



STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

March 21, 2011

*A Special Message from Governor Rick Snyder:
Community Development and Local Government Reforms*

To the Michigan Legislature:

Throughout my term as Governor, I will deliver Special Messages on policy issues that are vital to Michigan's future. They will be delivered to my partners in the Michigan House and Senate so that we can initiate discussion and action on innovative reforms that best serve the people of Michigan. Today, I am offering the first such message.

Following is a series of ideas for transforming government in a manner that will strengthen communities, help rebuild the kind of downtowns and neighborhoods that Michigan needs in order to compete in the 21st century, and promote a sense of cooperation and regionalism across the state.

Neighborhoods, cities and regions are awakening to the importance of "place" in economic development. They are planning for a future that recognizes the critical importance of quality of life to attracting talent, entrepreneurship and encouraging local businesses. Competing for success in a global marketplace means creating places where workers, entrepreneurs, and businesses want to locate, invest and expand. This work has been described as a "sense of place" or "place-based economic development" or simply "placemaking." Economic development and community development are two sides of the same coin. A community without place amenities will have a difficult time attracting and retaining talented workers and entrepreneurs, or being attractive to business.

Each community contributes to the overall success of its region. People, companies and talent do not move to specific communities – they move to regions. Being globally competitive as a region requires understanding, mapping and pooling regional resources and assets. Local governments, the private sector, schools, higher education and nongovernmental and civic organizations must collaborate to make Michigan's economic regions, and ultimately the state, competitive.

There are several efforts already underway that merge public and private resources in a manner that builds a new future for Michigan's communities and regions.

In Traverse City, a unique partnership called “Grand Vision” has engaged the entire Traverse Bay Region in developing a new blueprint for cooperation on building the transportation, educational and broadband infrastructure necessary to compete in the global economy. Integrating agriculture and tourism to the economy of the region, it also renews efforts to strengthen the region’s downtowns.

Another example of regional cooperation is the West Michigan Strategic Alliance, an eight-county partnership that includes Grand Rapids, Muskegon, and Holland, and all other communities in that area. WMSA is creating a regional mindset, developing a shared vision for the region and offering access to common Information Technology systems and tackling critical talent initiatives.

And, in Southeast Michigan, Detroit’s Live Midtown program is a piece of a larger program called 15x15 that strives to attract 15,000 young people with at least a bachelor’s degree to live in the city of Detroit by 2015. Coupled with the city’s Detroit Works Project, which is working to seek young, talented Detroiters to move to areas including Eastern Market, Corktown and the New Center area, a powerful coalition is developing that can help reinvent Detroit as part of our larger effort to reinvent Michigan. Michigan succeeds when Detroit succeeds.

Finally, I am strongly encouraged by the voluntary efforts underway in our local government associations. The Michigan Municipal League has developed a “Center for 21st Century Communities” to work with local officials, and private sector and non-profits. It will help identify, develop and implement new programs and strategies for communities so they can become vibrant. And, the Michigan Townships Association, in partnership with Michigan State University, has adopted six “Pillars of Prosperity” that endorse the need for attractive communities, a strong agricultural economy, utilizing natural resources for recreation and job creation, lifelong education, the development of an inclusive entrepreneurial culture, and the necessity of embracing 21st century technology.

State Government Actions

We are restructuring state government so that it can more effectively enable these efforts. State agencies need to be formally connected in a way that promotes interagency teamwork, and collaboration with local government and regional leaders.

That is why I created the Economic Development Executive Group which includes the Department of Transportation, Michigan Economic Development Corporation, Department of Licensing and Regulatory Affairs, Michigan State Housing Development Authority, Unemployment Insurance Agency, Office of Financial Insurance Regulation,

Workers Compensation, Michigan Administrative Hearing System, Office of Regulatory Reinvention, and Public Service Commission.

In the past these agencies were “siloe” — demonstrating little connectivity, uncoordinated programs, and duplication of outreach and staff. Structurally, we are able to refocus our economic development activities, streamline services and better coordinate economic, work force, housing, and community development functions – all under one roof.

