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TO: Board of Commissioners

FROM: Gregory Dill
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DATE: October 18, 2023

SUBJECT: County Revenue White Paper

Executive Summary

The Headlee Amendment has suppressed total taxing authority, Proposal A has limited taxable value on individual properties, and DDA/TIFA/LDFA/BRA's capture tax increments from the County resulting in reduced revenues. Conservatively, total revenue erosion is estimated to be at least $27,330,525. To address the general operating revenue losses, it may be the right time to catch up on property tax revenues by requesting voters to consider a Headlee Override Restoration Proposal. By increasing the County's operating millage rate by 1.1488 (the difference between 5.5000 – 4.3512), it will reinstate lost property tax revenues in the amount of $24,100,446 annually. The impact on taxpayers is for every $100,000 in taxable value of a property it will cost the owner approximately $114.88 per year.

Shifting County millages to the General Operating Millage allows for more flexibility; special voted millages are restricted to the purpose of the millage while general operating millage funds the General Fund and therefore, general government operations. General Fund dollars are versatile and generally not restricted which allows for funding of various priorities in addition to being available for emergencies. Raising more revenue from the General Operating Millage allows for the flexibility of responding to new and emerging trends in the future that are not apparent or conceivable today. Continuing the current strategy of levying a myriad of special millages restricts the ability of the County to respond as the safety net of the community and, as we have seen with the current special voted millages, large fund balances have been built up that can only be spent on the restricted purpose of the millage.

Additionally, some townships are approaching the 50-mill limit which, if reached, would impact the County's ability to levy additional taxes. The restructuring of county levied millages to include a Headlee override and consideration of current millages would potentially allow more room between the current millage rate and the 50-mill limit. The primary goal of a Headlee override is not to increase the overall millage rate, but to maintain the same millage rate and provide additional flexibility with general fund dollars as opposed to restricted revenue of special voted millages.

Shifting local priorities indicate that innovative revenue solutions must be considered. These revenue initiatives must provide long-term revenue while advancing priorities of the County. This can be accomplished via different strategies that are currently being vetted by corporation counsel. Any option that is considered must provide long-term revenue, work towards accomplishing priorities of the County, and minimize liabilities.

Introduction

As the demands of County government continue to grow, revenue generation struggles to keep up. Long-term revenue projections indicate that our current funding model is not sustainable. To this end, the County's Executive Leadership Team has assisted me in crafting this communication which explores funding strategies to allow Washtenaw County to continue to provide world class services well into the future. This paper is intended to start conversations and push to the forefront the realities of funding governmental operations in the coming decades.

In order for Washtenaw County to continue to provide the world class services that have come to be expected by our residents, businesses, and visitors, a comprehensive funding strategy is necessary. Additionally, we must position the County to be able to respond to emerging issues that we may not be able to anticipate or comprehend today. Evaluating current and past revenue generation is necessary to determine if they are the best methods to fund our operations into the future; investigating new and innovative revenue generation methods is also included as a means to stabilize revenue generation regardless of external fiscal pressure.

While revenue generation is required in order to be able to pay our bills, the close examination of current expenditures is an area that needs further exploration. Taking a comprehensive look at *all* of the County's current operational expenditures including positions, buildings, and service contracts will help to identify legacy programs that are no longer a good fit in achieving the outcomes demanded by our constituents. Development of a framework for regular and continuous evaluation of the County will enable the repurposing of resources to better meet the desired outcomes of the County. Only then, with a constant review of expenditures and a strategic deployment of millages and other revenue generating opportunities will the County be able to meet the needs of the next generation.

Background

There are two primary restrictions that impact Washtenaw County's ability to increase property tax revenue, which accounts for the vast majority of General Fund revenue; The Headlee Amendment and Proposal A. The Headlee Amendment to the Michigan Constitution was passed by voters in 1978, requiring that a millage rate be reduced or rolled back proportionately whenever the growth within the tax base exceeded the rate of inflation for that year. Proposal A was passed by voters in 1994, reforming school finance, but it included two provisions that altered local property taxation. The first was a limitation on the growth of individual properties to the lesser of inflation or 5% and the second was the establishment of "uncapping" property values. Uncapping refers to the process of increasing a property's taxable value to the State Equalized Value at the time of a change of ownership. Once a property is transferred, the taxable value is reset to 50% of the property's true cash value.

The impacts of these restrictions are immense; Headlee suppresses total taxing authority within a jurisdiction while Proposal A limits taxable value on individual properties. Prior to Proposal A, municipalities could roll-up their millage rates to keep up with inflation if inflation outpaced property value increases. Following passage of Proposal A, the Headlee Roll-up is no longer an option. Therefore, when a Headlee Rollback occurs, the only way to increase millage rates is through a vote of the people, typically referred to as a Headlee Override. Additionally, Proposal A exempted new construction from the Headlee Rollback, but did not do so for uncapped taxable value. So, when a property gets uncapped, that property owner must pay higher taxes on the property. However, that new value becomes part of the Headlee Rollback calculation and municipalities do not recognize revenue from uncapping.

