,592	$7,264,166	$3,865,502	$772,333	$94,722,523
Parks & Recreation	$9,599,834	$3,154,985	$42,252	$225,406	$21,265,879
Other Expenditures	$8,817,159	$3,478,190	$5,878,899	$386,943	$322,638,582
Total	$62,655,284	$58,726,268	$96,916,644	$30,045,998	$1,356,374,513
Revenues					
Property Taxes	$36,667,821	$28,225,573	$63,763,388	$10,203,939	$155,155,928
State Revenue Sharing	$6,704,100	$8,455,362	$14,105,387	$6,126,491	$248,225,389
Income Taxes	$0	$0	$0	$0	$276,485,035
Licenses & Permits	$1,393,635	$1,129,428	$1,691,127	$697,990	$8,959,356
Fees, Charges & Penalties	$8,478,531	$11,288,923	$5,899,705	$5,316,429	$210,892,753
Other Income	$8,178,372	$9,626,469	$13,649,201	$3,873,933	$403,711,237
Total	$61,422,459	$58,725,755	$99,018,808	$26,218,782	$1,303,429,698

Revenues and Expenditures, Selected Michigan Cities, 2008

	Total
Expenditures	
General Government	$524,783,814
Public Safety	$1,198,105,891
Public Works	$182,301,143
Parks & Recreation	$79,995,544
Other Expenditures	$473,035,571
Total	$2,458,241,963
Revenues	
Property Taxes	$674,655,877
State Revenue Sharing	$405,810,901
Income Taxes	$381,285,951
Licenses & Permits	$28,841,844
Fees, Charges & Penalties	$341,888,206
Other Income	$523,530,140
Total	$2,355,922,919

Revenues and Expenditures, Selected Michigan Cities, 2008

	Alpena	Marquette	Midland	Niles	Petoskey
Expenditures					
General Government	$2,097,260	$2,646,676	$4,666,683	$4,145,592	$1,402,135
Public Safety	$4,023,042	$5,215,887	$11,557,186	$2,506,876	$2,686,203
Public Works	$696,934	$4,752,871	$4,890,091	$611,359	$655,848
Parks & Recreation	$469,936	$359,116	$3,471,155	$125,475	$1,584,296
Other Expenditures	$1,016,008	$5,963,288	$22,273,000	$3,884,018	$1,182,105
Total	$8,843,180	$18,937,838	$46,858,854	$11,273,320	$7,510,587
Revenues					
Property Taxes	$4,269,122	$10,847,684	$28,573,425	$3,797,784	$3,712,892
State Revenue Sharing	$1,339,730	$2,611,507	$3,498,861	$1,439,959	$549,690
Income Taxes	$0	$0	$0	$0	$0
Licenses & Permits	$176,914	$33,354	$534,831	$24,983	$11,099
Fees, Charges & Penalties	$1,499,625	$3,715,744	$2,123,572	$1,276,216	$915,020
Other Income	$1,550,069	$2,835,270	$3,447,270	$1,986,816	$2,139,818
Total	$8,835,460	$20,043,559	$38,177,959	$8,525,758	$7,328,519

Revenues and Expenditures, Selected Michigan Cities, 2008

	Port Huron	Sault Ste. Marie	Traverse City	Total
Expenditures				
General Government	$3,567,228	$2,332,296	$2,267,428	$23,125,298
Public Safety	$12,755,901	$3,064,916	$7,115,999	$48,926,010
Public Works	$1,206,457	$844,518	$787,969	$14,446,047
Parks & Recreation	$2,457,152	$1,256,582	$1,662,899	$11,386,611
Other Expenditures	$5,104,806	$4,353,092	$2,658,481	$46,434,798
Total	$25,091,544	$11,851,404	$14,492,776	$144,859,503
Revenues				
Property Taxes	$8,611,085	$5,472,964	$8,869,302	$74,154,258
State Revenue Sharing	$3,944,617	$3,944,617	$1,328,895	$18,657,876
Income Taxes	$8,172,561	$0	$0	$8,172,561
Licenses & Permits	$632,314	$42,402	$216,745	$1,672,642
Fees, Charges & Penalties	$523,358	$2,580,127	$387,966	$13,021,628
Other Income	$3,361,883	$323,246	$5,416,028	$21,060,400
Total	$25,245,542	$11,716,864	$16,218,936	$136,092,597

