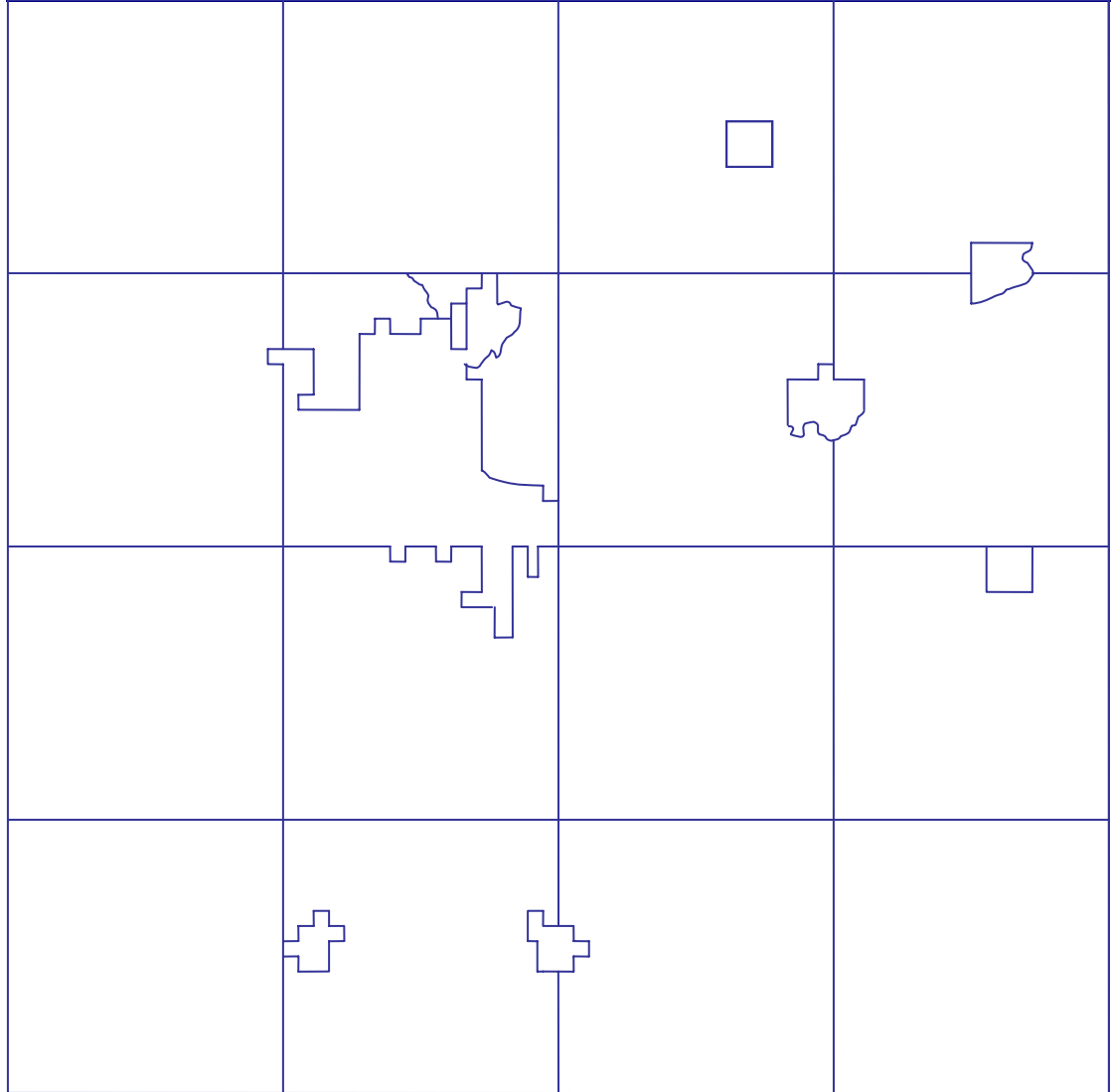


# KALAMAZOO COUNTY



# GROWTH PLAN

Six Public Sector Strategies Toward Regional Growth



**Southwest Michigan First**  
Economic Development for the Kalamazoo Region

# Table of Contents

Acknowledgements ..... ii

Executive Summary..... iv

Introduction..... 1

Strategy 1: Create county-wide efficiencies ..... 3

Strategy 2: Drive economic development strategically ..... 5

Strategy 3: Unlock value of water and sewer systems..... 6

Strategy 4: Contain payroll cost..... 8

Strategy 5: City of Kalamazoo - Increase efficiencies..... 9

Strategy 6: City of Kalamazoo – Reduce property tax ..... 10

Conclusion..... 11

Exhibit A: Michigan’s Public Sector Crisis..... 14

Exhibit B: Water and wastewater rate comparison ..... 15

Exhibit C: Challenges for the core city ..... 16

Exhibit D: Core city comparisons ..... 18

Exhibit E: Income tax calculations ..... 22

Exhibit F: Prior collaborative efforts ..... 23

Endnotes ..... 24

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# Executive Summary

To create a vibrant, growing, and united community that will become the most competitive region in Michigan requires, among other things, that the county's municipalities work together in new ways. We look to them to create a service delivery system that provides the same – or better – services than other regions at less cost. The Growth Plan outlines six strategies to accomplish this vision.

**Vision**            **To become the most competitive region in Michigan**

## Regional Strategies

**Strategy 1:    Create county-wide efficiencies**  
 Consolidate duplicative city, county, and township functions  
 Divest unessential assets, eliminate non-mandated services  
 Competitively bid services and functions

**Strategy 2:    Drive regional economic development strategically**  
 Involve the business community  
 Develop a strategic plan for regional economic development

**Strategy 3:    Unlock value of regional water and sewer systems**  
 Form a regional water and wastewater authority  
 Cash flow capacity and operational savings  
 Equalize rates

**Strategy 4:    Contain payroll cost**  
 Align benefits with those of similar-sized private companies  
 Seek legislative changes

## Core City Strategies

**Strategy 5:    City of Kalamazoo: Increase efficiencies**  
 Explore savings opportunities based on core city comparisons

**Strategy 6:    City of Kalamazoo: Reduce property tax**  
 Commuter income tax is not an option  
 Use proceeds from sale of water and wastewater systems

# Introduction

We read it every day: Michigan's economy is struggling and its communities are unable to balance their operating budgets. Unfortunately, this problem is not cyclical but systemic. Our "automobile economy" is not a viable model for the 21st century and we must make the difficult change to an economy that looks for new ideas from our citizens and higher education system.

The twenty-five governments of Kalamazoo County and their citizens are facing the very same problems. The looming financial crisis for the City of Kalamazoo is just one indication – a situation not unique to Kalamazoo (Exhibit A). In fact, Flint is in receivership for the second time. Detroit, Grand Rapids, Saginaw, and major cities on the east side are in a similar crisis. Cities all around Michigan are realizing that State government will not be able to assist them at past levels; instead, state assistance is most likely to decline. A transformation to a new economy will be painful but necessary. The question is – "What to do?"