Another restriction that must be considered is Article IX, Section 6 of the Michigan Constitution which instituted a 50-mill limit on ad valorem tax rates. This is an oversimplification, however, as millages levied by cities, villages, and charter townships are generally exempt from this limit which makes the largest threat to reaching this limit overlapping tax rates in general law townships. All County millages must be levied equally, meaning that the most recently approved County millage would be the first one to either not be collected or reduced to meet the 50-mill limit when it is reached. It is not imminent that the 50-mill limit will be reached, however, it is a real possibility that it will be reached in the next five to ten years if the current environment of new millages continues in Washtenaw County.

In addition to the 50-mill limitation, special voted millages have restrictions of their own. All revenue raised by a special voted millage must be spent on that specific purpose, which does not allow the County to be agile and address new and emerging issues within the community. A General Operating Millage allows for the funds to be spent on general government operations which broadens the uses and would allow the County to be better prepared to respond to emerging issues that may not be apparent today.

With fine and fee justice reform reducing revenue in both the Trial and District Courts, in addition to other parts of the justice system, budget stabilization strategies need to be considered including new funding sources, a reduction in expenditures, or a combination of both. With the courts currently funded in part by the General Fund, current and future support is expected to grow to maintain court operations and replace the revenue from the old funding model. With property tax growth expected to see significant reduction in the future, returning to pre-pandemic levels of approximately 2% growth annually, other innovative revenue sources must be considered in addition to an organization-wide expenditure review.

Revenue Erosion

During the Great Recession, Washtenaw County suffered declining property values between 2008 and 2012. During this time, Washtenaw County lost a total of 22.98% in equalized property value or 11.1% of taxable value (slide 21 of the 2023 Equalization Presentation) resulting in an estimated revenue loss of $7,614,583. Due to the limits imposed by the Headlee Amendment and Proposal A, it took ten years (until 2017) to return to the original 2008 tax revenue before the loss experienced in taxable value during the Great Recession.

Although property values recovered to some extent, the Headlee Amendment and Proposal A prevented property tax revenues from catching up. By 2015 Washtenaw County had realized a Headlee millage rollback that reduced the millage rate to 4.5493 with continued rollbacks every year between 2016 and 2022. There was not a Headlee reduction for 2023. Conservatively, based on current (2023) taxable value, total revenue loss realized because of the Headlee millage rollbacks since inception (1978) is estimated to be $24,100,446 annually. This amount is the additional annual general fund revenues which the County would have received and which could be used to fund services or offset fee reductions but for the adoption of the Headlee Amendment and Proposal A.

Downtown Development Authorities (DDA), Tax Increment Financing Authorities (TIFA), Local District Financing Authorities (LDFA), and Brownfield Redevelopment Authorities (BRA) capture tax increments from the County. In 2023, DDA/TIFA/LDFA/BRA's will divert or capture $3,230,079 in revenue that would have gone to Washtenaw County's General Fund. Finally, total revenue loss due to the Headlee millage rollbacks since inception and support for tax increments captured in 2023 is estimated to be $27,330,525. Erosion of revenue is not limited to losses from Headlee millage rollbacks.

Other revenues are dependent on economic conditions. The County receives a real estate transfer tax in the amount of $1.10 per $1,000 of property value when a property is transferred. As economic conditions dictate the value of property, they also contribute to the amount of money that the County receives from this tax. This tax rate is set by MCL 207.504 and is unable to be adjusted by the County. In recent years, the real estate transfer tax has generated revenue well in excess of what was budgeted; however, there are indications that the revenue in 2023 will at best meet budgeted levels with the excess not able to cover revenue shortfalls elsewhere in the General Fund budget as has been recent practice.

The fines and fess category of revenue has decreased approximately 50% from pre-pandemic levels and is conservatively anticipated to decrease further as part of the fines and fees reform in the courts. The Administrator's recommended Quadrennial Budget includes a reduction in District Court revenues of $932,281 in annual revenue that is offset with Personal Property Tax replacement revenue from the State. While not a significant amount in the overall budget, this is on top of known infrastructure projects, negotiated wage increases, inflationary pressures on operating budgets, and a projected return to pre-pandemic growth of property tax revenue.

The likely reduction of tax revenue growth to lower, pre-pandemic levels coupled with fines and fees reform and the pressure on operating budgets suggests that other revenue sources must be explored and pursued to ensure the County is able to continually provide critical safety net services.

Property Tax Growth, Inflation and Budget Assumption Trends

Table 1 provides seven years of detailed trends and the overall average for the County's general operating millage. It clearly demonstrates the slow progression of property tax growth over time due to the limits imposed by the Headlee Amendment and Proposal A.

