Tuscola County White Paper Concerning
State Revenue Sharing and Personal Property Tax Cuts

Submitted to: State Senator Green and State Representative Damrow

Submitted by: Tuscola County Board of Commissioners

Thomas Bardwell, Chairperson
Gerald Peterson, Vice-Chairperson
Roy Petzold
Thomas Kern
Roger Allen

Prepared by: Michael R. Hoagland
Tuscola County Controller/Administrator

PROPOSED REVENUE SHARING AND PERSONAL PROPERTY TAX CUTS

The 2012 state budget, as proposed by the governor, has a 34% reduction in state revenue sharing to counties and elimination of the personal property tax. Tuscola County cannot simply absorb an additional $350,000 state revenue sharing reduction and elimination of $383,000 in personal property tax on top of the other revenue cuts that the state has already implemented.

Many services provided by county government are mandated by the state. Other services are critical and are demanded by the public. The combined revenue reduction to the county from these two targeted cuts is an estimated $733,000. These state cuts would be severe with dire implications considering the total general fund budget of Tuscola County is only $12 million. The cut would compound the current problem of property tax revenue declines and other financial distress that has already negatively impacted the ability of the county to maintain services.

These reductions will likely require county officials to make even more far-reaching drastic service base cuts than those that have already been implemented. This document is submitted to respectfully request and petition our state officials to re-evaluate these proposed drastic revenue cuts and consider alternatives. Previous cuts to state revenue sharing combined with the recent reductions in property values and increased mandated state service delivery have stretched the county to its limit.

TUSCOLA COUNTY SHOULD BE REWARDED NOT PENALIZED FOR INNOVATION

Tuscola County has worked diligently by leading the effort to reform, consolidate, and right size government in order to adjust to declining revenues. The county has been an effective partner with the state. In a previous document titled Tuscola County Best Practices, many examples of significant cost reductions and savings that have been achieved through innovation, intergovernmental cooperation, collaboration and consolidation are provided. Some of these cost saving best practices include:

- Joint Tuscola and Sanilac animal control services
- State /County cooperation to reopen Camp Tuscola as a Residential Re-Entry Center
- Contracting for building code services
- Cost reduction through sharing of equalization director with Huron County
- Tuscola County equalization department providing assessing services to the City of Caro
- Recycling of old tires as a joint effort with local governments
- Contracting with the private sector to provide “Turnkey” computer-technology system support
- Cost reduction through sharing health department director and other positions with Huron County
- State/County partnership - lease agreement with the department of Human Services
- Leveraging Federal funding to strengthen county services

Tuscola County officials are committed to being a positive voice and are willing to work with our state officials to find solutions that work for both parties. Tuscola County officials believe that their prior sacrifice on the state’s behalf, coupled with their leadership in reforming local government, sharing services, and reducing the size and scope of government, are a testament to their efficiency in providing state mandated services. This dedication and willingness to partner with the State should be part of the discussion in developing alternatives to state revenue sharing drastic cuts and replacment revenue for the personal property tax.

The current model of pushing more state mandated service delivery to counties, while eliminating funding, especially the recommended cuts to revenue sharing of 34% for counties, is no longer sustainable. We simply cannot keep making up the difference for the state. The Michigan Association of Counties is interested in discussing eliminating mandates, making them optional, or transferring them back to state responsibility. Your assistance in maintaining the fiscal solvency of Tuscola County on a long-term basis is appreciated.

MANDATED AND NON-MANDATED SERVICES

In many respects, county government is an arm of state government. As previously noted, almost all of the services provided by county government are mandated by the state. It is estimated in the following **Table A** that state mandated services provided by the county account for over 90% of the total general fund budget. The state has continued to add new mandated services almost annually without providing the funding. In fact, these same services are expected to be provided while the state revenue sharing and personal property tax are cut by as much as $733,000. The question should be what state mandated services will the county no longer be required to provide if the state revenues are drastically cut.

