



Grand Valley Metropolitan Council

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GVMC Policy Statement on State Budget and Taxation Issues

Adopted by unanimous vote of the Grand Valley Metro Council on April 9, 2007

The member counties and communities of the Grand Valley Metropolitan Council (GVMC) believe that Michigan's budget must reflect a philosophy of investment in those areas that research shows will help to create long term, sustainable economic growth. This means allocating resources to areas that will lead to improving our state's quality of life and creating vibrant communities where people and business enterprises want to locate and stay. This also means the state must invest in local public services such as police and fire protection, infrastructure and roads, parks and recreation, as well as education and health care.

The GVMC agrees with the findings of the Governor's Emergency Financial Panel which concluded that a convergence of forces has brought about the most serious financial crisis in many years for Michigan's state and local governments. This is a structural challenge, not solely the result of an economic downturn. A persistently weak economy, tax cuts, spending pressures, and inattention to essential government reform have triggered the crisis. We will not economically grow our way out of it. We cannot solely cut or tax our way out of it. Michigan must fundamentally reform its spending and taxing policies and it must reinvent the way state and local governments deliver services to be more efficient and productive. Government must demonstrate value for every dollar spent.

Our people in communities across our region face uncertainty and economic hardship. That is why our state must make major investments to compete for the jobs of the 21st century and make Michigan a place where people want to live and businesses want to invest. As policy makers seek ways of bridging perilous gaps between available resources and service demands during this and upcoming fiscal years, the GVMC urges them to tackle long-term reforms in taxing, spending, and the delivery of public services.

The depth and breadth of this fiscal crisis—and the fundamental need for investment—demand a comprehensive response. It demands a shared commitment to a better future for our state. It demands that leaders lead by engaging the residents of the state in a dialogue to determine what is truly important to their futures and their families.

The GVMC believes that the way in which policy makers and residents respond to the current crisis will—in large measure—define Michigan for both this and the next generation.

BACKGROUND

Founded in 1990, the Grand Valley Metro Council is a consortium of counties and communities in the Grand Rapids metropolitan area that works through collaboration and cooperation to foster an atmosphere of continuous improvement in the delivery of county and local government services.

At a GVMC-sponsored regional forum on state budget and tax policy conducted on February 14, Tom Clay, Director-emeritus of Public Affairs for the Citizens Research Council of Michigan, discussed the history of Michigan's tax and fiscal policy and the factors that are contributing to the state's on-going structural deficits. Mr. Clay's sobering statistics on state economic performance show that Michigan currently ranks:

- 50th in Personal Income Growth
- 1st in Statewide Unemployment Rate
- 50th in Employment Growth (The only state with a decline)
- 50th in Index of Economic Momentum (Population, Personal Income, Employment)

Further, Mr. Clay noted the decline in economic activity has had dramatic impacts on state budgets for the past seven years:

- Seven years of spending cuts
- FY2007 State General Fund revenues lower than in FY1996
- School Aid fund annual growth since 2000 averaged 1.9%
- Nearly \$7 billion in one-time resources used
- State reserve funds exhausted
- Weakened connection between revenue structure and the economy
- Spending pressures growing faster than revenues

GVMC members are keenly aware that over the past six years, the Governor and state lawmakers have cut Michigan's general fund budget by 40 percent. The state's general fund budget – the only piece that the Governor and Legislature have any real control over – today is 39 percent smaller, adjusted for inflation, than it was in 2000. The state's general fund budget is 41 percent smaller than in 1989 and 47 percent smaller than in 1978. All of these cuts were necessary despite a modest but steady increase in Michigan's population.

As GVMC members know all too well, cutting state spending means cutting local government services such as police and fire protection, infrastructure improvements and parks and recreation programs. In the early 1970s, Michigan established a system of revenue sharing intended to return state tax dollars to local governments to assist with the provision of essential services. In return, cities gave up the ability to raise taxes locally. In recent years, state government has cut payments to local governments by more than \$2 billion – forcing the layoff of more than 1,600 police officers and increasing the pressure on local property tax payers to fund critical local services that provide a high quality of life. Today, Michigan has fewer law enforcement officers than it did when terrorists struck our nation on September 11, 2001.

Reflecting the views of a majority of their citizens, GVMC members believe investment is the key to economic growth. A recent study conducted for the Michigan Fiscal Responsibility Project found 61% of respondents agreeing that after four years of cuts to police, fire, roads, higher education and health care, the state cannot afford additional tax cuts.

GVMC's OVERARCHING PRINCIPLES

In light of the state's continuing economic difficulties and after thoughtful discussion and analysis, the members of the Grand Valley Metropolitan Council believe that Michigan:

- needs fundamental reform of both state spending practices and the state's tax structure;
- must create a modern tax structure that looks toward the developing economy of the new century;
- must invest in education, local public services and other critical assets that define the quality of life that knowledge-based workers seek—cultural offerings, natural resources, and vibrant communities;
- must remove historic statutory obstacles that prevent counties and local units of government from sharing the cost of providing local services; and
- must develop a fiscal plan that includes a combination of state spending cuts, reform of public service delivery system and revenue increases.