	2023 - 2017 7 Year Average	2023-2019 5 Year Average	2023	2022	2021	2020	2019	2018	2017
Equivalent Tax Value	17,990,584,608	18,856,425,571	20,978,800,144	19,648,602,308	18,565,815,137	17,940,665,219	17,148,245,047	16,218,355,954	15,433,608,451
Percent Change Over the Prior Year	4.57%	5.29%	6.77%	5.83%	3.48%	4.62%	5.73%	5.08%	0.48%
Property Tax Revenue	$ 79,174,373	82,553,011	$ 91,282,955	$ 85,494,998	$ 81,281,139	$ 78,843,841	$ 75,862,121	$ 72,189,524	$ 69,266,035
Amount Increase Over the Prior Year	$ 3,412,645	3,818,686	$ 5,787,957	$ 4,213,860	$ 2,437,297	$ 2,981,720	$ 3,672,597	$ 2,923,489	$ 1,871,593
Percent Change Over the Prior Year	4.44%	4.81%	6.77%	5.18%	3.09%	3.93%	5.09%	4.22%	2.78%
CPI - Rate of Inflation	2.84%	3.38%	7.90%	3.30%	1.40%	1.90%	2.40%	2.10%	0.30%
Property Tax Revenue Growth Assumption	1.07%	1.10%	1.50%	1.50%	1.50%	0.00%	1.00%	1.00%	1.00%
Property Tax Revenue Above Budget Assumption	$ 2,609,393	2,966,979	$ 4,549,986	$ 3,012,012	$ 2,439,062	$ 1,883,131	$ 2,950,702	$ 2,231,813	$ 1,199,045

Table 1 2017-2023 General Operating Tax Revenue Trends

Headlee General Operating Override Restoration Millage Impact and Proposal

Washtenaw County's original general operating millage authorized was 5.5000 and the current (2023) maximum allowable millage levy is 4.3512 due to the cumulative impact of Headlee millage rollbacks since 1978. Increasing the County's operating millage rate by 1.1488 (the difference between 5.5000 – 4.3512) to recapture the rollbacks would increase property tax revenues $24,100,446. The impact on taxpayers is for every $100,000 in taxable value of a property it will cost the owner approximately $114.88 per year. This analysis is provided as informational only; I do not offer a recommendation either way on a Headlee Override at this time.

Headlee limits the revenue that a local taxing unit can receive from a millage, Proposal A limits the growth in taxable value of an individual parcel and prevents Headlee roll-ups that local units previously used to retain the taxing authority approved by the voters. This creates continued downward pressure on millage rates. Because of this, some local government units turn to what is known as a Headlee Override or Restoration Millage Proposal. It involves asking the voters to approve raising the millage rate above its current rate, but no higher than its original rate as authorized, after it has been forced to be rolled back because of state laws limiting the growth in property values. Sample ballot proposal language is provided below:

Shall the authorized millage for Washtenaw County, established by operation of law at 5.5000 mills ($5.50 per $1,000 of taxable value) and reduced to 4.3512 mills ($.4.3512 per $1,000 of taxable value) by Headlee rollbacks, be increased in an amount not to exceed 1.1488 mills ($1.1488 per $1,000 of taxable value) to restore the full amount (5.5000 mills) of the original authorized millage rate for each year beginning in 202X, inclusive, for all County operating purposes authorized by law. This proposal is estimated to generate approximately $24,100,446 per year, beginning July of 202X, and is perpetual, subject to any future reductions by the Headlee Amendment.

Shall the ballot proposal be adopted for the purpose of levying this millage?

Voter Authorized Millage Levies

Source	Purpose	Date of Election	Millage Authorized	2022 Reduced Millage	Expiration	Estimated 2023 Tax Revenue
General Operating	Operating		5.5000	4.3512		$ 91,282,955
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.4950	Dec-23	$ 10,384,506
Extra Voted	Veterans	11/8/2016	0.1000	0.0960	Dec-23	$ 2,013,965
Extra Voted	MH&Pub Safety	11/7/2017	1.0000	0.9693	Dec-25	$ 20,334,751
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	6.8343		$ 143,375,414

Table 2 Current County Millages

Besides Washtenaw County's general operating millage, there are eight County-wide voter approved special millage levies authorized for specific purposes. All County special purpose millages are levied December 1 each year and fund operations for the next fiscal (calendar) year. Please note a few items, the Headlee Amendment and Proposal A also impact these millage levies, two millages (Roads and Veterans) expire at the end of 2023 that fund operations through fiscal year 2024, and three millages (EECS 800 MHz, Mental Health & Public Safety and Conservation District) expire at the end of 2025 that fund operations through fiscal year 2026. While these millages are authorized to be levied through their expiration date, it is possible for the County to not levy some, or all, of an authorized millage when setting the annual millage rate via Resolution.

Given the upcoming expiration of multiple millages and the aforementioned 50-mill limit, it would be beneficial to develop a millage renewal/replacement strategy before placing any millages on the ballot. Given the consideration of a Headlee override, some portion, or potentially all, of some of the current special voted millages may not be necessary if a Headlee override is successful.

Special voted millage revenues are restricted to the purpose of the millage; some of the special voted millages have built a significant fund balance. This fund balance approaches 200% of the estimated 2023 tax revenue for the veterans millage, which was planned due to the millage being new when approved in 2017 and to allow for flexibility with the millage renewal. The Mental Health and Public Safety Millage also has a significant fund balance, with excess of $12M at the end of 2022 with over $6M in both CMH millage operations and public safety surplus funds. It cannot be recommended to maintain a significant fund balance of tax monies; due to the reality of reserved fund balances in both newer and long-standing millages, a strategy to more effectively manage operational expenditures is needed.

