

## **LOCAL COMMENT: Lift cities, reverse property tax rules**

**BY CONAN SMITH**

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Across Michigan, cities large and small face budget deficits, despite belt-tightening measures that include layoffs and rolling back essential services such as police and fire protection. Many in the Legislature and media would have the public believe that these cities need better, tougher management, but the truth is these cities are being strangled by state and federal policies and legislative actions that are driving them deeper into a spiral of financial failure.

A recent Plante Moran study, requested by the Michigan Municipal League, found that the 1994 changes to the General Property Tax Act undermined both the letter and spirit of the Headlee Amendment and Proposal A by taking away the ability of municipal governments to keep pace with inflation. Under the revised laws, Michigan cities have lost the capacity to have property taxes generate enough revenue so they can remain solvent.

In the very near future, many cities face financial collapse. The first to go will be aging cities with an aging population.

There are other reasons for this inevitable collapse. At one time the state actually gave back to municipalities some of the tax revenue it received from them. Then, sadly, the state shifted the formula for revenue sharing so that communities with relatively more wealth and development potential, and green space to build in, received more dollars than aging, more developed communities. Sprawl increased, more people left aging cities and disinvestment in them grew.

The state then reduced revenue sharing overall. Counties completely lost their revenue sharing a few years ago and cities have faced serious decreases.

Southeast Michigan communities with their denser populations and aging infrastructure have been hit hard. The City of Ferndale, for example, received more than \$4 million three years ago. Now it's closer to \$3 million.

There was also federal revenue sharing in the form of Block Grant Revenue Sharing, no strings attached. That's long gone. There's still the federal Community

Development Block Program, which targets housing aid to low- and moderate-income families. Ten years ago, southeast Michigan received \$92 million from it. Now it is less than \$80 million.

No single financial punch has knocked out a city's capacity to run itself. It's the cumulative effect of all the state and federal disregard for the financial reality of cities.

Across Michigan, even growing communities like Grand Rapids and Traverse City are struggling with spending deficits and facing fiscal insolvency. As for small cities with limited resources and no wiggle room, within two years, several of them are likely to fail.

There are solutions. First, some of our legislators must stop oversimplifying the solution by suggesting that cities need to cut back on services and make tough choices. That's not addressing solutions. While I believe Gov. Jennifer Granholm and some legislators understand the problem, we truly need a critical mass in the Legislature facing up to the bleak future of our cities.

Next, the state must come up with a method of tax base sharing that will protect basic government and basic services to city residents around the state. The state collected the taxes from our residents, and it is obligated to return them so they can be applied to delivery of basic services and fully functional city governments.

Then the state must go back to the letter and spirit of the Headlee Amendment and return the ability of cities to receive tax revenue at the rate of inflation to keep pace with necessary spending.

The future is clear: Without changes made at the state level, our cities will fail. Sprawl away from our cities will continue, and citizens in what should be vibrant and productive population centers will be unprotected and unable to thrive.

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