By this year's end, policy makers in Lansing must lay the foundation for the long-term vitality and growth of the state.

SPECIFIC RECOMMENDATIONS

REPLACEMENT OF THE SINGLE BUSINESS TAX

From their experience working everyday to attract new business investment and to help existing business enterprises grow and remain competitive, GVMC members believe that a new state business tax to replace the Single Business Tax should feature a low rate applied to a broad base. A new Michigan business tax should be easy to administer and crafted in a manner that allows the state to apply business taxes to business activity conducted in Michigan by both in-state and out-of-state businesses.

Further, GVMC believes that policy makers should create an easy to administer mechanism that allows the state to apply the state sales tax to purchases made over the internet.

THE PERSONAL PROPERTY TAX

While GVMC understands and appreciates the concerns of business owners with regard to the Personal Property Tax (PPT), GVMC believes that any revisions to the personal property tax must provide for the full replacement of the funds derived from this important local revenue stream.

The GVMC would support the phase out or elimination of the PPT if the following principles are included:

- Local taxing units are fully compensated for lost revenue;
- Growth of replacement revenue must be consistent with the current tax structure;
- Distribution of replacement revenue must be targeted to those taxing units that currently receive revenue under the existing PPT; and
- Any tax designed to replace the PPT must not have a negative impact on other sources of revenue for local governments and schools and the tax burden should not be shifted to residential and agricultural property owners.

ELIMINATING OBSTACLES FOR MULTI-JURISDICTIONAL SERVICE SHARING

The GVMC strongly supports amendments to current state laws that will remove statutory obstacles faced by Michigan counties, cities, villages and townships desiring to form service sharing partnerships. For decades, state statutes enabling county and local governments to form multi-jurisdictional compacts to share the cost of service provision have contained language that requires payment of the highest level of wages and benefits to public employees assigned to such work arrangements. These statutory provisions have stalled service sharing partnerships across the state.

In order to remove these obstacles, GVMC is working with Representatives and Senators to champion amendments to several existing state statutes that will make it easier for counties and communities to share resources and more efficiently deliver critical local services:

1. 1967 Public Act 7 – Urban Cooperation Act
2. 1967 Public Act 8 – Intergovernmental Transfer of Functions and Responsibilities Act
3. 1989 Public Act 292 – The Metropolitan Councils Act

RESTORING COMMON SENSE TO COLLECTIVE BARGAINING

In 1969 state lawmakers passed Public Act 312, a law that triggers compulsory binding arbitration when public safety employees -- police and firefighters -- and a local government employer reach an impasse during the process of collective bargaining for wages and benefits. In exchange, police officers and firefighters relinquished the right to strike.

Over the years, Act 312 has cost local communities and their taxpayers millions of dollars in increased costs. Under the law, the arbitration panel assigned to any particular dispute must choose either the employer's offer or the union's offer -- not something in-between. What's more, the arbitration panel is prohibited from considering the fiscal health of the community and, therefore, its ability to pay the wage and benefit levels selected by the arbitration panel.

The GVMC strongly supports amendments to Act 312 of 1969 to restore balance to the arbitration process and require arbitration panels to consider the community's fiscal health and ability to pay an arbitration award.

In addition, GVMC supports amendments to Act 312 to improve the process used to select arbitration panel members.

LOCAL SERVICES, K-12, HIGHER EDUCATION AND MEDICAID

Today's efforts to transition Michigan to a new economic model, coupled with the changing demographic composition of the state's work force over the past 25 years, necessitate a new approach to funding and delivery of public services, including county and local services and state-supported services in the areas of K-12 schools, higher education and Medicaid. Plans, projections and commitments made under prior law and economic conditions are no longer a valid roadmap for a financially viable and appropriate service delivery plan for these critical public services.

With that in mind, GVMC believes we must examine all opportunities to streamline the delivery of county and local government services in addition to K-12 education, and continue to explore cost-sharing partnerships among Michigan's community colleges, colleges and universities.

In addition, the GVMC supports reforms to the state's Medicaid program that reward low-cost service providers, provide incentives for Medicaid recipients who exhibit healthy behaviors and lifestyles, and that assure that additional program costs are not shifted to the private sector.

CREATE BLUE RIBBON COMMISSION ON CORRECTIONS SPENDING

Over the past seven years, state spending on corrections activities has exploded and continues to drain state funding for counties and communities, higher education and other critical needs. The GVMC strongly encourages the Governor and state lawmakers to empanel a high-level commission of experienced, independent policy experts to analyze the operations of the Michigan Department of Corrections – together with state sentencing guidelines, incarceration rates, inmate medical costs, substance abuse benefits and other factors – and make recommendations for reversing the seemingly uncontrolled growth of corrections spending.