## With crisis comes opportunity

We must transition ourselves as a region if we are to thrive. Kalamazoo County has a unique opportunity to develop and implement Michigan's model for local governance and economic development in the 21st century. It is our vision for Kalamazoo County to become the most competitive region in the state of Michigan, and we believe that the county has all the assets needed to make this transformation a success:

1. Outstanding centers of higher education that desire to partner with their community.
2. A head start in growing a life-science-based economy with the Innovation Center and Business, Technology, and Research Park already in place.
3. A business community that desires change and is willing to invest.
4. A superior location on I-94 and US-131 between Detroit and Chicago.
5. Population with a strong work ethic and desire to succeed.
6. Outstanding utilities with capacity to grow.
7. A transition in our community's political and administrative leadership is upcoming.

Southwest Michigan First has recently hired a new CEO, Ronald Kitchens, who has a solid track record in economic development. He is coming to Kalamazoo County on July 1st to lead the effort to create new companies and jobs in our region. Quality economic development does not happen in a vacuum, however, and certainly cannot happen in an area where the core city and its surrounding communities are not competitive or fiscally sound.<sup>1</sup>

To create growth, the county must put its economic house in order. In short, Kalamazoo County has a unique opportunity to again demonstrate its resolve to be a winner and create a vibrant, growing, and united community. Our citizens have an opportunity to get involved in the process and show their support for driving the process forward.

Creating a healthy environment for growth will not solve all the county's problems. However, having good jobs available for everyone strengthens our ability to create better schools, and better roads and raise our community's overall quality of life. Our situation will not improve without a fiscally responsible government that can compete for growth on a regional and national level.

The following is a plan for partnership as the twenty-five governments in Kalamazoo County collectively address their budget crisis. The answer to our future lies not with increasing the tax burden on individuals and businesses but in delivering the same services at a reduced cost. Belt-tightening occurs in the private sector as businesses adapt to a changing world. Many jurisdictions in Kalamazoo County have already begun their belt-tightening.

As a community we must go one step further. Consultants from Plante & Moran suggested that by partnering together our community governments could reduce cost at a much larger scale – by combining services, contracting services, disposing of unnecessary assets, and a general streamlining of operations. Consolidated countywide public services will be a key ingredient for successful regional economic development and for accomplishing our vision of becoming the most competitive region in Michigan.

The question is not whether we need to do this. The question is how. The citizens of Kalamazoo County have always responded to a challenge. We fully expect them to do so again.

Bill Johnston, Chair  
Southwest Michigan First Board of Directors

Kalamazoo, June 15, 2005

# Strategy 1: Create county-wide efficiencies

Many local jurisdictions duplicate internal functions and public services. It is in the taxpayers' interest to explore whether and how these functions could be consolidated, eliminated, or privatized.

## Consolidate duplicative city, county, and township functions

Countywide consolidation of duplicative functions will create cost efficiencies for all involved municipalities. Options include intergovernmental agreements and public-private partnerships. The recent Consolidated Dispatch is an example of how the City of Kalamazoo, the Charter Township of Kalamazoo, and Kalamazoo County government are providing public safety dispatch services more efficiently. Initial areas to be explored for joint productions could include fire, police, and assessment functions.

## Divest unessential assets, eliminate non-mandated services

Not all assets owned by our local governments are essential for service delivery. This time of crisis brings with it the opportunity to scrutinize both assets and services that could be divested or eliminated. Unused land should be evaluated and financial benefits of citizen versus private ownership should be calculated. For example, the City of Kalamazoo recently sold its public works yards at Hatfield Avenue and is now discussing the sale of one of its three golf courses.

## Competitively bid services and functions.

Besides outright privatization, jurisdictions should explore feasible alternatives to privatization, such as joint public ventures, intergovernmental contracting, private/public ventures, or competitive service delivery (CSD). CSD involves public sector employees competing with private sector businesses for government contracts.

Privatization, or competitive bidding, could be sought on a per-jurisdiction basis when functions or services are unique. Additional savings can be realized, however, when shared functions are contracted to a single vendor. For example, payroll, human resources, staff training, accounting, web portal, information technology, or tax/utility billing and processing could be jointly contracted to a single vendor.

## Best practices

Our consultants from Plante & Moran indicate that best practices in urban turnaround include the following measures, all of which underlie the strategies proposed in the Growth Plan:

- Compelling vision, broad buy-in among the political and business community.
- Strong Economic Development Plan – targeted commercial growth, significant focus on residential development.
- Business-like approach to running local governments: performance measures at organizational and departmental levels with a focus on accountability and balanced budgets.
- Focus on quality delivery of core services and services supporting quality of life and basic infrastructure.

## Strategy 2: Drive economic development strategically

We recommend that private, public, and scholastic leaders convene a standing forum in which they address multi-lateral solutions for regional economic growth. A common understanding of the region's economic development challenges will provide the background against which solutions can be formulated.

### Involve the business community

In 1998, the Fresh Start Committee developed a concept for economic development not unlike the present Growth Plan.<sup>2</sup> The Committee recommended that the governmental units work in "conjunction with a business and foundation consortium." Today, participation by the business community will be essential for moving our community toward a new future of economic competitiveness and higher quality of life. Southwest Michigan First and the other sponsors of this report, together with other members of the business community, will support all public sector measures that generate sustainable results.

### Develop a strategic plan for regional economic development

We propose as a first step the creation of a regional economic development strategic plan. The plan will reflect a shared agenda for making our community more competitive in the state, national, and global economy through world-class growth.<sup>3</sup>

## Strategy 3: Unlock value of water and sewer systems

The City of Kalamazoo and several other cities in Kalamazoo County have their own municipal water systems. The City of Kalamazoo also has a state-of-the-art wastewater system that serves most of Kalamazoo County's residents and parts of Barry and Van Buren counties. Kalamazoo City's water and sewer rates are among the lowest in the state and the nation (Exhibit B).

Currently, no incentive exists to increase system efficiencies because excess cash cannot be used for general operations.<sup>4,5</sup> In addition, a 1988 rate settlement agreement requires that savings must be added to the reserves or used to reduce out-city rates.

### Regional authority

The obvious solution is to develop a structure that will allow the cities to unleash the value of their assets and have the proceeds flow into their general fund. Southwest Michigan First hired Plante & Moran to examine a governance structure that would allow for the desired change. The consultants recommend forming a regional water and wastewater authority that would purchase all the various water systems in the county and the City of Kalamazoo wastewater plant. This has been explored before, but governmental bodies have never been able to reach an agreement.

### Sale based on cash flow capacity

One major hurdle to consolidating water and wastewater systems into a regional authority has been agreeing on the value of the assets contributed to the new authority. We recommend, therefore, that a sales agreement be structured on a 30-year contract that would call for each contributing entity to receive quarterly payments equal to 90 percent of the net operating cash flow generated by the particular asset which they sold to the new authority (i.e., water and/or wastewater systems). In addition, each jurisdiction will be able to keep current reserves.

This approach avoids the need to set a specific purchase price and allows each government entity to realize the true value of their asset while still participating in the benefit from both operating cost savings realized and future rate increases. At the end of thirty years, the final purchase payment would be made. This could be in the area of two times the final year payments.