SOURCE: MI Department of Treasury – F65 Data

STATE OF MICHIGAN

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LIQUOR CONTROL COMMISSION

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In the matter of **A PEACE OF MIND ELITE CLUB, LLC** **D/B/A FAHRENHEIT ULTRA LOUNGE AND GRILLE** 6810 S. Cedar St. Lansing, Michigan 48911 Ingham County	))))))))	Business ID No. 212399 Request ID No. 843641

At the March 29, 2016 hearing of the Michigan Liquor Control Commission (Commission) in Lansing, Michigan.

PRESENT: Andrew J. Deloney, Chairman
Dennis Olshove, Commissioner

POST EMERGENCY SUSPENSION - SHOW CAUSE HEARING ORDER

Under MCL 24.292 of the Administrative Procedures Act of 1969, the Michigan Liquor Control Commission (Commission) may commence proceedings for suspension of a license if the agency finds that preservation of the public health, safety and welfare of the general public requires immediate action to summarily suspend the license.

Article IV, Section 40, of the Constitution of Michigan (1963), permits the legislature to establish a Liquor Control Commission, which shall exercise complete control of the alcoholic beverage traffic within this state, including the retail sales thereof, subject to statutory limitations. MCL 436.1201(2) provides the Commission with the sole right, power, and duty to control the alcoholic beverage traffic and traffic in other alcoholic liquor within this state, including the manufacture, importation, possession, transportation and sale thereof.

<u>The Commission makes the following findings of fact</u>:

- A Peace of Mind Elite Club, LLC, d/b/a Fahrenheit Ultra Lounge and Grille (licensee) currently holds 2015 Class C and Specially Designated Merchant licenses with four (4) Bars, Sunday Sales (P.M.), Dance-Entertainment Permit, and permission to maintain one (1) Direct Connection to the unlicensed premises, at the above-noted address. The licenses and permits were issued on January 28, 2009 as a result of a transfer of ownership.
- The Commission received a letter dated March 14, 2015 [sic] from Chief Mike Yankowski, City of Lansing Police Department, requesting the Commission to take immediate action in the form of an emergency suspension of the licenses due to health and safety concerns at the licensed location involving reckless gun violence.
- The request refers to incidents that have resulted in multiple police reports, tickets, and police log entries; including a recent incident that occurred on March 13, 2016 involving multiple shots fired inside the establishment which caused approximately 600 patrons to flee out of the club to avoid the gun violence. Three (3) patrons were injured by the gunfire.
- The request also indicates police officers on the scene witnessed fighting on the premises, and while investigating the scene and searching for possible shooting victims, resistance was encountered inside the premises. Further noted in the request was that sixteen (16) Lansing police officers and officers from six (6) other area law enforcement agencies were called to the incident and to a local hospital to assist in this matter.
- The request indicates that since January 1, 2015, the department has responded to sixty-eight (68) 9-1-1 emergency calls that resulted in twenty-six (26) criminal investigation incident reports.
- Commission records reflect the MLCC violation history for this licensee includes three (3) violations for allowing the annoying or molesting of a customer by another

customer or an employee in 2009 and 2010; two (2) violations for allowing fights or brawls on the licensed premises in 2009 and 2010; one (1) violation for permitting the licensed premises to be occupied by patrons after the legal hour in 2010; five (5) violations in 2011 and 2012 for writing non-sufficient funds checks to the Commission for purchases of alcoholic liquor totaling $4,714.88; and one (1) violation in 2014 for possessing, selling, or offering adulterated, misbranded, or refilled alcohol.

Therefore, at a meeting held on March 15, 2016, the Commission issued an Emergency Suspension Order under the provisions of MCL 24.292 of the APA, summarily suspending the licenses and permits effective March 15, 2016, with the licenses to remain suspended until a show cause hearing under administrative rule R 436.1925 is held before the Commission on March 29, 2016, to determine whether or not the license should continue to be suspended or be revoked. The Commission's Enforcement Division confiscated the licenses on March 16, 2016 and impounded all alcoholic beverage inventory on the licensed premises.

