

Bond Case Briefs

Municipal Finance Law Since 1971

Michigan Supreme Court Rules Against Revenue Sharing Suit.

METRO DETROIT — On July 28, the Michigan Supreme Court ruled largely in favor of the state in a case that addressed Michigan's Headlee Amendment, which, in part, requires that roughly half of the state's spending from state revenue sources each year be paid as aid to local governments.

The minimum percentage required to satisfy Section 30 of the Headlee Amendment has been set at 48.97%. Plaintiffs, consisting primarily of municipal leaders from around the state, known as Taxpayers for Michigan Constitutional Government, argued the state of Michigan is shortchanging local governments because it counts payments directed to school districts, including charter schools, pursuant to Proposal A of 1994, as well as spending for state-mandated local services, as part of that 48.97%.

"We were obviously disappointed," remarked Christopher Johnson, general counsel to the Michigan Municipal League, which was a plaintiff in the suit. "I think it really boils down to the interpretation between the interplay between Proposal A and the Headlee Amendment and how much money has been siphoned off from local communities to the state."

Both Eastpointe and Roseville were parties in the suit. Roseville City Manager Scott Adkins said that municipalities like his have lost millions of dollars in the last two decades due to the 2008 recession slashing cities' income while the Headlee Amendment and Proposal A severely limited how much they could then take in after the financial situation improved. He said that both measures also have reduced the amount of money coming into municipal governments from the state, which has amounted to a "one-two punch" that has left many cities struggling.

"We were party to the suit, along with many municipalities," said Adkins. "When it comes to municipal finance, the state hasn't always been consistent. There are two types of revenue sharing: constitutional revenue sharing, which is written in the Michigan Constitution. The other is statutory, which is determined by the Legislature and can be changed. They can both be difficult for communities, depending on how they are implemented."

"You start to explain this thing to John Q. Citizen out there, and their eyes roll back in their head and they lose interest," Johnson added. "They think it doesn't make sense and no one would ever adopt something that crazy."

The Supreme Court decision dictated that state payments from Proposal A revenues paid to public schools count under Headlee Section 30 as state aid to local governments; state payments to charter schools are not necessarily payments to local units of government, although some charter schools may still qualify as local units of government; and state payments to local units of government to cover state mandates required by Headlee Section 29 also must be counted under Headlee Section 30.

"This ruling is a win for the people of this state," Michigan Attorney General Dana Nessel stated in a press release. "Public school funding is about 25% of the state's annual budget, representing

approximately 12-13 billion of state dollars each year. A significant portion of that annual funding was in question in this case — and could have resulted in higher taxes and/or fewer state-level services for Michigan's residents if the court had determined the state was not providing enough money to local governments. This decision affirmed that the state's decades-long treatment of these public school funds was proper under our Constitution. This was a complicated issue that demanded the best advocates on behalf of Michigan, and I am proud of the work done by my staff."

However, those who brought the case forward said the goal is not to decrease the money going to schools but to increase the money going to municipal governments.

"What it really boils down to is the municipal finance system the state has is broken. The state needs to fix it. The decline in government spending at a local level has been devastating for communities all over Michigan. It's not a system that can be fixed by throwing a few dollars at it here and there; it needs a more long-lasting and permanent solution," said Johnson. "The Headlee Amendment was originally sold to voters as a way to make sure they wouldn't be taxed out of their house, but it actually was a revenue cap on local taxes. Proposal A accomplished what the Headlee Amendment sold, which was limiting a tax increase for an individual."

Adkins said this wasn't a complete victory.

"Municipalities have consistently lost ground in past cases when changes were made, so we will take whatever victories we can get," Adkins added. "What we were trying to do with this suit was a more fair and equitable manner of state finance. We were able to get an acknowledgment that the state hasn't been fair in the distribution of revenue at least in certain components, but this isn't a complete fix. We need them to look at the whole pie, not just one or two pieces."

Adkins said that Headlee and Proposal A may have been good ideas when they were approved, but that the situation in Michigan has changed since then, citing the existence of charter schools as a key example.

"I think you have to look at both Headlee and Prop A," he said. "Headlee is the constitutional amendment. When it was passed in 1978, you had a different economic platform. The same can be said for Prop A, which was passed in 1994. In both cases, you have a certain sort of economy in the 1970s and a certain sort in the mid '90s. Neither has been adapted for 2021. While they might have been a good fit for the time they were passed, they weren't built to be adapted as the situation changed. You weren't paying the same price for a gallon of milk in 1978 (as) you are now. Now, municipalities have been losing ground while inflation kept going up."

Adkins said that, until the state takes a full and comprehensive look at how revenue is being shared with local municipalities and how those municipalities are struggling, those communities will continue to struggle.

"We're frustrated that many of the major issues still haven't been fixed in the state's finance system. We're glad there's more awareness and some small victories have been achieved, but municipalities are still struggling, so these issues have to be addressed and we still haven't seen that happen."

candgnews.com

by Brendan Losinski