The authority would be created without the need to borrow a large amount of money to finance the purchase. The new authority would retain 10% of the operating cash flow to cover the cost needed for capital improvements and repair.

All user governments will have a seat on the authority's board. It will be in their mutual interest to generate the highest possible efficiencies to maintain low rates. To avoid unreasonable rate increases to boost profits, we recommend the following approach to setting rates.

## Rates

Initially, out-city users will see a small decrease in their rates. City users, on the other hand, will see an increase in rate as a first step toward rate equalization. The in-city rate increase would be more than offset by a decrease in the City's property tax.

Transfer agreements with all parties should clearly spell out future rate increases because these municipalities are losing control over their assets. The future return they deserve must be insured. One possible scenario would be that (1) in ten years all users will be paying 110 percent of the current out-city rate and (2) after ten years all rates will increase a minimum of 1 percent per year or the equivalent of what is needed to maintain margin.

Based on the fact that Kalamazoo's in-city water and wastewater rates are among the lowest in the state of Michigan, and nationally, we feel that small rate increases will not make the City less competitive in attracting new businesses. In fact, creating a countywide water and sewer authority will enhance regional economic development.

## Benefits of a regional authority

This approach to creating a regional water and wastewater authority will be a substantial advantage for economic development because the board will be able to determine how to best utilize the system's unused capacity for strategic expansions that benefit the entire county.

Other benefits of a regional water and sewer authority include:

- Strategic control of growth so it benefits community-wide economic development
- Municipalities will drive capital improvements and expansions through their role as board members with decision-making authority.
- The plant's excess capacity will allow expansion of services with no or minimal additional cost to current users.
- Expansion of the wastewater system into existing and new residential areas will reduce septic tank water discharge and thus preserve our ground water supply resources.

## Operational efficiencies

It is our objective for local jurisdictions to establish the regional water and sewer authority as soon as possible. Once a framework is in place for unlocking system savings for their general funds, municipalities will be motivated to maximize the return on their systems through internal changes and/or contract operations. Our consultants believe that the City of Kalamazoo, for instance, can realize substantial operating savings. This would give much-needed assistance to the City to meet budget needs and make capital improvements.

It should be noted that a transfer of funds from the sale of municipal water and wastewater systems to the contributing municipalities might require approval of federal agencies when federal monies were used for the systems' construction, expansion, or upgrades.

## Strategy 4: Contain payroll cost

Continuously rising employee and retiree health and benefit cost are strangling Michigan municipalities and businesses alike. Many governments and businesses have responded by shifting some of their healthcare cost burden to employees. For example, the City of Kalamazoo has contracted with Marsh USA to provide a review of healthcare cost savings options and is expecting a 10% savings from the Marsh efforts.

### Align benefits with those of similar-sized private companies

Besides shifting healthcare cost to employees, local jurisdictions should consider aligning employee benefits with those of similar-sized private companies. In addition, making benefits of future retirees comparable to the private sector will be another step toward reducing the future burden of escalating legacy costs.

### Seek legislative changes

As a viable strategy for containing payroll costs further, we recommend that the community seek legislative changes that would enable Michigan municipalities to be more flexible in aligning these costs with the private sector. We encourage our local elected officials to work hand in hand with legislators in Lansing because these changes would not only benefit Kalamazoo County but other Michigan municipalities as well.

We are certain that as the community discusses possible solutions to the fiscal crisis, other cost reduction ideas with potentially statewide impact will surface. To turn these suggestions into reality will require close collaboration of local leaders and state legislators.

## Strategy 5: City of Kalamazoo - Increase efficiencies

City officials are projecting a general fund deficit that will exceed \$2.0 million/year by 2006 and a capital improvement shortfall of over \$12.5 million per year.<sup>6</sup> In fact, the City is facing other challenges as well, such as a high concentration of poverty, property tax constraints, and a steady decline of its population (Exhibit C).

Since 2001, the City has used a number of measures to reduce spending<sup>7</sup>, including:

- Kept spending lower than CPI (2.2% versus of 2.4%)
- Reduced workforce by 10% or 93 employees
- Capped employee compensation at inflation
- Instituted a pay freeze in 2005
- Used \$2.8 million in reserves to balance budget
- Shifted cost of healthcare insurance premiums to employees

Given the fiscal projections cited above, however, these steps alone have not been enough to improve the City's fiscal condition.

### Explore additional efficiencies

Plante & Moran compared Kalamazoo's 2002 revenues and expenditures with those of other Michigan core cities (Exhibit D). The purpose of these comparisons was to identify possible overspending in major functional areas.

The consultants' analysis showed that the City's revenue per capita was about 3.3 percent higher than that of the comparison group; expenses were about 12.2 percent higher. Adjusted for population size, the major expenditure variances were as follows:

Debt Service	\$ 8.8 million
Capital Outlay	7.6 million
Other Functions	6.7 million
Public Works	4.7 million
Public Safety	2.1 million
Total difference	29.9 million

These spending differences highlight significant opportunities for savings. The ranking may help City officials target the cost reduction efforts they want to explore first.

## Strategy 6: City of Kalamazoo – Reduce property tax

The tax burden placed upon the residents of Kalamazoo City is much higher than those of residents in other county jurisdictions:<sup>8</sup>

- Property taxes - 38% higher than other cities in Kalamazoo county
- Homestead millage rate - 58% higher than the county average
- Non-homestead millage rate - 36% higher than the county average

With our consultants we explored several ways for making the City's property tax more competitive.

### Income tax: Not an option

Plante & Moran's statistical analysis showed that reducing the property tax rate through a resident and commuter income tax is not a viable option. City residents would lose because a property tax reduction does not offset their income tax contribution. Businesses, on the other hand, would receive a tax break that by far exceeds their income tax contribution. Thus we, recommend against a City income tax (see Exhibit E for detailed statistical information).

### Use proceeds from sale of water and wastewater systems

Our recommendation for creating a regional water and wastewater authority centers on the premise that jurisdictions transferring their assets to the authority will receive annual payments linked to the system's cash flow.

We propose that the City use some or all of the money generated from this arrangement to reduce its property tax. The exact magnitude of a tax rate reduction must be based on detailed projections of the authority's cash flow and rate structure.

# Conclusion

During past years, Kalamazoo County's civic and public leadership have worked collaboratively on a number of economic development efforts. While not all visions became reality, their legacy sets the stage for the civic-public collaboration needed today (Exhibit F).

## Successful regions depend on successful cities

According to Professor Ledebur, "no county has been successful in economic development that has a deteriorating and uncompetitive core city."<sup>9</sup> In fact, it is in the interest of the entire community to have a strong core city since city and suburban economic outcomes are correlated – if the city does well so does the suburb; if the city is hurting, so is the region.<sup>10, 11</sup>

A study on competitive European cities found that the most competitive regions also had the most competitive cities.<sup>12</sup> Further, the study found no examples of successful regions that had unsuccessful cities at their core, thus supporting Professor Ledebur's position.

## The community must help the core city

The City of Kalamazoo is carrying more than its share of the community's burden with a disproportionately high share of the community's poor and unemployed. A higher crime rate requires a stronger police presence. In addition, more than 40% of the City's land is exempt from property taxes (colleges, hospitals, etc.) – all characteristics beyond the City's control.