Table A		
General Fund Mandated Service Costs 2010 and 2011		
	2011	**2010 Actual**
Category/Department	**Budget**	**Expenditures**
Courts	$2,846,969	$3,070,218
Jail	$2,149,158	$2,092,753
Buildings & Grounds	$766,909	$681,931
Prosecutor	$648,968	$641,468
Drain-at Large	$422,186	$491,243
County Clerk	$386,671	$391,667
Budgeting/Financial & Personnel Mgt.	$342,346	$331,583
Computer Operations	$338,328	$350,941
Treasurer	$328,179	$305,661
Behavioral Health	$288,243	$288,243
Friend of the Court	$282,970	$320,131
Health Department	$263,727	$263,727
Equalization	$247,464	$234,986
Register of Deeds	$243,878	$234,181
Drain Commission	$178,244	$175,104
Insurance & Bonds	$174,000	$153,333
Child Care Human Services	$149,000	$87,500
Board of Commissioners	$115,885	$139,474
Equipment Fund	$100,000	
Building Lease/Purchase Agreement	$97,080	$24,370
Secondary Road Patrol	$96,700	$97,556
Human Services Building Maint.	$68,411	$55,302
Substance Abuse	$65,000	$65,530
Medical Examiner	$56,193	$58,076
Auditing Services	$50,000	$42,105
Legal Services	$50,000	$109,594
Other Mandated	$176,424	$251,185
Total Mandated	**$10,932,933**	**$10,957,862**

Table B shows that there is only an estimated $476,000 in non-mandated general fund services remaining in Tuscola County. Although these services may not be mandated by law, almost all of them are mandated by the public. The proposed cut to state revenue sharing is likely to leave county officials with little option but to reduce or eliminate most of these non-mandated services. Of course, the situation becomes even worse if the personal property tax is eliminated and not replaced.

Table B		
Non-Mandated Service Costs 2002 - 2011		
	2002 Actual	**2011 Budget**
Road Patrol (Part)	$174,955	$0
Courthouse Security	$102,027	$163,235
MSU-Extension	$163,194	$121,379
Recycling	$58,247	$0
County Planning Comm.	$41,931	$6,350
Thumb Narcotics Unit*	$37,832	$0
Animal Control*	$90,683	$0
LEADERS	$25,000	$0
County Park	$12,000	$5,000
Alcohol Enforcement	$6,699	$0
Economic Development	$32,000	$46,302
Soil Conservation	$5,000	$0
East Central Planning	$4,175	$0
JAIBG Grant	$1,093	$0
Remonumentation	$4,538	$0
Veterans	$48,736	$67,395
Emergency Services*	$46,984	$66,763
Total Non-Mandated	**$855,094**	**$476,424**

NEED FOR A FAIR ALTERNATIVE TO ANOTHER STATE REVENUE SHARING CUT

The current proposal to cut revenue sharing by 34% in the Fiscal Year 2012 would be damaging to Tuscola County government and needs to be re-considered and alternatives need to be developed. The current cut is disproportionate to counties. The state has an obligation from previous agreements to fund state revenue sharing payments to counties and to give the counties the financial ability to fund state mandated services. To further penalize counties for their sacrifice is unfair. The current model of mandating counties to deliver services on behalf of state government without paying for them is unsustainable. The Michigan Association of Counties is urging the Legislature and the Governor to live up to their end of this important promise which benefits the state by continuing revenue sharing payments to the new slate of counties in fiscal years 2012 and 2013.

- First, state revenue sharing was created to replace local taxing authority with sales tax to improve business climate by eliminating a patchwork of local taxes.

- Secondly, of significance is that in 2004 counties agreed to forgo revenue sharing for a period of time in order to assist Michigan in balancing the budget. Counties were promised a return of state revenue sharing funding once reserves were depleted (“roll forward funds”). In summary, counties have saved the state more than a billion dollars since 2005 when they temporarily gave up revenue sharing to help the state with its budget problem. Counties will continue to help the state budget until the final county exhausts its reserve account well past the year 2020.

- Thirdly, counties do not receive constitutional protection for revenue sharing. Taking that into consideration, this cut would be disproportionate for counties at 34 percent.

- Fourthly, revenue sharing is critical to helping counties partially alleviate the cost of unfunded state mandated service delivery.

