



PUBLIC POLICY ADVISOR

Local Government Cooperation: Voluntary Formal Arrangements

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The publication of Ted Gaebler and David Osborne's book, *Reinventing Government*, has stimulated discussion about new ways in which government can provide services that will increase public satisfaction and reduce costs. Such exploration is especially timely in Michigan because continuing tight state budgets and federal cutbacks have put a fiscal squeeze on many local governmental units.

For some time and to some extent state and local governments have been changing the way in which they do business. One such change is in the manner in which localities communicate and cooperate with one another. Instead of engaging in competition (especially for economic development), some localities are entering into cooperative agreements.

The need for cooperation (as opposed to competition) arises from the increasing expense and complexity of providing public services, the sometimes overlap of authority, the necessity for less cumbersome means of reaching accord, and the need everywhere for fiscal efficiency. Cooperative arrangements may be multijurisdictional and formal or informal. Whatever the service and the nature of the arrangement, the governments involved in cooperative agreements share a goal of meeting the common needs of residents of their localities.

For the most part, voluntary local cooperation in Michigan has been facilitated by state government through enabling legislation. Advocates of cooperative agreements contend that such arrangements can reduce duplication of services, eliminate inefficiencies in service delivery and administration, and ease the financial stress caused local governments by diminishing federal and state aid. Critics believe that additional layers of government sometimes are created, resulting in a more cumbersome bureaucracy rather than a more efficient one. They also contend that while cooperative ventures may be theoretically sound, many are unrealistic because certain impediments exist that hinder their operation. In the case of metropolitan councils (discussed below), for example, the bodies have no legal authority to enforce the policies they recommend. Skeptics further contend that the very structure of intergovernmental organizations "with representatives from several government units" complicates decision making.

TYPES OF AGREEMENTS

There are many and varied agreements between and among government units in Michigan. They include compacts to address economic development, mediate disputes, and provide such services as police or fire protection or common bus or water services. Although by no means inclusive of all types of agreements, we discuss in this paper four formal voluntary arrangements: regional councils, metropolitan councils, service sharing, and tax base sharing. Such agreements are not, of course, cure-alls for adverse relationships that exist between localities, but they are one means by which cooperation can begin or grow.

Regional Councils

The state Regional Planning Act (Public Act 281 of 1945) first recognized the need for formal intergovernmental cooperation and allowed creation of regional councils in Michigan. Boundaries were finalized by executive order in 1968, and by 1974 the 14 regions had council representation. Each council has members from a variety of local governments (e.g., city, village, township, county, and school district),

but authority and roles vary; each is accountable to its member governments. The Michigan Association of Regions is an umbrella organization for the councils, lobbying for all the regions with state government and the legislature and serving as a center through which the councils can share information and ideas.

The councils, initially created as a forum for regional planning and development, tailor their functions to meet the needs of individual regions. These include developing plans and policies for services relating to transportation, the environment, housing, recreation, energy, and management. Funding comes from federal, state, and local government; membership fees; and local contracts for the provision of specific services.

Metropolitan Councils

Public Act 292 of 1990, the most recent contribution to regional intergovernmental cooperation, authorizes any group of communities with a combined population of fewer than one million to create a metropolitan council. A petition must be signed by no fewer than 5 percent of registered voters within each participating jurisdiction, and approval of a majority of voters in a referendum election is required. A council's articles of incorporation may provide for the levy of 0.5 mills on the total value of taxable real and personal property in its jurisdiction and/or require from each participating body the payment of 0.2 mills for operating purposes. Metropolitan councils may propose standards and criteria for the use and development of land and water resources within the council area; they also may plan, promote, acquire, improve, finance, and issue bonds in order to provide services such as water and sewerage, solid waste collection, recycling, recreation facilities, transportation, and public higher education improvements. In addition, the council may serve as the economic development and planning agency for its council area.

Only one metropolitan council exists to date. It was formed in the Grand Rapids area to soften political boundaries with the hope that services could be provided more efficiently if the jurisdictions involved were able to integrate their efforts. The council so far has succeeded in outlining some long-term planning strategies, and despite the fact that efforts to implement change have been stymied, observers believe the council is working "fairly well."

Shared Services

Cooperative agreements may be entered to provide such services as police or fire protection or water and sewerage across a multijurisdictional area. Legislation passed in 1989 also enables Michigan communities to establish joint emergency services authorities. In November 1990 the residents of Oxford Village and Oxford Township were first to take such action: They approved a 7-mill tax increase to finance joint fire and police authorities. Although a centralized record of such arrangements is not kept, similar shared service agreements likely exist throughout the state. Analogous agreements, primarily in which one jurisdiction contracts with another for the outright purchase rather than the shared provision of services, also exist widely. Despite the potential of shared or purchased service arrangements for cost and administrative efficiencies, sometimes localities are reluctant to enter into them because doing so can mean that control over the service must be shared or ceded.

Tax Base Sharing

Under tax base sharing, all or part of the revenue from a given tax *base* (the value of property being taxed) in two or more jurisdictions are reallocated among the jurisdictions for a specific purpose.