All jurisdictions in the county have a stake in assisting the City in becoming a healthy and vibrant central city. They should do so only after City officials have shown that they are willing to do what it takes to get their fiscal house in order.

## A new environment

This fall both core cities, Portage and Kalamazoo, will be holding elections. The new leadership of these cities will help set the tone for leading the entire community toward a vibrant, healthy, and competitive future. But they cannot do so alone. In addition, the new city managers and current county commissioners will have to work together to make this regional agenda a reality.

## What's next?

The strategies proposed in the Kalamazoo County Growth Plan are only one step toward creating a globally competitive region. In the long run, the community must also address other issues that impact our economic competitiveness and quality of life, among them K-12 education, transportation infrastructure, and coordinated land-use planning. Workforce development, another important component of economic development, is part of a joint effort between the Kalamazoo Regional Chamber of Commerce and the W. E. Upjohn Institute for Employment Research.

We recommend as a first step that our elected officials determine countywide and jurisdiction-specific service priorities before consolidating or eliminating services. These priorities should be based on citizen expectations, federal and state mandates, and a regional economic development strategy.<sup>13</sup>

Parallel to developing countywide service delivery efficiencies, the community should begin its dialogue on the creation of a regional water and wastewater authority.

## The Kalamazoo business community: Catalyst for change

A recent Kalamazoo Gazette editorial stated that “sometimes, economic and budget conditions can force solutions that politicians wouldn’t embrace otherwise.”<sup>14</sup> Southwest Michigan First and the Kalamazoo business community offer to be the catalyst for finding solutions and making them a reality.

We encourage all elected officials to work together to enhance economic development in Kalamazoo County through open and honest dialogue with all stakeholders. At Southwest Michigan First, we want to know: How can we help – locally and in Lansing? What can we do to help implement the **Six Growth Plan strategies**?

# EXHIBITS

# Exhibit A:

## Michigan's Public Sector Crisis

The City's fiscal crisis should not be viewed in isolation. Other levels of our political system face the same challenges. For example, at the national level we consistently hear news about the underfunding of the Social Security system, the increasing federal deficit, and the declining support for states.

The state of Michigan ranks at the bottom on employment growth, per-capita income growth, and per-capita gross state product. In fact, Michigan was the only state to lose jobs in 2004.<sup>15</sup> In addition, the exodus of young workers threatens the prospect of a healthy state economy and may weaken our representation in Washington.<sup>16, 17</sup>

### Regional income is falling behind<sup>18</sup>

#### DECLINING JOB QUALITY

- 1980 = 108% of US average earnings
- 1990 = 101%
- 2000 = 92%

#### STAGNANT REAL MEDIAN HOUSEHOLD INCOME GROWTH

- United States = 4.0% in the 1990's
- Michigan = 7.2%
- Kalamazoo County= 0.7%

Michigan cities are becoming increasingly uncompetitive places to live and to do business:<sup>19</sup>

- Urban population fell while state population rose
- Unemployment gap between suburban and urban areas increased
- Median income of cities is lower than that of suburban counties
- Property values increased slower than those of counties
- City crime rates, while falling, remain much higher than in non-urban areas.

Rising health and pension costs<sup>20</sup> and state revenue sharing cuts of 27 percent, or \$429 million, over the last three years<sup>21</sup> contributed to a crisis which leaves officials pondering whether it may be permanent.<sup>22, 23</sup> According to Plymouth city manager Paul Sincock, "the Michigan model is broke. Its plan is for all government to go broke, whether it's this year or next or five years from now."<sup>24</sup>

However, Southwest Michigan First is confident that the Kalamazoo community will pull through this crisis by finding ways to turn it into an opportunity of sustained economic growth.

# Exhibit B: Water and wastewater rate comparison

System	Quarterly water bill	Quarterly wastewater bill	Total quarterly bill	Annual water bill	Annual wastewater bill	Total annual bill	% of City of Kalamazoo bill
Seattle, WA - Outlying	96.10	138.54	234.64	384.38	554.17	938.55	416%
Seattle, WA - City	84.27	138.54	222.81	337.08	554.17	891.24	395%
Grand Rapids - Tallmadge	93.20	121.33	214.53	372.81	485.31	858.12	380%
Portland, OR	66.93	126.62	193.55	267.72	506.47	774.19	343%
Grand Rapids - Cascade	95.36	75.33	170.70	381.45	301.33	682.78	302%
Lansing	53.34	110.01	163.35	213.37	440.03	653.40	289%
Philadelphia	49.30	74.36	123.66	197.22	297.44	494.66	219%
Battle Creek - Outlying	64.74	57.99	122.73	258.98	231.96	490.93	217%
Grand Rapids - City	57.77	62.97	120.74	231.09	251.89	482.98	214%
Grand Rapids - Walker	59.69	61.00	120.70	238.77	244.01	482.78	214%
Grand Rapids - Kentwood	72.64	38.06	110.70	290.54	152.25	442.80	196%
South Bend	49.60	60.77	110.37	198.41	243.08	441.50	196%
Raftelis Average	49.30	55.59	104.88	197.18	222.36	419.54	186%
Battle Creek - City of	43.15	54.35	97.50	172.61	217.40	390.01	173%
National Average	43.91	52.18	96.09	175.66	208.71	384.37	170%
Kalamazoo - Outlying	45.01	48.61	93.62	180.04	194.43	374.47	166%
Jackson	55.35	25.71	81.06	221.42	102.83	324.25	144%
Holland	29.59	44.84	74.42	118.35	179.35	297.69	132%
Muskegon	33.60	39.00	72.59	134.39	155.99	290.37	129%
St. Joseph	28.62	30.67	59.29	114.47	122.68	237.15	105%
Kalamazoo - City of	29.29	27.15	56.44	117.15	108.61	225.75	100%
Memphis, TN - City	32.54	15.26	47.80	130.17	61.03	191.21	85%

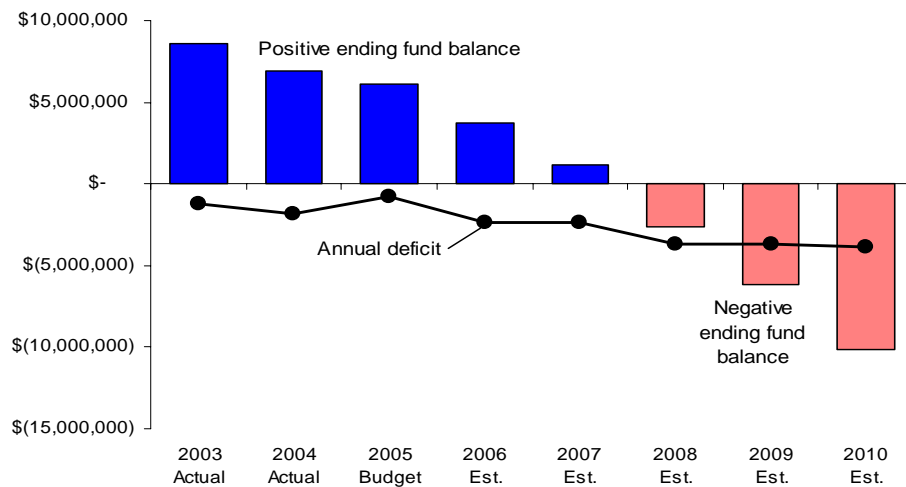
Source: W.E. Upjohn Institute for Employment Research (August 12, 2004). Results and Recommendations of Water and Wastewater Affordability Study. Conducted for the City of Kalamazoo Department of Public Services.