Today, I am announcing our next steps to help communities build the kind of places that will enable them to compete in a global economy.

I have asked Mike Finney, director of the MEDC and leader of the Economic Development Executive Group, to engage the directors of the Michigan Department of Transportation, the Michigan Department of Natural Resources, the Michigan Department of Agriculture and Rural Development, the Michigan Department of Licensing and Regulation, Michigan State Housing Development Authority, the Michigan Land Bank Fast Track Authority, and other state departments and agencies to prioritize the following and issue a report on their progress by the end of the year:

- Identify ways to foster and promote collaboration among entities engaged in economic development and placemaking activities.
- Maximize under-utilized resources throughout the state, particularly in urban communities and rural communities.
- Establish a process for evaluating the performance of economic development and placemaking activities.
- Support investment programs that deliver measurable, positive results.
- Encourage new initiatives that support local and regional programs involved in economic development and placemaking.
- Recognize successful state, regional, and local economic development and placemaking programs that can be role models for groups around the state.
- Promote best practices for local and regional economic development and for placemaking activities.
- Partner with local economic development and civic groups to fully understand the needs of the community.

State government must collaborate if we are to transform Michigan’s economy. Rather than scattered and competitive efforts at research, planning and development, Director Finney’s work group will assess and align these efforts. Michigan’s economic development and placemaking activities will produce jobs, spur regional economies and elevate the quality of life for all our state’s citizens.

This group will ensure that state government will become a better partner with local government, the private sector, and regional development organizations across Michigan to promote and invest in economic development and placemaking. Financial

and human resources will be more effectively leveraged and targeted to create real value.

Legislative Priorities

Local governments are facing enormous challenges. The repercussions of a decade-long one-state recession and its effect on property values are still being felt at the local government level. Local officials are working hard to offer innovative solutions to the difficult problems facing their community, including consideration of consolidation of services between governments. The economic case for intergovernmental cooperation is clear. It can help lead Michigan in the direction of creating places that recognize regionalism, while at the same time saving taxpayers' money. Unfortunately, Michigan is hamstrung by antiquated state laws that are not conducive to cooperation. They impede the development of regional solutions to regional problems, service-sharing or service-consolidations (such as combined dispatch centers), and prevent municipalities from capitalizing on the economic savings that intergovernmental cooperation can create. It is time for the state to update these laws so that they reflect the realities of today's needs.

In addition, it is critical that all local government adopt best practices to ensure that state and local dollars are delivering the best value for their citizens.

I urge the legislature to take several important steps:

1. Revenue Sharing

Michigan currently has two forms of revenue sharing—payments from state funds to local units of government. The first is constitutional. Article IX, section 10, of the Michigan constitution requires that “Fifteen percent of all taxes imposed on retailers on taxable sales at retail of tangible personal property at a rate of not more than 4% shall be used exclusively for assistance to townships, cities and villages, on a population basis as provided by law.” The 2011-12 budget projects a total distribution under that constitutional provision of \$659 million, a 4 percent increase over the last fiscal year.

The second program, formerly known as “statutory revenue sharing,” was implemented with Public Act 140 in 1971. The formula was adopted to distribute revenue on the basis of relative local tax effort and population and was used to help major cities receive additional state aid. In the 40 years that have passed, subsequent legislatures have changed the formula to shift funds back and forth between cities, townships and villages numerous times. The end result is that more than 700 communities could receive statutory revenue sharing next year. The benefits of this system are questionable as 100 municipalities are projected to receive less than \$1,000 next year and three of them less than \$10 paid in six installments.

In this global economy, cities and urban areas are crucial to the economic vitality of any region or state. The provision of public infrastructure and public safety is a key element in the business competitiveness of any region. The most important reforms to the local public finance system in the past 30 years have been the Headlee Amendment and Proposal A. These reforms were designed to ensure that Michigan's tax system remains fair and in proportion to changes in the economy. In these troubled economic times, Michigan needs to focus its discretionary spending on strengthening the core regions of the state in order to move forward.