NEED FOR REPLACEMENT REVENUE IF PERSONAL PROPERTY TAX IS ELIMINATED

Senate bill 34 and House bills 4102 and 4103 would eliminate the personal property. This is the tax on business inventory, machinery and equipment. It generates approximately $383,000 for Tuscola County government. The Tuscola County position on elimination of this tax is the same as that of the Michigan Association of Counties. If the personal property tax is eliminated, replacement revenue needs to be provided to hold the county harmless. Of course, also of great concern is that the personal property tax is the primary method of taxing wind generators. It is absolutely critical that if the personal property tax is eliminated a replacement revenue be provided for fair taxing of wind generators. Wind generation offers significant economic potential for the future of the thumb area of the state.

COUNTY FINANCIAL ISSUES INTENSIFY – STATE HELP NEEDED

Tuscola County, like almost all other counties in Michigan, is facing serious financial issues. In fiscal year 2009, an unprecedented $645,000 in general fund cash reserves was required to balance the budget. County officials anticipated that in 2009 reserves would have to be used and accepted this situation for one-year, but also knew that for 2010 major “corrections” would have to be made to bring expenditures back in-line with decreasing revenues.

Adjustments made to balance the 2010 budget included:

- Elimination of full-time positions in Controller, Maintenance, Circuit Court and Friend of the Court offices
- Non-union wage freeze
- Elimination of Courthouse security for six months
- Elimination of part-time positions in Register of Deeds, County Clerk and Emergency Service offices
- Increase in District Court fines and costs
- Reduced Department of Human Services appropriation from $137,500 to $87,500
- Reduced Probate Court Child Care appropriation from $500,000 to $470,000
- Reduced Equipment/Capital Improvement appropriation from $100,000 to $0

The 2011 budget required further expenditure cuts as listed below:

- Wage freeze for union employees
- Reduced union wage sacle for new hires
- Reduced retiree benefits for new employees
- Health insurance coverage changes and cost reductions (employees now pay 29%)
- Use of reserves
- One-time state reimbursement for a portion of data workflow imaging computer system
- Office space changes to produce cost savings

The 2012 and future financial projections are grim with further deterioration driven by projected additional property tax revenue declines and potential additional revenues cuts from the state. This already concerning financial situation would be even more problematic with the proposed cuts to state revenue sharing and elimination of personal property tax. **Tables 1 and 2** at the end of this document show general fund revenue and expenditure trends over several years and the significant expenditure adjustments county officials made in 2010 to balance the budget.

PROPERTY TAX REVENUE DECLINES

As previously noted, the revenue base of the county continues to erode, diminishing the ability of the county to provide services on a long-term basis. Much of the financial problem is on the revenue side of the budget. Although declines have occurred in many revenue categories, the most significant factors are falling land values and state revenue sharing payments. Property tax (cuurent and delinquent) is the single largest source of revenue to the general fund at approximately 53% of total. State revenue sharing is the second largest source at approximately 8% of total.

Unfortunately, projections from the county equalization department indicate that land value declines have not yet stabilized with losses of $216,000 from 2010 to 2011 and $134,000 from 2011 to 2012. This unfavorable situation will in all probability result in continued property tax revenue declines. The County Register of Deeds has documented the unprecedented number of property foreclosures in the county with no relief in sight. It could be many years before the county returns to the peak property tax revenue levels of 2008. **Table 3** at the end of this document shows the concerning significant property tax revenue declines.

OFFICIALS TO CONTACT FOR FURTHER DISCUSSION

1. Thomas Bardwell Chairman, Tuscola County Board of Commissioners – 989-912-6392
2. Jerry Peterson Vice Chair, Tuscola County Board of Commissioners – 989-550-8846
3. Tom Kern, Tuscola County Board of Commissioners – 989-551-2775
4. Roger Allen, Tuscola County Board of Commissioners – 989-674-2416
5. Roy Petzold, Tuscola County Board of Commissioners – 989-871-3789
6. Michael R. Hoagland, Tuscola County Controller/Administrator – 989-672-3700
7. Ben Bodkin, Michigan Association of Counties Legislative Staff – 989-871-3789