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State Funding Squeeze Could Mean “Ultimate Financial Disaster” for Michigan Communities.

Michigan cities and towns are hurting for cash. Many have had to cut services like street and sidewalk repair. Some have had to reduce the size of their police and fire departments.

The usual suspects of municipal finance woes—weak property tax revenues and rising employee retirement costs—share much of the blame.

But today there is another culprit: the state of Michigan itself.

For years, the state Legislature has been claiming a bigger share of revenue from the statewide 6% sales tax. Facing their own budget problems, decision makers in Lansing have shifted the financial stress to the local level.

According to the Michigan Municipal League, municipalities lost out on more than \$6 billion because of reductions in revenue sharing from 2001 to 2014.

Marcus Peccia is city manager of Cadillac, Michigan. Peccia said his city of around 10,000 people has lost more than \$4.5 million in revenue from the state since 2001.

In a city with an annual general fund of just \$6.5 million, that has had a huge effect.

“We’re down to essentially one operational crew from our public works department year-round,” Peccia said. “And so, especially in the winter, with winter conditions, it makes it more difficult for us to provide the same level of services that we want to provide and that our citizens expect.”

Peccia said that it can take up to five days to clear snow off the streets after a snowstorm, far longer than in past years. In the snowy northwest of the Lower Peninsula, that can mean the streets aren’t even fully plowed before the next snowfall arrives.

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Hamtramck, a city of 20,000 located in the Detroit metro area, has also felt the funding squeeze.

“From 2003 to 2014, we lost about \$13.3 million,” said Hamtramck Mayor Karen Majewski. “That’s almost the equivalent of a full year’s general fund budget for us.”

Hamtramck’s budget issues lead to the city being taken over by a state-appointed emergency manager in 2013.

While the city’s finances are in better shape since coming out of emergency management in 2014, the situation remains far from ideal. Some local residents have even taken charge of filling the city’s potholes themselves.

Both Majewski and Peccia reported that their local representatives in Lansing are aware of the

municipal funding problems. But the message does not seem to have reached the entire Legislature.

In recent months, there have been several proposals to cut state income taxes, in some cases to zero. At the same time, the governor hopes to increase the size of the rainy-day fund, which already holds more than \$500 million.

The purpose of the fund is to avoid budgetary crises in the future. But for local leaders like Peccia and Majewski, who have been battling shrinking budgets for years, such proposals seem counterproductive at best.

“To have a rainy day fund at that magnitude that’s being proposed and being talked about, in combination with also reducing the income tax levy, I think that could potentially be a combination or a mixture for ultimate financial disaster and ruin for many more communities across this state,” Peccia said.

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