		Fund Balances as of 12/31/2022		
Millage	Expiration Date	2022 Expenditures	2022 Revenues	Fund Balance
Parks	Dec-26	$ 7,807,862.33	$8,877,041.62	$14,586,690.60
Parks	Dec-29			
Natural Areas	Dec-30	$ 5,931,877.99	$ 4,657,857.28	$ 3,892,511.63
EECS 800MHZ	Dec-25	$ 2,045,466.54	$ 3,665,089.77	$ 12,215,362.02
Roads	Dec-23	$ 7,555,815.26	$ 7,630,777.38	$ 89,174.89
Veterans	Dec-23	$ 1,130,939.43	$ 1,797,203.02	$ 3,865,078.47
MH&Pub Safety - Public Safety	Dec-25	$ 1,428,382.73	$ 6,907,619.78	$ 6,179,438.90
MH&Pub Safety - Mental Health	Dec-25	$ 5,946,921.80	$ 7,034,542.03	$ 7,737,170.05
Conservation District	Dec-25	N/A	N/A	N/A

Table 3 Fund Balances as of 12/31/22

Table 3 shows the expenditures, revenues, and fund balances or the various County special voted millages. The parks millages are combined as they are both in the Parks Fund and are indistinguishable, while there is no information on the Conservation District Millage as the tax dollars are sent directly to the Conservation District upon collection based on the plain language of the ballot initiative. Where the County has some control over most millage dollars, the County has no control over Conservation District millage dollars which total approximately $375,000 annually.

The restricted nature of these fund balances prohibits the redirection of these funds to emerging needs. For example, the use of the restricted fund balances to respond to the housing crisis is not permissible, where if the fund balance was part of the General Fund, it would be an eligible use. The restrictions that come with special voted millages must be carefully considered now and into the future when approving the annual millage rate.

Timing of Vote

For 2024, there are three potential ballots to place millages, or a Headlee Override on in 2024; the Presidential Primary, State and Local Primary, and the General Election. The Presidential Primary is currently scheduled to take place in February 2024, given the short time to provide analysis, it is not recommended to utilize this ballot. Additionally, there is the potential for a special scheduled initiative vote, which the County would bear the entire cost for.

If it is the desire of the Board to place the Headlee Override question to the voters, It must be carefully considered when to take it to voters. One consideration is that the special voted millages that need to be renewed must be separate items and taken to voters *after* the Headlee Override question. Given this separation of millage questions, it may fall to the November General Election before bringing the special voted millages to voters, if a Headlee Override is desired in 2024. It is likely that our community partners that rely on these special voted millages would like to see them put to voters before the November ballot. Should a decision to wait until the November election be made to place the special voted millages on the ballot, work would need to commence with our partner organizations before the end of the year to gain their support for that approach.

Holding a special election for the purpose of a Headlee Override vote, or other mileage question, is an option. If no other ballot measures appear on a special election, the County will bear the entire cost of the election which is estimated to be between $400,000 and $600,000; this estimate could increase or decrease as the current system of early voting has not been used and therefore, reliable cost estimates are not available. This cost is significant for a single ballot measure and would likely draw criticism from most stakeholders as an unnecessary expense and make the passage of such a measure more difficult.

Placing the Headlee Override vote on the August 2024 ballot, if successful, would not yield an increase in operating revenue until the July 2025 tax levy. Considering this timing, adjusting the revenue structure of funding for 2024 is unrealistic. The overall funding for 2025 and beyond would be the main consideration of this question to voters. Given the long-term funding outlook, *our short-term fiscal decisions must be more critically thoughtful to earn the trust of voters,* should a Headlee Override be pursued.

If a Headlee Override were to pass in August 2024, for the July 2025 tax levy, funding for the two special voted millages expiring in 2023 (funding 2024 operations) will need to be considered for 2025. Given the fund balance of the Veterans Millage, funding should not be of concern while waiting for any general fund revenue to kick in if funding was shifted to the general fund. The Roads and Non-Motorized Millage would be the only operations that may have a short-term funding gap if funding is shifted to the General Fund. The millages expiring in 2025 may be levied in December 2025 (funding 2026) operations or could be considered to be levied at less than the maximum amount, or not at all to manage the overall millage rate.

There is also the consideration of waiting until 2026 for a Headlee override vote. The advantage of waiting until 2026 for a Headlee override vote is time; time to develop a comprehensive communication strategy to effectively communicate and earn goodwill with voters from demonstrable actions with current and expiring millages. Demonstrating good fiscal management of the various millages could include revenue hearings during Board of Commissioners Working Sessions for each millage to determine the exact number of mills that need to be placed on the ballot to avoid excess fund balance, a soft moratorium on new millages until a Headlee override is considered to maintain the current millage rate, and a robust review of expenditures to free up resources within the County. However, waiting until 2026 does come with the potential for Headlee rollbacks and exposure to economic conditions that could impact tax revenues in the near-term.