At the post-suspension show cause hearing held in Lansing on March 29, 2016, Attorney Dan Doyle and licensee member, Germaine Redding, appeared on behalf of the licensee. Also appearing at the hearing on behalf of the Lansing Police Department was Chief Mike Yankowski, Sergeant Brian Curtis, and Officer Stephanie Bukovoy.

After hearing arguments, reviewing the MLCC file and Exhibits presented, and discussion of the issue on the record at the March 29, 2016 hearing, the Commission finds that it properly exercised its authority under the Administrative Procedures Act by considering and approving the Emergency Suspension Order on March 15, 2016, given the current concerns by the City of Lansing Police Department. The Commission further finds that by lifting the suspension, at this time, would negatively impact the health, welfare and safety of the general public. The suspension shall continue until further order of the Commission.

THEREFORE, IT IS ORDERED that:

A. A suspension of the 2015 Class C and Specially Designated Merchant licenses with four (4) Bars, Sunday Sales (P.M.), Dance-Entertainment Permit, and permission to maintain one (1) Direct Connection to the unlicensed premises held by A Peace of Mind Elite Club, LLC, d/b/a Fahrenheit Ultra Lounge and Grille at the subject location, SHALL REMAIN SUSPENDED UNTIL FURTHER ORDER OF THE COMMISSION.

B. The licensee shall pay all license fees by April 30th each year pursuant to administrative rule R 436.1107.

MICHIGAN LIQUOR CONTROL COMMISSION

Andrew J. Deloney, Chairman

Dennis Olshove, Commissioner

Date Mailed: April 7, 2016

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STATE OF MICHIGAN

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LIQUOR CONTROL COMMISSION

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In the matter of:

A PEACE OF MIND ELITE CLUB, LLC	)	
6810 S. Cedar Street	)	Request ID No. 846612
Lansing, Michigan 48911	)	Business ID No. 212399
	)	
Ingham County	)	

At the April 29, 2016 meeting of the Michigan Liquor Control Commission (Commission) in Lansing, Michigan.

PRESENT: Andrew J. Deloney, Chairman
Dennis Olshove, Commissioner

REVOCATION REQUEST (CITY OF LANSING) HEARING ORDER

Article IV, Section 40, of the Michigan Constitution (1963), permits the legislature to establish a Liquor Control Commission, which shall exercise complete control of the alcoholic beverage traffic within this state, including the retail sales thereof, subject to statutory limitations. MCL 436.1201(2) provides the Commission with the sole right, power, and duty to control the alcoholic beverage traffic and traffic in other alcoholic liquor within this state, including the manufacture, importation, possession, transportation and sale thereof.

The Commission finds that A Peace of Mind Elite Club, LLC holds Class C and Specially Designated Merchant licenses with four (4) Bars, Sunday Sales Permit (P.M.), Dance-Entertainment Permit, and permission to maintain one (1) Direct Connection to unlicensed premises under suspension at the above-noted location.

On March 15, 2016, the Commission under MCL 24.292 of the Administrative Procedures Act of 1969, concluded that the public health, safety, and welfare have been endangered by the actions and activities occurring at the licensed establishment at this location and ordered that the above-noted licenses and permits held by A Peace of Mind Elite Club, LLC be suspended effective March 15, 2016; ordered confiscation of the licenses on that date along with impoundment of all alcoholic beverage inventory in possession of the licensee on the licensed premises; and ordered that the licensee appear for a Show Cause Hearing on Tuesday, March 29, 2016 to determine if the licenses and permits should continue to be suspended or the licenses revoked.

Upon conclusion of the Show Cause Hearing held on Tuesday, March 29, 2016, the Commission ordered that the above-noted licenses and permits, held by A Peace of Mind Elite Club, LLC, remain suspended until further order of the Commission.

On April 18, 2016, the Lansing City Council held a hearing and then adopted Resolution No. 2016-084 requesting revocation of the subject Class C and Specially Designated Merchant licenses with four (4) Bars, Sunday Sales Permit (P.M.), Dance-Entertainment Permit, and permission to maintain one (1) Direct Connection to unlicensed premises under the provisions of MCL 436.1501(2) at that hearing.