In my budget message I proposed that the program formerly known as statutory revenue sharing come to an end and be replaced by a new Economic Vitality Incentive Program. This program will reward best practices and lead to more prosperous communities over the next few decades. It will give municipalities in our commercial centers the incentives and flexibility to engage in serious cost control measures. Such measures will help ensure that vital public services are not cut in the face of economic difficulties. By consolidating our efforts to build strong centers of commerce we are investing in a stronger Michigan.

Funding in the first year will change by limiting allocation to communities that are expected to receive over \$6,000 of the new reduced funding under the existing formula. However, to continue to qualify for the Economic Vitality Incentive, eligible municipalities must meet certain requirements and implement serious reforms. These requirements are all based on best practices, many of which have already been implemented by some municipalities and the State. But these requirements should be considered the first steps in local government reform and not the end solution. Many communities will find they already comply with some or all of the following requirements.

First, municipalities must embrace accountability and transparency. By October 1, 2011 local governments must produce a citizens guide to their finances and a performance "dashboard" that is readily available to the public. My administration has worked closely with the Michigan Municipal League to develop the model dashboard that is included in this message. The dashboard can be customized for specific communities but I find the recommended metrics most important.

In January I released the Citizen's Guide to Michigan's Financial Health. I now ask all local governments to do the same by October 1, 2011. A template can be found on my website at www.michigan.gov/gov in the citizens guide section. Municipalities should use the chart-building tool and citizens guide template to make their local finances, including a recognition of their unfunded liabilities, available to the public.

Second, by January 1, 2012, municipalities must develop plans to consolidate services that will result in taxpayer savings. The plans should make a good-faith effort to

estimate potential savings and costs associated with sharing critical services at the local level.

Finally, municipalities must begin to address employee compensation in order to continue to qualify for the Economic Vitality Incentive Program. For any new, modified or extended contract, all public employee compensation should be subject to the following criteria:

- a) Placing all new hires are on a defined contribution plan or a hybrid retirement plan that caps annual employer contributions at 10 percent of base salary.
- b) Where applicable a 1.5 percent multiplier should be used to determine employee pensions. A 2 percent multiplier should be used for employees who are not eligible for social security benefits.
- c) Implementing controls to avoid pension spiking such as using a three-year salary average that does not include more than a total of 240 hours of paid leave and overtime to determine benefit levels.
- d) If health care is offered, all new hires must be on an 80/20 employer to employee health care premium split. Alternatively, a dollar amount could be assigned to local health care plans and compared to the state healthcare plan if it is an HMO or includes other cost saving measures such as co-pays or deductibles.

Municipalities will receive one-third of their funding for each category of best practices they meet. The three categories are accountability and transparency, consolidation of services and employee compensation. Local units must meet every criteria described in a specific category by the defined timeline to fully benefit from the program. Municipalities that do not meet the criteria will see reduced funding in their scheduled payments. Until the specified dates and new contracts begin, communities will continue to receive six payments as previously scheduled at the new funding level.

These proposed reforms will accomplish several goals for Michigan. Most importantly, local leaders will have the ability to control short- and long-term costs. By controlling costs, local governments can maintain critical public safety, infrastructure and quality of life services. The continued provision of these services will enhance the long-term competitiveness and economic vitality of Michigan's commercial centers and the entire state.

Also, the Economic Vitality Incentive Program should include funds to be allocated to municipalities that combine government operations completely. Of the \$200 million funding level, I propose \$5 million be set aside in the first year to help overcome costs associated with mergers for those local government entities that decide to merge. This will help save taxpayers money in the long run.

The reforms that I have outlined above are just the first steps in a continuous improvement process. Over time the state and its largest communities will work together to achieve best practices in government reform. State and local government should be viewed as partners working to make Michigan a better place and these reforms will start us down that path.