Innovative Revenue Generation

Buildings

Increasingly, local units of government are looking to new revenue streams to fund both existing operations, planned organizational growth, and new initiatives. The City of Ann Arbor recently announced the intent to consider developing market rate housing on their City Hall property to generate revenue for affordable housing initiatives in other areas of the City. This is a novel idea in Washtenaw County; however, other governments have been operationalizing similar initiatives. There may be opportunities to further explore these possibilities on County owned property, both immediately and due to the consequences from the Space Plan project currently in development. Innovative revenue sources could supplement General Fund revenue in the future.

There are several methods that may be used to generate revenue through market rate housing or other leasing opportunities. The first is through a land lease, where government owned land is leased to a developer for a length of time; the developer will construct and operate a building while making lease payments to the governmental entity. The second method is through a housing commission or other type of landlord-tenant relationship where a governmental entity constructs and operates the development. The third option is the sale or disposal of the land. The first two options would allow for the restriction of development based on the priorities of the County while an outright sale would eliminate some or all control over the land. It must be noted that past efforts by the County to attain revenues from facilities has been superseded by other organizational priorities.

Exploring these options with governments across the Country that have started this work would likely produce a number of options for the County to consider long-term. Conservatively, additional revenue of 1% of the general fund could be recognized annually depending upon how aggressively the County were to pursue these options. This revenue would not only support the operation of the revenue generation but could fund additional County priorities.

Grants

Currently, Washtenaw County does not have a unified grant strategy. Like most finance functions within the County, grant pursuit, application, and management occurs at the department level. Coordinating grant opportunities across the County would likely allow for increased grant funding and leveraging additional funding opportunities. Whether the funding is for programs, infrastructure, or a combination of both, the challenge is to sustain programs long-term and to operationalize and support infrastructure once built. Coordinating grants across the County will cost money up front, however, a good grant coordinator would likely be able to bring in enough grant funding to offset their cost and increase the number, and effectiveness, of the grants that the County receives.

Recently, the Board of Commissioners approved the creation of a new Grant Manager position. This position does require some upfront personnel costs, however, the long-term funding of the position is intended to be supported by the various grants received by the County. This position is planned to focus on applying for and managing grants that further the priorities of the Board of Commissioners and County Administration. One performance metric of County grants would be 100% of the position cost offset by grant revenue; if over multiple years the position was not fully funded by grant revenue, the position would be eliminated. Should this position be effective in achieving sustained funding, further exploration of unifying the County's overall grant management strategy could take place at such time.

Centralization of grant management is a broader policy discussion that the Board of Commissioners might consider. Should grant management be centralized, a broader grant and contract management staff would be needed; this would increase overhead, likely with little to no immediate realized efficiencies. To fully understand any benefits of a centralized grant model, an in-depth analysis would be required before embarking towards a fully centralized approach with the understanding that any benefits would take a long-term commitment to realize.

Intergovernmental Agreements and Cooperation

With a significant presence in downtown Ann Arbor, the County should explore relationships with the University of Michigan and the City of Ann Arbor to consolidate duplicative services and infrastructure. Any productive relationships could then be expanded to other local units of government including townships, villages, cities, school districts, and universities to leverage the most efficient government across all levels.

Revenues from intergovernmental agreements can help to offset the cost of some County provided services. For example, the County has agreements with a few local units for animal control to help offset the cost incurred by the County. Relying on these revenues long-term is not advisable as it is likely that support from local units would evaporate in part, or whole, during an economic downturn. In the short-term, intergovernmental revenue could be used to offset County General Fund expenditures to build fund balance or free up resources for short-term priorities.

In addition to service contracts, intergovernmental agreements to co-locate facilities, such as a city-county building could generate revenue for the County should the County own the building; conversely, if the City owned and operated a joint building, the cost to the County could be decreased. This is a potential strategy; however, it would require long-term agreements from many partners and would almost certainly require the construction of one or more new buildings which is expected to take a minimum of five years. With the long-term realities of joint operations, continued exploration of this as an option to produce good government for both the County and other local partners is a worthwhile pursuit, even if it cannot be realized for five or more years.

Disposal of Assets

The disposal of property, both real and personal (vehicles, equipment, etc.) is a one-time revenue source; as with the recent example of the Platt Rd. property sale, once an outright sale is completed, the County loses some, if not all, control over the development of the property. With control over the property ceded to the developer, it cannot be certain that the property would be developed to the agreed upon specifications. If the property is sold to a for-profit entity or an individual, there would be an increase in property tax collection, however, it would be collected as part of overall property tax collection.

Revenue from the sale of personal property is used to offset the cost of new equipment and is not a large source of revenue. Further, revenue from the sale of property that is used to fund internal service funds has some restrictions which makes the use of this revenue as a funding source difficult. Due to the one-time nature of sale revenue and increases in property tax revenue dependent upon development, benefits of disposition of real estate must be carefully considered against other alternatives.