# Exhibit C: Challenges for the core city

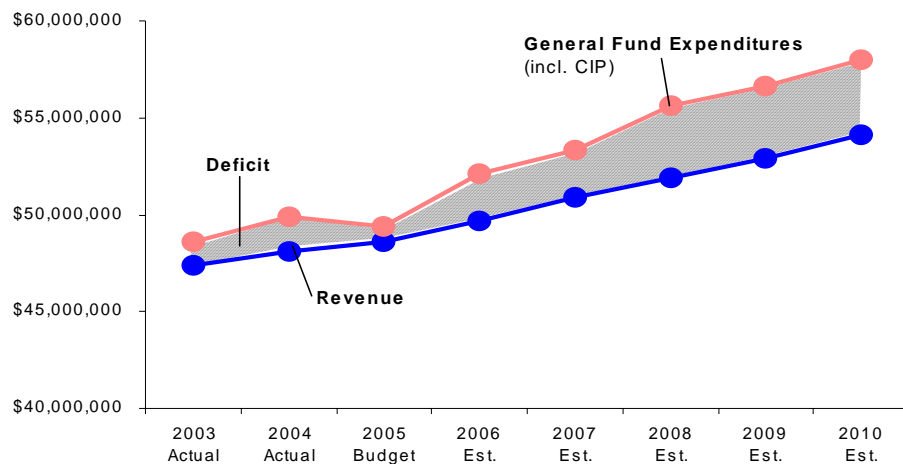
## Deteriorating budget

City officials project that the general fund's fund balance will be in the red by almost \$2.6 million in 2008, and by more than \$10 million in 2010 – under the assumption of stable state revenue sharing.<sup>25</sup> This projection does not even include annual capital improvement shortfalls of over \$12 million. In other words, the deficit is widening.

**DETERIORATING FUND BALANCE**



**WIDENING DEFICIT**



## Poverty is concentrated in the city<sup>26</sup>

### % POPULATION IN POVERTY (1999)

- City 24.3%
- County 12.0%

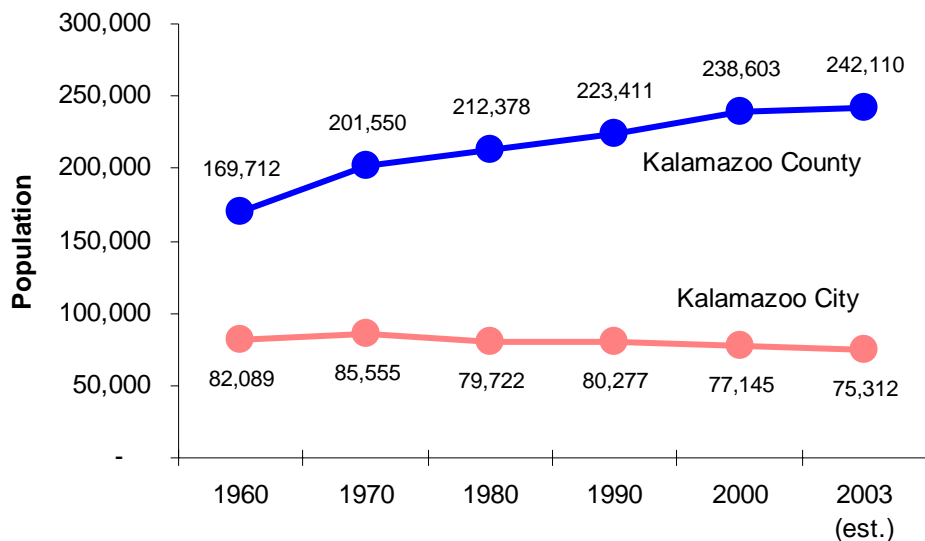
### % SCHOOL FREE/REDUCED LUNCH (2004)

- Kalamazoo 62%
- Portage 17%
- Mattawan 9%

## Property tax options are limited

- City is landlocked and almost fully developed
- 40% of property is tax-exempt
- City millage capacity near maximum
- High business & personal property tax burden
- Difficult school funding

## Residents are moving out



Between 1970 and 2003 (est.), City population decreased by over 10,000 residents, a 12 percent decline. During the same time period, county population grew 20.1 percent from 201,550 to 242,110. This population loss, experienced by other Michigan cities as well, may be the result of job loss or changes in quality of life.<sup>27</sup>

# Exhibit D:

## Core city comparisons

To get a feel for how the City of Kalamazoo's revenues and expenditures compare to other core cities in Michigan, our consultants analyzed standardized data from the State Treasury. Variances for major operational categories were equalized for population size to obtain estimates on how much the City's revenues and expenditures may fall below or above that of the comparison group.

### Demographics

	Population (2002 est.)	Housing Units	Land Area (sq. miles)	Taxable Value (2003)	Per Capita Taxable Value
<b>Kalamazoo</b>	75,485	31,798	25.2	1,462,272,950	19,372
<b>Ann Arbor</b>	114,469	47,218	27.7	3,834,978,133	33,502
<b>Battle Creek</b>	53,760	23,525	43.7	1,329,530,046	24,731
<b>Bay City</b>	35,869	16,259	11.3	549,175,253	15,311
<b>Grand Rapids</b>	196,165	77,960	45.3	3,934,567,525	20,057
<b>Midland</b>	42,021	17,773	35.0	2,389,338,500	56,861
<b>Muskegon</b>	39,510	15,999	18.0	646,975,848	16,375