2. Enabling Consolidation of Jurisdictions

It is time to create a new opportunity for the merger and consolidation of local governments in Michigan. Such consolidation should not be mandated, but should be allowed by law, as contemplated in various sections of the state constitution. Counties, cities, villages and townships face significant challenges in providing services to their citizens within the limitations of their financial resources. I am convinced that the state must move forward to permit intense dialogue at the local and regional levels about how these governments can reinvent themselves.

We should permit open minds across the state to not only enter into collaborations, but to consolidate governmental units and activities as appropriate in their respective communities. The final decision regarding such consolidation should be left at the local level, but the consideration of such consolidation must not be prevented or discouraged by state government. I will support new legislation that permits the establishment of metropolitan government as a metropolitan authority in Michigan. Under such legislation, existing county government would be superseded by the new metropolitan government, with all the functions of the county and city government performed instead by the metropolitan government. In addition, the legislative and executive powers of the city would be transferred to the metropolitan government.

I want to emphasize again that such legislation cannot and should not be mandatory. Rather, it should be drafted in a way that permits broader discussion about consolidation at the local level.

3. Ensure collective bargaining at the appropriate time

Michigan currently has several laws that enable consolidation and cooperation between local units of government. These include such acts as the Urban Cooperation Act, the Intergovernmental Transfer of Functions and Responsibilities Act, the Metropolitan Councils Act and the Emergency Services to Municipalities Act. The problem is that each of those acts includes clauses that prevent the immediate negotiation of new contracts. This stands in the way of even the consideration of mergers by many local units, and when the current acts are implemented, the end result is an unmanageable

multi-layer set of work rules, wages and benefits which effectively eliminate the economic efficiencies that are the very reason to consolidate.

These laws should be amended to provide that upon merger of services, management and employees should immediately begin the collective bargaining process for the new entity and complete this within an appropriate time.

Such a change would permit municipalities to avoid multi-layer bargaining while creating certainty on costs, wages and benefits for both employers and employees.

The question should not be “if” collective bargaining occurs; the question should be “when” such bargaining occurs. A simple change in each of these acts would remove an important impediment to consolidation of services across the state.

4. Amend Public Employment Relations Act

In order for local governments to better work together I am proposing to amend the Public Employment Relations Act (PERA). If we are to encourage intergovernmental cooperation, the consideration of an intergovernmental cooperation agreement by local units of government should not be considered an unfair labor practice under PERA. I urge the adoption of legislation that amends PERA to make it clear that nothing in that act limits a public employer from exploring the options of entering into an agreement with another public employer. However, when the discussions proceed to specific implementations, union representatives should be notified.

5. Reform Binding Arbitration

Binding arbitration was adopted into law in 1969 and serves an important function. If a local government employer and police or fire employees cannot come to terms through collective bargaining, the next step is binding arbitration. PA 312 prevents public safety employees from going on strike and bringing critical services to a halt.

The concept of binding arbitration is not the problem – the problem is the way it is applied. Binding arbitration should be viewed as the last option and not the inevitable last step in a collective bargaining process.

Too often during negotiations one side will look ahead to the binding arbitration process and act on what it believes an arbitrator would rule. This is because the current process was enacted in 1969 and is now outdated. To remedy this, PA 312 needs to be enhanced and clarified to include the following provisions:

- a) A community’s ability to pay should be a fundamental factor in an arbitrator’s decision.

- b) Internal salary and benefit comparisons should also be considered by an arbitrator.
- c) Both sides should be required to submit a last best offer before entering into binding arbitration.
- d) The process of binding arbitration should last no more than 90 days.

These reforms will improve the process of arbitration, while making certain that the system is fair and equitable for both employers and employees.