Asset Utilization

Asset Utilization is being used increasingly in the United States to leverage government assets to support economic growth and diversify revenue. One example is in Salt Lake County where a parcel was acquired for $3.5M and was initially intended to build a low-rise office building on the entire site; however, after further consideration, a mid-rise building was built on a third of the site to allow room for parking and leasing the other third of the land for development. A long-term land lease was executed for the vacant third of the property for $500,000 annually. A mid-rise office building was built by the developer and the project will completely pay off the land acquisition cost in seven years. Similar projects have been conducted elsewhere.

The City of Atlanta took an inventory of all publicly owned property in the city with the goal of developing a strategy to fund affordable housing. Multiple parcels were identified to utilize through a land lease in order to drive revenue for affordable housing. Additional considerations were taken into account for properties that were difficult to develop, resulting in low-cost leases in certain circumstances to entice developments that would have otherwise not taken place. This process has been repeated in other cities with outcomes geared toward wetland preservation, economic development, and achieving climate goals.

The exploration of whether to, and if so, how to best utilize and leverage the County's various assets is a worthwhile endeavor in the near-term. Transitioning to the long-term, innovative strategies to better utilize County assets will assist with the ability for Washtenaw County to continue to provide world class service well into the future.

Expenditure Review

Washtenaw County is nearing its bicentennial in 2026, celebrating when it was officially separated from Wayne County, starting operations on January 1, 1827. The County has been providing services for nearly 200 years. While some services have been ongoing since the County's inception, many of the services and delivery methods that the County offers today were incomprehensible in the 19th century. Adapting to the realities of the 21st century with an organization with 200-year-old roots and many legacy 20th century policies, procedures, and operations presents a challenge, however, many opportunities for innovation and reappropriation of current resources exist.

One area that is prime for examination is Position Control due to the fact that personnel costs make up approximately 70% of the County's expenses. Now that the new pay structure has been implemented, focus can be shifted to reviewing the County's organizational structure and aligning with today's realities and preparing to meet tomorrow's challenges. With a focus on reviewing positions, the intent is not to lay off people, rather, it is to identify where efficiencies can be achieved and where additional resources are needed. The need is greater than the available resources in most cases.

With the budget transitioning to a program-based budget, organizational review of operational expenditures and positions will be built into the budget process. Budget development for the 2024-2027 Quadrennial Budget looked at new and expanded programs, in 2024, the plan is to identify all County programs inclusive of their operations and positions. Once a complete program inventory is complete, the reallocation of resources from over-resourced areas to under-resourced areas can commence.

Millage Scenarios

The following scenarios look at the various millages levied by the County. These are not all inclusive of every possible scenario, as the authorized millage rate is the highest possible levy and there is nothing prohibiting the County from levying less than the authorized amount. There are multiple considerations as have been discussed, the overall millage rate and the rate of individual millages compared to the actual operational expenditures. I do not offer a recommendation on millage strategy, but rather offer the following scenarios to help guide the Board in making sound policy decision on the future of County millages.

Base scenario with the current 2023 levy.

General Operating	Operating		5.5000	4.3512		$ 91,282,955
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.4950	Dec-23	$ 10,384,506
Extra Voted	Veterans	11/8/2016	0.1000	0.0960	Dec-23	$ 2,013,965
Extra Voted	MH&Pub Safety	11/7/2017	1.0000	0.9693	Dec-25	$ 20,334,751
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	6.8343		$ 143,375,414
			Difference	0.0000		0

1. The current millage rate levied by the County is 6.8343 mills; if the Headlee General Operating Override Millage Proposal were to pass and the Roads and Veterans millages were renewed at 0.5000 and 0.1000, respectively, the overall County millage rate would increase 1.1578 mills to 7.9921 mills.

General Operating	Operating		5.5000	5.5000		$ 115,383,401
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.5000	Dec-23	$ 10,489,400
Extra Voted	Veterans	11/8/2016	0.1000	0.1000	Dec-23	$ 2,097,880
Extra Voted	MH&Pub Safety	11/7/2017	1.0000	0.9693	Dec-25	$ 20,334,751
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	7.9921		$ 167,664,669
			Difference	1.1578		$ 24,289,255

2. If the Headlee General Operating Override Millage Proposal were to pass and the Roads and Veterans millages were not renewed, the overall County millage rate would increase 0.5578 mills to 7.3921mills.

General Operating	Operating		5.5000	5.5000		$ 115,383,401
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
~~Extra Voted~~	~~Roads~~	~~8/4/2020~~	~~0.5000~~	~~0.0000~~	~~Dec-23~~	~~$ -~~
~~Extra Voted~~	~~Veterans~~	~~11/8/2016~~	~~0.1000~~	~~0.0000~~	~~Dec-23~~	~~$ -~~
Extra Voted	MH&Pub Safety	11/7/2017	1.0000	0.9693	Dec-25	$ 20,334,751
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	7.3921		$ 155,077,389
			Difference	0.5578		$ 11,701,975

3. If the Headlee General Operating Override Millage proposal were to pass and the Roads and Veterans millages were not renewed, and the Mental Health and Public Safety Millage were not levied past 2023, the overall County millage rate would decrease 0.4115 mills to 6.4228 mills.