The provisions of MCL 436.1501(2) provide that upon request of the local legislative body after due notice and proper hearing by the local legislative body and the commission, the commission shall revoke the license of a licensee granted a license to sell alcoholic liquor for consumption on the premises or any permit held in conjunction with that license.

Under Michigan Administrative Code R 436.1925(1), the Commission, on its own motion, may order a hearing on a matter within its jurisdiction.

After reviewing the Commission file, the documents submitted by the City of Lansing, and discussion of the issue on the record, the Commission finds that it should proceed in scheduling a hearing to determine whether the licenses and permits should be revoked under MCL 436.1501(2).

THEREFORE, IT IS ORDERED that:

A. A Peace of Mind Elite Club, LLC shall appear before the Michigan Liquor Control Commission at the Lansing District Office located in Constitution Hall – Atrium, Lower Level, Jacquelyn A. Stewart Hearing Room, 525 W. Allegan Street, Lansing, Michigan for a **Show Cause Hearing on Tuesday, May 24, 2016 at 10:00 a.m.** to determine whether the Class C and Specially Designated Merchant licenses with four (4) Bars, Sunday Sales Permit (P.M.), Dance-Entertainment Permit, and permission to maintain one (1) Direct Connection to unlicensed premises should be revoked under MCL 436.1501(2) based on the request of the City of Lansing for revocation of the licenses and permits.

B. Representatives from the City of Lansing, or their legal counsel, shall also appear before the Commission at this date and time to commence a hearing on the request of the City of Lansing for Revocation of the licenses and permits under MCL 436.1501(2).

MICHIGAN LIQUOR CONTROL COMMISSION

Andrew J. Deloney, Chairman

Dennis Olshove, Commissioner

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Date Mailed: May 13, 2016

STATE OF MICHIGAN

RICK SNYDER
GOVERNOR

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
MICHIGAN LIQUOR CONTROL COMMISSION
ANDREW J. DELONEY
CHAIRMAN

SHELLY EDGERTON
DIRECTOR

May 13, 2016

Sent via USPS and email to germaineredding@yahoo.com

A Peace of Mind Elite Club, LLC
c/o Germaine Redding
900 Long Blvd #824
Lansing, MI 48911

RE: A Peace of Mind Elite Club, LLC
d/b/a Fahrenheit Ultra Lounge and Grille
6810 S Cedar St
Lansing, MI 48911
Request ID Nos. 846612 and 843641 – Scheduled Show Cause Hearing

Dear Licensee:

This is with reference to your 2015 Class C and Specially Designated Merchant licenses with Sunday Sales Permit (P.M.), four (4) Bars, Dance-Entertainment Permit, and permission to maintain one (1) Direct Connection to unlicensed premises under suspension at the above address. At a meeting held on April 29, 2016, the Commission ordered that pursuant to the provisions of R 436.1925 that a Show Cause hearing be scheduled to determine if the Class C and Specially Designated Merchant licenses should be revoked under MCL 436.1501(2).

The Show Cause Hearing on these matters is scheduled for Tuesday, May 24, 2016 at 10:00 a.m. at Liquor Control Commission offices located in Constitution Hall – Atrium, Lower Level, Jacquelyn A. Stewart Hearing Room, 525 W. Allegan Street, Lansing, Michigan.

This hearing is held under the authority granted to the Commission by R 436.1925 of the Hearing and Appeal Practice Rules. **Be advised that, under administrative rule R 436.1927(1), "all documents and papers pertaining to a hearing or appeal hearing shall be filed at the Lansing office of the commission."**

Sincerely,

MICHIGAN LIQUOR CONTROL COMMISSION

Jane Schmitt

Jane Schmitt, Departmental Technician
Executive Services Division
schmittj@michigan.gov
(517) 284-6345
(517) 763-0053 Fax

Enclosure

c: MLCC – Lansing District Office
Attorney Dan Doyle (sent via email only to attorneydandoyle@gmail.com)
Lansing Police Chief Mike Yankowski (sent via email only to Michael.yankowski@lansingmi.gov)
Deputy City Attorney Mark Dotson (sent via email only to cityatty@lansingmi.gov)
Deputy City Clerk Brian Jackson (sent via email only to city.clerk@lansingmi.gov)