

Holding Their Own: Michigan's Cities after the Recession

Warren Rothe, Master of Public Policy, Michigan State University

FINANCIAL CHALLENGES



- Taxable Values fell **17.9%** from 2008-2012
- Taxable Values rose **0.3%** from 2012-2015
- **\$9.5 Billion** Needed for Retiree Costs



CITY RESPONSES TO CHALLENGES



Spending Cuts and Revenue Increases



Outsourcing and Privatization of Services



Issuing Debt to pay for Retiree Costs



East Lansing: Balancing Act

0%

General fund revenue growth from 2006-2017



300% increase in pension payments from 2006-2016

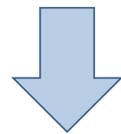
CORRECTIVE ACTIONS

COST MANAGEMENT	SEEKING REVENUE
Eliminated 110 Positions	Income Tax Ballot Proposal-Failed by 382 Votes
Changed Pension Plan Options	Currently Considering Property Tax Options
Reduce Eligibility for Retiree Healthcare	Increased Property Tax Rate to Pay for Library
Proposed \$3.4 million in future cuts	Continue Discussions with Michigan State University

- East Lansing survived the recession through reductions in personnel and services. **How much can be trimmed** from the budget in a **future recession**?



Pontiac: Lost Identity



47% decrease in tax revenues from 2006-2016



34% unemployment rate, June 2010

- City employees **fell from over 500 in 2008 to 42 in 2018**. Most **city services** are now **provided through contracts** with both **other local governments** and **private businesses**.
- City now has **3 departments** and **2 offices** who manage the service provider contracts.

Police services provided by Oakland County \$2 million in annual savings

Fire services provided by Waterford Township \$3 million in annual savings

Public works services (sewer, engineering, landscaping) provided by private businesses

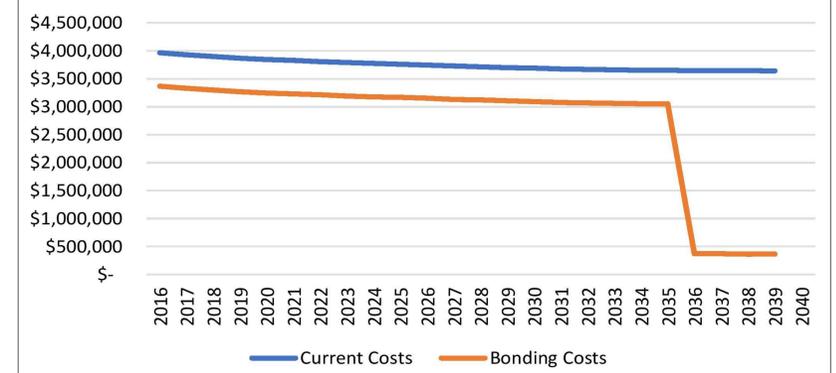
- How has the **privatization** of city services affected the ability to **hold government accountable**?



Monroe: Betting the Market

- Borrowed **\$39 million** to finance retiree healthcare costs
- **Bond proceeds are invested** to pay for both retiree healthcare costs and bond payments.

Majority of Bond Savings are in Last 4 Years



- If the investment **return rate is greater** than the bond's interest rate, the **city realizes savings**. If **investment returns are lower** than expected, the **city loses money**.
- This is a **gambling strategy** for a select few local governments who can **afford to take the bet**.

WHAT MORE CAN BE DONE TO HELP CITIES COPE?



- Cities must **diversify their revenue base**. The **State should allow** cities to enact **additional revenue sources**, such as, local sales taxes.
- **Loosen Constitutional restrictions** on property tax growth **to allow cities to recover property tax revenue**.



- **Costs should not** be the **only factor** when making decisions on which **services to contract out**.
- **Research** the issue of **accountability** in **privatized city services**.
- Service **consolidation** should be **considered** for **regional services** like election administration and **technology and information systems** services.



- **Bonding** should be **discouraged** as it relies on **unrealistic investment assumptions**
- **The State should offer to fund pension systems** if the local government **agrees to make reasonable changes** to their pension system.