General Operating	Operating		5.5000	5.5000		$ 115,383,401
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
~~Extra Voted~~	~~Roads~~	~~8/4/2020~~	~~0.5000~~	~~0.0000~~	~~Dec-23~~	~~$ -~~
~~Extra Voted~~	~~Veterans~~	~~11/8/2016~~	~~0.1000~~	~~0.0000~~	~~Dec-23~~	~~$ -~~
~~Extra Voted~~	~~MH&Pub Safety~~	~~11/7/2017~~	~~1.0000~~	~~0.0000~~	~~Dec-25~~	~~$ -~~
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	6.4228		$ 134,742,638
			Difference	-0.4115		$ (8,632,776)

4. If the Headlee General Operating Override Millage proposal were to pass, the Veterans millage was not renewed, the Mental Health and Public Safety Millage was not levied past 2023, but the Roads millage was renewed at the full 0.5000 mills, the overall County millage rate would increase 0.0885 mills to 6.9228 mills.

General Operating	Operating		5.5000	5.5000		$ 115,383,401
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.5000	Dec-23	$ 10,489,400
~~Extra Voted~~	~~Veterans~~	~~11/8/2016~~	~~0.1000~~	~~0.0000~~	~~Dec-23~~	~~$ -~~
~~Extra Voted~~	~~MH&Pub Safety~~	~~11/7/2017~~	~~1.0000~~	~~0.0000~~	~~Dec-25~~	~~$ -~~
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	6.9226		$ 145,232,038
			Difference	0.0885		$ 1,856,624

5. If the Headlee General Operating Override Millage proposal were to pass, the Veterans millage was not renewed, the Mental Health and Public Safety Millage was not levied past 2023, but the Roads millage was renewed at 0.4115 mills, the overall County millage rate would remain the same in 2024 at 6.8343 mills.

General Operating	Operating		5.5000	5.5000		$ 115,383,401
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.4115	Dec-23	$ 8,632,776
~~Extra Voted~~	~~Veterans~~	~~11/8/2016~~	~~0.1000~~	~~0.0000~~	~~Dec-23~~	~~$~~
~~Extra Voted~~	~~MH&Pub Safety~~	~~11/7/2017~~	~~1.0000~~	~~0.0000~~	~~Dec-25~~	~~$~~
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
		TOTAL MILLS		6.8343		$ 143,375,414
		Difference		0.0000		$ -

6. If the Headlee General Operating Override Millage proposal were to pass, the Veterans millage was not renewed, the Mental Health and Public Safety Millage was not levied past 2023, and the Conservation District Millage was not levied, the overall County millage rate would increase slightly by .0688 mills to 6.9031 mills.

General Operating	Operating		5.5000	5.5000		$ 115,383,401
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.5000	Dec-23	$ 10,489,400
~~Extra Voted~~	~~Veterans~~	~~11/8/2016~~	~~0.1000~~	~~0.0000~~	~~Dec-23~~	~~$~~
~~Extra Voted~~	~~MH&Pub Safety~~	~~11/7/2017~~	~~1.0000~~	~~0.0000~~	~~Dec-25~~	~~$~~
~~Extra Voted~~	~~Conservation District~~	~~8/4/2020~~	~~0.0200~~	~~0.0000~~	~~Dec-25~~	~~$~~
		TOTAL MILLS		6.9031		$ 144,818,755
		Difference		0.0688		$ 1,443,341

7. If the Headlee General Operating Override Millage proposal were to fail or not be considered, the Veterans millage was renewed, the Roads Millage was renewed, and two additional special purpose millages were levied at .2500 and .5000 mills, the overall County millage rate would increase by .7590 mills to 7.5933 mills. This is for illustrative purposes only, I am not recommending one scenario over another, or offering a recommendation on additional special voted millages.

General Operating	Operating		5.5000	4.3512		$ 91,282,955
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.5000	Dec-23	$ 10,489,400
Extra Voted	Veterans	11/8/2016	0.1000	0.1000	Dec-23	$ 2,097,880
Extra Voted	MH&Pub Safety	11/7/2017	1.0000	0.9693	Dec-25	$ 20,334,751
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
Extra Voted	Measure I		0.2500	0.2500		$ 5,244,700
Extra Voted	Measure II		0.5000	0.5000		$ 10,489,400
		TOTAL MILLS		7.5933		$ 159,298,323
		Difference		0.7590		$ 15,922,909

8. If the Headlee General Operating Override Millage proposal were to fail or not be considered, the Veterans millage was renewed, and the Roads Millage was renewed, the overall County millage rate would increase by .0090 mills to 6.7433 mills.

General Operating	Operating		5.5000	4.3512		$ 91,282,955
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.5000	Dec-23	$ 10,489,400
Extra Voted	Veterans	11/8/2016	0.1000	0.1000	Dec-23	$ 2,097,880
Extra Voted	MH&Pub Safety	11/7/2017	1.0000	0.9693	Dec-25	$ 20,334,751
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	6.8433		$ 143,564,223
			Difference	0.0090		$ 188,809

9. If the Headlee General Operating Override Millage proposal were to fail or not be considered, the Veterans millage was *not* renewed, and the Roads Millage was renewed, the overall County millage rate would decrease by .0910 mills to 6.7433 mills. If the Headlee General Operating Override Millage proposal was not considered this scenario could potentially buy some goodwill with voters to bring the override on the 2026 ballot. Veterans services would be funded in whole by the current millage fund balance.