6. Prohibit Minimum Staffing Requirements

As the result of petition drives, several cities have amended their charters to establish minimum staffing levels for public employees. Some communities regularly violate their own charter provisions because they simply cannot fiscally meet those requirements. Management decisions in a democracy should be made by those elected to manage—local officials. Staffing levels should be part of the collective bargaining process, not mandated by city, county or village charters. Charter amendments that set minimum staffing requirements circumvent the collective bargaining process and management decisions and should not be allowed. I propose that the Home Rule City Act, the Home Rule County Act, and the Home Rule Village Act be amended by adding a new subsection to clarify that any new city, village, or county charters may not contain minimum staffing requirements for personnel of any type. In addition no new amendments to existing charters shall establish minimum staffing requirements in the future.

7. Implement Local Pension Board Best Practices

Across the state local pension boards make investment decisions that can total in the hundreds of millions of dollars. Ultimately, the pension payments are a liability of the municipality that agreed to the plan. As such these funds need to be managed responsibly because taxpayer money is at risk – both now and in the future. To protect taxpayer money there are three areas of pension board reform I would ask the legislature to address.

First, local pension boards should be subject to transparency rules. They should be required to report their annual performance and funding level in a standard format. This would allow all plans to be benchmarked against all others. Also, strict restrictions and disclosure requirements should be in place for all board member travel and expenses.

Second, local pension boards should have to meet certain best practice requirements. Modeled after recent Securities and Exchange Commission (SEC) rules, the state should adopt a strict prohibition against the practice known as “pay to play.” The SEC regulations that apply to the largest organizations should be applied at all levels – including third-party advisors. If anyone contributes to government officials in a position to influence the decision of a pension board they should be banned from conducting any business with the board for two years. Also, a financial advisor or anyone acting on their behalf should be prohibited from making or soliciting political contributions to a local or state political party where they wish to conduct business.

Finally, local pension boards should be subject to accountability reforms. Boards should be allowed to self-police and act to remove a member. Also, a set of triggers is needed to act as an early detection system for fraud, significant SEC violations or losses. These triggers would allow for state intervention and the possible oversight of a local pension board. Furthermore, board members who are found guilty of a breach of public trust should be required to reimburse the fund for any defense costs that were covered. In the private sector, individuals accused of securities fraud are subject to civil and criminal charges. An executive’s signature on a financial statement implies an individual responsibility for the integrity of the document and that same standard should apply to public pension boards.

8. Unfunded mandates

The state is prohibited from imposing new mandates on local units without appropriating and disbursing funds to pay for them. This prohibition is made clear under Article IX, sections 25 and 29 of the state’s constitution (sections of the “Headlee Amendment” approved by voters in 1978). However, state government’s observance to those standards has been sorely lacking. In today’s economy we have now reached the time where the state’s non-adherence to those standards has exacerbated the challenges that financially strapped local communities already face.

The checks and balances contemplated by the Headlee Amendment in the relationship between state and local government must be restored and vigorously adhered to by the state. To do that, PA 101 of 1979 – the original act adopted by the legislature to implement the Headlee Amendment – must be amended.

I will support legislation that amends PA 101 with the following provisions:

- a. Establish and require a fiscal note process to be developed by the House and Senate fiscal agencies for legislation that affects local governments.

- b. State that in the event legislation is enacted which imposes new, costly requirements on local governments without complying with a fiscal note process, such legislation will have no force or effect until compliance is achieved.

Conclusion

It is clear that we need to look beyond our own immediate township, city and county boundaries in order to build a stronger Michigan. We need to look beyond the dividing lines of yesterday to build dynamic communities that will foster job growth and attract world-class talent.

In order to make this a reality, local officials need the tools to share services and merge operations when they believe it makes sense. In many cases communities can pool resources and allow for consolidation to take place without sacrificing the level of service. But in order to do so we need to remember that in today's economy our communities are intertwined in more ways than we realize. It's time to leverage this concept to our advantage by insisting on best practices at all levels of government.

I ask the people of Michigan to be open to the idea of sharing critical services and embrace the concept of regionalism so that we can successfully confront the economic challenges facing us today.

Michigan needs to become a place where our children – and theirs – can live, work, play and prosper. State government can enable and encourage, but communities themselves must lead the way.