### 2003 Millage rates

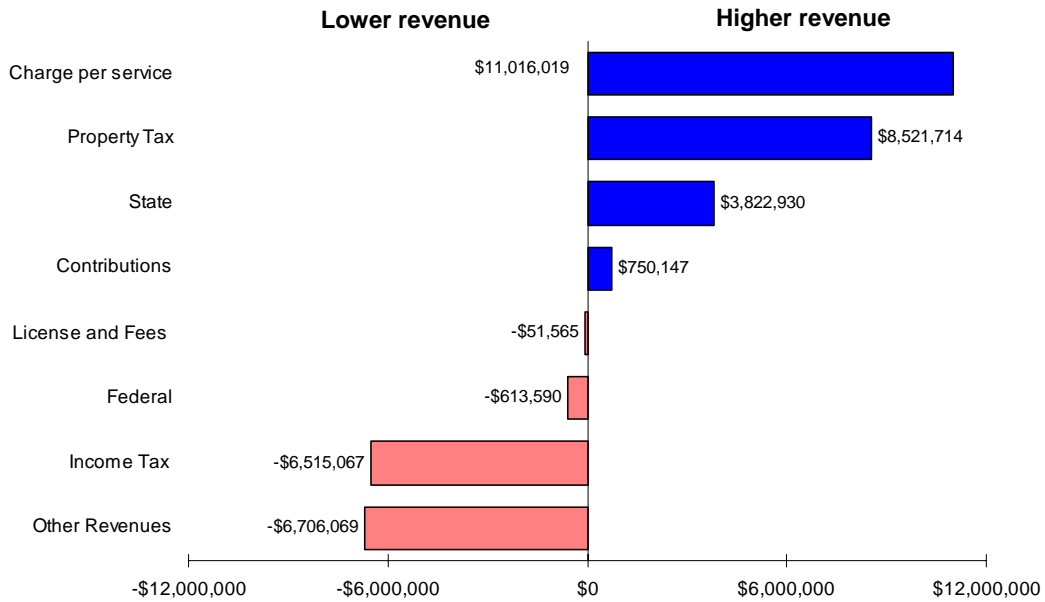
	General Operating	Solid Waste	Transit	Library	Debt	Pension	Advertising	Recreation	Roads	Other	Total Millage
<b>Kalamazoo</b>	19.2705	1.65	1								<b>21.92</b>
<b>Ann Arbor</b>	8.14	2.53	2.11	1.95	0.69			1.42	1.98	0.02	<b>18.84</b>
<b>Battle Creek<sup>a</sup></b>	11.32					1.68					<b>13.00</b>
<b>Bay City</b>	17.013				3.1					1.287	<b>21.40</b>
<b>Grand Rapids<sup>a</sup></b>	6.28	1.35	0.748	0.38			0.0131				<b>8.77</b>
<b>Midland</b>	11.09										<b>11.09</b>
<b>Muskegon<sup>a</sup></b>	7	3		2.4			0.0786				<b>12.48</b>

<sup>a</sup> Charge a city income tax

## Revenue comparisons (2002)

Kalamazoo’s total revenue per capita of \$1,654 is 3.3 percent above the median of the comparison group (\$1,600). Adding the various categories gives a total net difference of \$10.2 million in population-adjusted revenue.

### KALAMAZOO REVENUE VARIANCES Equalized per population (2002)



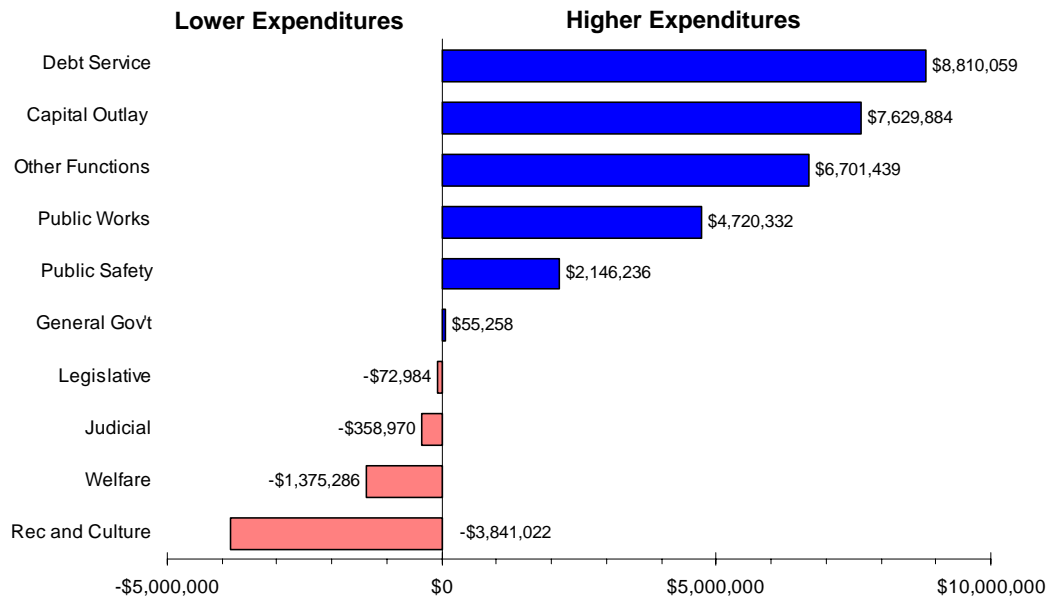
### PER CAPITA REVENUES FOR SELECT MICHIGAN CORE CITIES (2002)

	Property Tax	Income Tax	License and Fees	Federal	State	Contrib.	Charge per service	Other Revenues	Total
<b>Kalamazoo</b>	\$ 403	-	\$ 16	\$ 50	\$ 296	\$ 29	\$ 747	\$ 113	\$ 1,654
<b>Ann Arbor</b>	505	-	25	22	210	-	580	87	1,430
<b>Battle Creek</b>	250	210	21	71	281	4	622	169	1,628
<b>Bay City</b>	331	-	12	200	284	11	985	658	2,480
<b>Grand Rapids</b>	141	268	12	45	244	27	707	128	1,572
<b>Midland</b>	694	-	13	15	202	53	495	345	1,816
<b>Muskegon</b>	193	173	26	159	247	30	266	234	1,328
<b>Median (excl. Kal.)</b>	290.27	86.31	16.88	58.09	245.78	18.73	601.28	201.54	1,600.00
<b>Variance per capita</b>	112.89	(86.31)	(0.68)	(8.13)	50.64	9.94	145.94	(88.84)	54.33
<b>Total variance</b>	8,521,714	(6,515,067)	(51,565)	(613,590)	3,822,930	750,147	11,016,019	(6,706,069)	

## Expenditure comparisons (2002)

Overall, the City's 2002 per capita expenditures of \$1,869 exceeded the average of the comparison group (\$1,642) by 12.2 percent. Added together, the total net difference is \$ 24.4 million more in population-adjusted spending than the comparison cities.

### KALAMAZOO EXPENDITURE VARIANCES Equalized per population (2002)



### PER CAPITA EXPENDITURES FOR SELECT MICHIGAN CORE CITIES (2002)

	Legisl.	Judicial	General Gov't	Public Safety	Welfare	Public Works	Rec and Culture	Other Functions	Capital Outlay	Debt Service	Total
<b>Kalamazoo</b>	1.01	0.21	149	378	15	502	47	290	295	190	1,869
<b>Ann Arbor</b>	1.64	26	315	347	108	382	78	192	129	39	1,617
<b>Battle Creek</b>	2.32	10	177	413	-	639	124	200	191	30	1,787
<b>Bay City</b>	2.82	-	163	358	358	1,168	28	-	300	115	2,492
<b>Grand Rapids</b>	-	44	108	352	20	380	118	203	339	102	1,666
<b>Midland</b>	1.51	-	104	202	47	458	174	291	78	45	1,399
<b>Muskegon</b>	3.49	-	133	282	-	422	53	207	196	252	1,549
<b>Median (excl. Kal.)</b>	1.98	5	148	350	33	440	98	202	194	74	1,642
<b>Variance per capita</b>	(0.97)	(4.76)	1	28	(18)	63	(51)	89	101	117	227
<b>Total variance</b>	(72,984)	(358,970)	55,258	2,146,236	(1,375,286)	4,720,332	(3,841,022)	6,701,439	7,629,884	8,810,059	

It should be noted that expenditure differences could be a function of various factors, such as service quality, operational efficiency, and labor market conditions.