General Operating	Operating		5.5000	4.3512		$ 91,282,955
Extra Voted	Parks	11/4/2014	0.2500	0.2387	Dec-26	$ 5,007,640
Extra Voted	Parks	11/6/2018	0.2500	0.2260	Dec-29	$ 4,741,209
Extra Voted	Natural Areas	11/3/2020	0.2500	0.2474	Dec-30	$ 5,190,155
Extra Voted	EECS 800MHZ	3/8/2016	0.2000	0.1910	Dec-25	$ 4,006,951
Extra Voted	Roads	8/4/2020	0.5000	0.5000	Dec-23	$ 10,489,400
~~Extra Voted~~	~~Veterans~~	~~11/8/2016~~	~~0.1000~~	~~0.0000~~	~~Dec-23~~	~~$ -~~
Extra Voted	MH&Pub Safety	11/7/2017	1.0000	0.9693	Dec-25	$ 20,334,751
Extra Voted	Conservation District	8/4/2020	0.0200	0.0197	Dec-25	$ 413,282
			TOTAL MILLS	6.7433		$ 141,466,343
			Difference	-0.0910		$ (1,909,071)

<u>Next Steps for the Board of Commissioners</u>

A number of steps need to be taken by the Board of Commissioners over the next six to twelve months to determine the long-term funding strategy of the County.

First, a decision must be made on whether to place a Headlee Override question before the voters for the County's General Operating Millage. If this option is pursued in 2024, this question would likely be best placed on the August 2024 ballot. The August 2024 ballot would necessitate a decision by resolution at the end of Q1 2024. If placing the question before voters is the desire of the Board, I do not recommend taking it as a special ballot measure, as it was in 2017, due to the overall cost being between $400,000 and $600,000, or more, with the actual amount unknown at this time.

Additionally, it is also possible to table the Headlee Override discussion until 2025 and ask the question of voters in 2026; however, as more special voted millages come up for renewal, a bona fide millage strategy must be developed. The Mental Health and Public Safety Millage, Enhanced Emergency Communication System (EECS) Millage, and the Conservation District Millage will expire after the 2025 levy for 2026 operations which represent 1.2200 mills or approximately $25M annually based on the 2023 Equalization Report. It is not recommended to consider a Headlee Override in 2025 as the County would bear the entire cost of the vote absent other special millage questions.

Second, an overall millage strategy would help to guide not only the County, but the community as a whole. The 50-mill limit being approached in some General Law Townships is the most pressing threat to the County's ability to collect and levy millages; a strategy will help to guide the County through this challenge to equitably serve our citizens. Coupled with a strategy surrounding future special voted millages, a unified taxing strategy would assist with moving the organization towards best practices in governmental fiscal policy. My team can bring a policy recommendation for consideration if desired.

Third, as was started with the 2024-2027 Quadrennial Budget, a continued look at organization-wide expenditures through a program-based budget will allow the County to remain flexible enough to respond to emerging community needs while sunsetting legacy programs that are no longer effective.

Fourth, consideration of new and innovative funding strategies should be considered. These funding strategies must also take into account any operational expenses that could possibly be incurred prior to being declared excess revenue to fund other County priorities. As part of this strategy, if considered, wrapping in a policy on property and building disposition would benefit these strategies. If the County were to operate as a landlord, there would be inherent expenses that the County would need to cover with operating revenue to avoid having to utilize General Fund dollars on what should be an enterprise operation. Local governments across the country have begun looking into these funding strategies and in some cases have been successfully deployed. Consideration of these strategies may be best outsourced to a consultant to provide an unbiased opinion on the feasibility of these strategies in Washtenaw County.

Fifth, collaboration with Cities, Villages, Townships, and Higher Education Institutions should remain an option. To this end, keeping open communication with our partners and keeping an ear open for collaborative opportunities is critical. As the policy body for the County, the Board of Commissioners will ultimately drive collaborative opportunities.

Sixth, a careful examination of new requests to form DDA/TIFA/LDFA/BRA's to ensure the benefits outweigh any loss, or reduction, to County tax revenue. A look at existing DDA/TIFA/LDFA/BRA's to evaluate the ongoing benefits and what the consequences of pursuing the elimination, reduction, or modification of existing DDA/TIFA/LDFA/BRA's. I am not recommending an action either way, however, the erosion of County revenue due to DDA/TIFA/LDFA/BRA cannot be ignored.

Lastly, the three parks millages are the longest term millages currently being levied. It is over three years before the first one expires. As there is time to develop a future funding strategy, this is a low priority in the near-term. In the mid- to long-term, a detailed look at parks funding and a comprehensive strategy surrounding future funding with the Cheney site coming online in the mid-term and being operational in the long-term. If a Headlee Override was tabled until 2025 or 2026, the parks millages could be incorporated into the millage strategy as the first to expire does so after the 2026 levy for 2027 operations.