Tax base sharing for economic development evolved because sometimes cities find further development difficult due to lack of available space within their boundaries, while nearby townships cannot attract development because they lack the infrastructure (sewers, highways, and the like) and/or the funds to provide services new businesses need. Rather than competing against each other, the local governments involved can cooperate in their economic development efforts. Tax base sharing between localities is allowed in Michigan under two acts: P.A. 425 of 1984 (as amended by P.A. 22 of 1990) and P.A. 286 of 1988. Under

both it is reasoned that increased cooperation and a sharing of revenue between or among all parties will foster economic development for the whole area and speed implementation of necessary changes in infrastructure.

Under P.A. 425, ownership of land needed for economic development or environmental protection may be conditionally transferred from one jurisdiction to another in exchange for a share of tax revenue. This type of agreement "usually between a city and an adjoining township" allows an urban area to provide services necessary for development (such as water and sewer services) that an adjoining township cannot or does not have the revenue to provide. In exchange, the township provides the land area and a share of the township's tax revenue, yet maintains autonomy. Public Act 425 agreements have additional advantages: (1) They can be adopted in less time than required for annexation, allowing localities to respond relatively quickly to rapidly changing circumstances. (2) Both jurisdictions can benefit, making this type of arrangement an acceptable alternative to the outright annexation of township property by the urban jurisdiction. (3) Contracts can be tailored to the particular circumstances of the localities involved, even permitting future negotiation and compromise as circumstances change and contingencies arise.

Public Act 286 amends the Urban Cooperation Act of 1967 and allows tax base sharing between two or more units of local government involved in an economic development project located within *both* jurisdictions. Like P.A. 425, this act allows local units to come to an agreement more quickly than if annexation were undertaken and allows the smaller government to retain some degree of autonomy.

With but a few exceptions, jurisdictions in P.A. 425 agreements are enthusiastic about how the arrangements are serving the needs of their localities. Several P.A. 425 agreements have led to job creation, sometimes significant. In one agreement, in which the township receives most of the property tax revenue generated by new development, a representative notes that the amount of development that has occurred is sufficient to enable the city to generate enough water and sewer use income to make up for the property tax revenue allocated to the township. (Significant development does not always occur, of course; sometimes it is unremarkable, slow to evolve, or doesn't happen at all. In such cases some parties still are enthusiastic about their agreement because it has led to increased township-city communication and shared purpose; others feel resentment caused by unfulfilled expectations. The latter is particularly the case where contracts are vaguely written and/or unspecific.)

Representatives of the City of Benton Harbor and Benton Charter Township, which have signed two P.A. 425 agreements, laud the method as successful in providing incentives for development. The area is unique in that it is the only established enterprise zone in the state, and the agreements are instrumental in helping to attract business, improve city-county relations, and market the area. Other jurisdictions voicing similar support for their P.A. 425 agreements include the City of Standish and Lincoln Township (which signed an agreement in order to pave the way for the construction of a prison facility), and the City of Lapeer and Elba Township (which signed two agreements, one of which is for construction of a corrections facility). A representative of the Michigan Townships Association stated that people generally are happy with the agreements, and that the arrangements provide a more conciliatory and predictable approach than does annexation.

Nearly all those involved in voluntary tax base sharing arrangements note that a well-written and specific contract is imperative for success. All parties should clearly understand the agreement's provisions, all foreseeable contingencies should be dealt with, and any actions that may be required should be spelled out for all parties.

Some observers are concerned about the question of what happens to a developed area when a P.A. 425 contract expires (contracts are written for up to 50 years). Even if it specifies to which jurisdiction transferred land will revert, some people doubt the legality of such a provision.

It should be noted that although tax base sharing agreements usually occur voluntarily between local units of government for economic development purposes, the state is attempting to employ the concept as a means to redistribute local education funds among rich and poor school districts. Tax base sharing for school funding was mandated by the state in the fiscal year 1991-92 school aid appropriations bill (P.A. 108 of 1991). The plan, which has not been implemented because it is being contested in the courts, would place all school districts in one of two regions, and revenue derived from *growth* in industrial and commercial property tax revenue in each region would be pooled and the monies distributed on a per-pupil basis among all districts in the region. The plan's purpose is to alleviate some of the funding disparities among school districts without taking away any revenue currently available to wealthier districts. (Until the matter is resolved in the courts, the state has agreed to allow the shared funds to amass in an escrow account. If implemented, an estimated \$27.5 million"1991 dollars"will be redistributed annually as a result of the program.)

CONCLUSION

Cooperation between parties historically at odds with one another has become increasingly common in an effort to gain a competitive edge. Labor and management specifically, and the public and private sectors in general, are finding that combining efforts often results in higher productivity, gains in and through innovation, and increased efficiency.

Local governments too can benefit from cooperative ventures. Financial strain on local government budgets would seem to make some cooperative ventures (particularly in providing services) attractive. The growing need for more broadly based economic planning and development, especially in the provision and improvement of infrastructure, also makes such efforts financially appealing and perhaps compelling.

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