**REVENUE CATEGORIES**

Federal	State	Contributions	Charge per service	Other Revenues
General Government	General Government	General Government	Water	Miscellaneous
Public Safety	Public Safety Street & Highways	Public Safety	Sewer	Interest and Dividends
Streets & Highways	Highways	Streets & Highways	Refuse	Rents and Royalties
Sanitation	Health and Hospitals	Sanitation	Transit	Fines, forfeits, donations
Health and Hospitals	Welfare	Hospital and Health	Parks and Recreation	Special Assessments
Welfare	Culture and Recreation	Welfare	Airport	Property Sale
Culture and Recreation	Housing	Culture and Recreation	Parking	
Housing & Community Development	State Revenue Sharing	Transit	Municipal Housing	
Transit	Community Development	Other	Hospital	
Other	Water		Other	
	Transit			
	Other			

**EXPENDITURE CATEGORIES**

General Gov't	Public Safety	Public Works	Welfare	Recreation & Culture
Chief Executive	Police	Streets & Hwy	Total	Parks
Treasurer	Fire	Solid Waste	Housing	Recreation
Assessing	Police and Fire combined	Sewage	Redevelopment	Library
Equalization	Parking	Water	All Other	
Clerk	Corrections	Electric		
Elections	Building Inspection	Airport		
Finance		Transportation		
Community Planning and Development				
Building and Grounds				
All Other				

**A comment on benchmarking**

Plante & Moran’s comparisons are based municipal data released by the Michigan Treasury (“F65” data). It is important to keep in mind that these are basic comparisons. Their purpose is to give a general feel for how Kalamazoo is doing compared to other Michigan cities.

This analysis did not control for factors influencing the cost of government, such as the economic and physical condition of the cities, service quality, and local definitions of costs and revenues in each category. For example, Grand Rapids’ millage rates appear low compared to Kalamazoo; however, Grand Rapids also charges an income tax that generated \$ 52 million in 2002.

In addition, many of the variables driving cost are outside city government’s control, such as population, regional economic and labor market conditions, service level demand, and the quality of public schools. These considerations must be taken into account when evaluating such broad comparisons based on a one-year data snapshot. We recommend, therefore, that the City of Kalamazoo leadership obtain multiple-year comparisons.

# Exhibit E: Income tax calculations

## ESTIMATED INCOME TAX REVENUE (1% residents and corporate; .5% non-resident; \$600 deduction)

	Residents	Commuters	Businesses	Total
<b>Low-yield scenario</b>				
Upjohn Institute <sup>a</sup>	\$11,860,000	\$3,800,000	N/A	\$15,600,000
Plante & Moran <sup>b</sup>	7,787,217	4,750,574	752,267	13,290,058
<b>High-yield scenario</b>				
Upjohn Institute <sup>c</sup>	13,390,000	4,410,000	N/A	17,800,000
Plante & Moran <sup>d</sup>	9,111,476	5,608,756	1,472,023	16,192,255

<sup>a</sup> Three deductions per individual, 90% compliance

<sup>b</sup> Lower estimated household income, 15% discount rate for residents, 25% for non-residents

<sup>c</sup> Two deductions per individual, 100% compliance

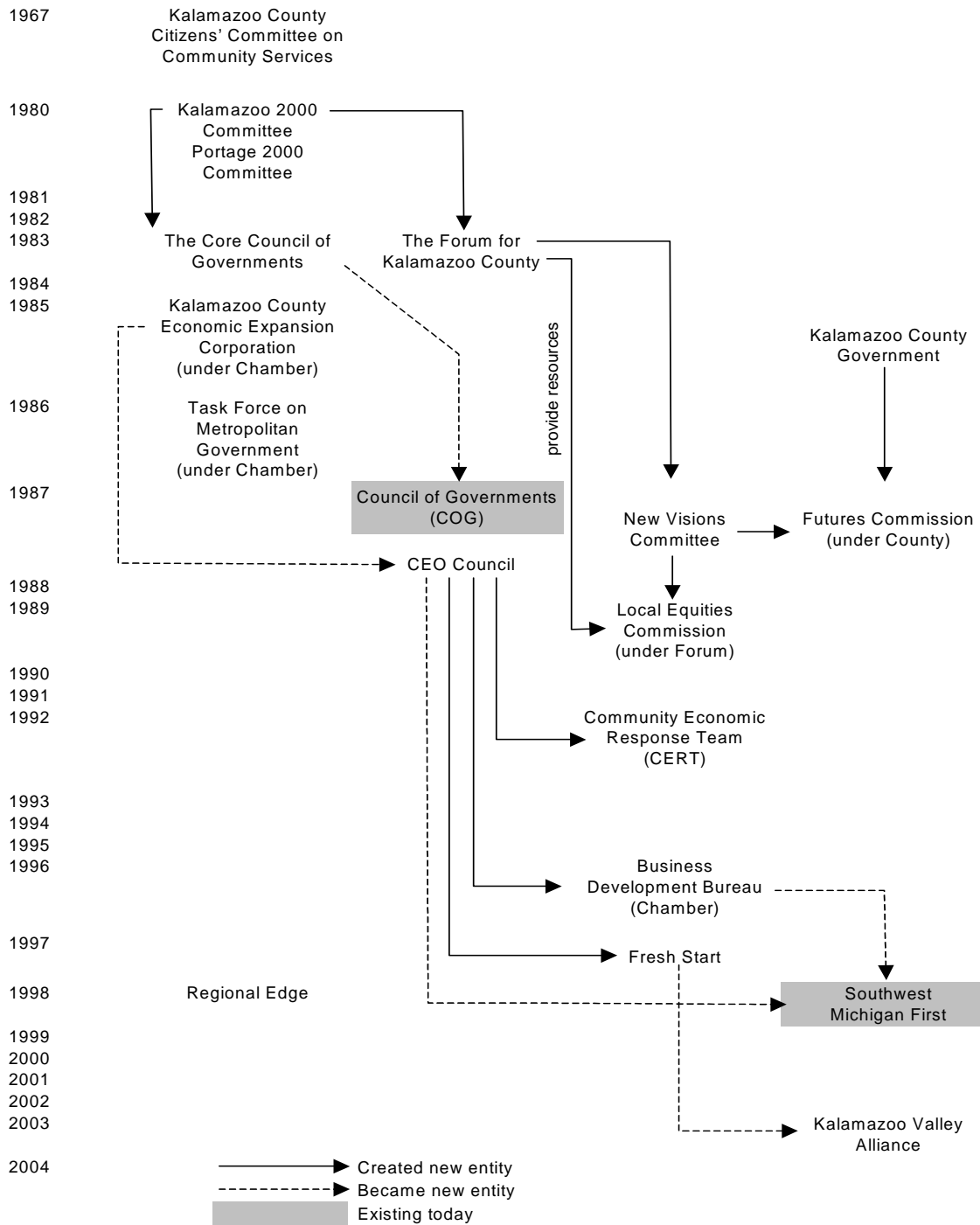
<sup>d</sup> Higher estimated household income, 10% discount rate for residents, 15% for non-residents

Note: The different revenue estimates are a function of the methodologies employed by The Upjohn Institute and Plante & Moran, including resident and commuter income and discount rates.

## ESTIMATED DISTRIBUTION OF INCOME TAX REVENUE (based on Plante & Moran's low- and high-yield scenarios)

	Residents	Commuters	Businesses
<b>Taxable value contribution (2003 levy)</b>	\$675,300,000 45.1%	N/A	\$820,600,000 54.9%
<b>Income tax paid</b>	7,787,217 (59%)	4,750,574 (36%)	752,267 (6%)
Low yield scenario	9,111,476 (69%)	5,608,756 (42%)	1,472,023 (11%)
<b>High-yield scenario</b>			
		13,290,058	
		16,192,255	
<b>Reduction in property tax based on taxable value contribution</b>	5,993,816 7,302,707	45.1%	7,296,242 8,889,548
<b>Net impact</b>	-1,793,401 -1,808,769	Inequitable distribution of income tax revenue	+6,543,975 +7,417,525
	<b>Unfavorable</b>		<b>Favorable</b>

# Exhibit F: Prior collaborative efforts<sup>28</sup>



# Endnotes

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- <sup>1</sup> William R. Barnes and Larry C. Ledebur (1998). *The New Regional Economies: The US Common Market and the Global Economy*. Sage Publications.
- <sup>2</sup> Fresh Start Committee (March 11, 1998). Concept for economic development in Kalamazoo County. The concept contained four specific goals: (1) establish a public/private economic development alliance and fund; (2) transfer alternatives for wastewater governance/ownership; (3) create a development charter and coordinated land use planning; and (4) reduce costs of governmental service through service consolidations or other economical means.
- <sup>3</sup> Final report: Best practices project and visits. Corpus Christi regional economic development corporation. October 2001. Available online at <http://www.ccredc.com/publications.asp>
- <sup>4</sup> Michigan Supreme Court (December 28, 2998). *Bolt v City of Lansing*. Available online at <http://www.michbar.org/opinions/supreme/1998/122898/Bolt.html>
- <sup>5</sup> Citizens Research Council of Michigan. Outline of the Michigan Tax System. Available online at <http://www.crcmich.org/TaxOutline/intro.html>
- <sup>6</sup> City of Kalamazoo (2004). *Convening Community Leadership: Refocusing our Resources to Meet the City of Kalamazoo Fiscal Crisis & Address Regional Economic Challenges*.
- <sup>7</sup> 2005 Kalamazoo Government Fiscal Outlook (March 21, 2005). Available online at [http://www.kalamazoo.org/headline.php?useraction=headline\\_detail&locator=20](http://www.kalamazoo.org/headline.php?useraction=headline_detail&locator=20)
- <sup>8</sup> County Equalization Department. 2004 Apportionment Report. 2004 data available online at <http://www.kalcounty.com/equalization/equalreport.htm>
- <sup>9</sup> Larry C. Ledebur, Professor of Urban Affairs at Cleveland State University and a fellow at the National League of Cities, January 2005.
- <sup>10</sup> Andrew F. Haughwout and Robert P. Inman (May 2004). How should suburbs help their central cities? Federal Reserve Bank of New York Staff Reports, no. 186. JEL classification: H7, R3. Available online at [http://www.newyorkfed.org/research/staff\\_reports/sr186.html](http://www.newyorkfed.org/research/staff_reports/sr186.html).
- <sup>11</sup> William R. Barnes and Larry C. Ledebur (1998). *The New Regional Economies: The US Common Market and the Global Economy*. Sage Publications.
- <sup>12</sup> Office of the Deputy Prime Minister (January 2004). *Competitive European cities - Where do the core cities stand?* Urban Research Summary, London. Available online at <http://www.corecities.com/coreDEV/Publications/CompetitiveEuropeanCities.htm> and [http://www.corecities.com/coreDEV/Publications/odpm\\_urbpol\\_026836.pdf](http://www.corecities.com/coreDEV/Publications/odpm_urbpol_026836.pdf).
- <sup>13</sup> David Osborne and Peter Hutchinson (2004). *The price of government: Getting the results we need in an age of permanent fiscal crisis*. Basic Books.
- <sup>14</sup> Kalamazoo Gazette Editorial (March 22, 2005). Cuts may help consolidation efforts.

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- <sup>15</sup> Jack P. McHugh (January 10, 2005). "Michigan at the Crossroads." Mackinac Center for Public Policy. Available online at <http://www.mackinac.org/article.asp?ID=6940>
- <sup>16</sup> Kalamazoo Gazette (March 10, 2004). Young worker exodus threatens state's economy.
- <sup>17</sup> Kalamazoo Gazette Editorial (April 15, 2005). Population loss means economic, political loss.
- <sup>18</sup> 2005 Kalamazoo Government Fiscal Outlook (March 21, 2005). Available online at [http://www.kalamazoocity.org/headline.php?useraction=headline\\_detail&locator=20](http://www.kalamazoocity.org/headline.php?useraction=headline_detail&locator=20)
- <sup>19</sup> Public Sector Consultants (April 2002). Status of Michigan Cities: An Index of Urban Well-Being. Michigan Bipartisan Urban Caucus and the Michigan Economic and Environmental Roundtable. Available online at <http://www.pscinc.com/Documents/urbanstatus/2002/index.htm>
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- <sup>21</sup> Detroit News. Budget pains infect towns. Available online at <http://www.detnews.com/2005/metro/0502/23/A01-98489.htm>
- <sup>22</sup> Wood TV 8 (March 15, 2005). Grand Rapids officials crunch budget crisis numbers. Available online at <http://woodtv.com/global/story.asp?s=3079945&ClientType=Printable>
- <sup>23</sup> Plante & Moran (2004). System Failure: Michigan's Broken Municipal Finance Model. Available online at [http://www.mml.org/pdf/plante\\_moran\\_report.pdf](http://www.mml.org/pdf/plante_moran_report.pdf)
- <sup>24</sup> Detroit News (February 23, 2005). Budget pains infect towns. Available online at <http://www.detnews.com/2005/metro/0502/23/A01-98489.htm>
- <sup>25</sup> City of Kalamazoo (May 31, 2005). Five year fiscal plan.
- <sup>26</sup> 2005 Kalamazoo Government Fiscal Outlook (March 21, 2005). Available online at [http://www.kalamazoocity.org/headline.php?useraction=headline\\_detail&locator=20](http://www.kalamazoocity.org/headline.php?useraction=headline_detail&locator=20)
- <sup>27</sup> Kalamazoo Gazette (April 14, 2004). Workers left Kalamazoo area to follow jobs?
- <sup>28</sup> The timeline is based on the "Chronology of Events on County Collaboration and Intergovernmental Cooperation" as tracked by former County Administrator Wes Freeland, Vice President for Donor Relations at the Kalamazoo Community Foundation. It grew out of Wes' interest in preserving the major collaborative efforts where the intent was to improve our community and region and make it stronger to benefit all of its citizens. Additional background was gleaned from James A. Visser (2004). Councils and the New Regionalism: Effective Governance in the Smaller Metropolis. *Journal of Planning Education and Research*, 24, 51-63.