House
Legislative
Analysis
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WAYNE COUNTY AID PACKAGE

House Bills 5164, 5166, 5168, 5170, 5171, 5198-5200
First Analysis (1-22-88) as enrolled

Sponsors:
Rep. Richard A. Young (House Bill 5164)
Rep. Carolyn Cheeks Kilpatrick (House Bill 5166)
Rep. Justine Barns (House Bill 5168)
Rep. James A. Kosteva (House Bill 5170)
Rep. Joseph Palamara (House Bill 5171)
Rep. Richard A. Young (House Bill 5198)
Rep. William R. Bryant (House Bill 5199)
Rep. Morris W. Hood (House Bill 5200)

House Committee: Taxation
Senate Committee: Finance

House Bill 4452 as enrolled
Second Analysis (1-22-88)

Sponsor: Rep. Teola Hunter
House Committee: Social Services & Youth
Senate Committee: Human Resources and Senior Citizens

THE APPARENT PROBLEM:

Wayne County is seeking the state's help with its massive budget problems. County officials, faced with the possibility of bankruptcy, are threatening drastic cuts and layoffs in essential services, such as law enforcement, health care, libraries, and parks. The county is contemplating closing a floor of the county jail and cutting the prosecutor's staff, moves that would frustrate anti-drug trafficking efforts just underway. According to House Taxation Committee staff reports, Wayne County owes the state $49 million from a debt settlement agreement in 1984 and some $60 million accumulated since then. A $15 million shortfall is expected in the 1988 resident county hospitalization (RCH) budget. Another $52-72 million is owed to non-state sources (e.g., tax anticipation notes issued to meet payroll). The county's budget has a recurring $10 million operating deficit. The causes of the problems are manifold and complex, but there is little doubt that the cost of providing health care to indigents is a major contributor to the county's fiscal woes. The RCH program was expected to cost $32 million this year (slightly over $19 million to be paid by the state), but instead will cost about $50 million! (Wayne County officials say the second largest RCH program, in Oakland County, cost $2.5 million.) Alone among Michigan's counties, Wayne County is required to run an open-ended indigent health care program where demand determines costs. While the county needs long-term budget reforms, including a way to control health care costs, and new sources of revenue with growth potential, it also needs immediate relief from its overwhelming difficulties.

THE CONTENT OF THE BILLS:

The package of bills, generally speaking, would:

- Provide for an emergency loan to Wayne County of up to $120 million (House Bills 5198-5200).
- Grant Wayne County additional authority to borrow by issuing bonds (House Bills 5164, 5166, and 5171), and establish a 30 percent airport parking tax that could be used to service bonds (House Bill 5170).
- Create a new fund, the Health and Safety Fund, supported by revenues from a four cent per pack increase in the cigarette tax, with distributions to be made to Wayne County to repay debts, and to Wayne and other Michigan counties to provide additional funding for indigent health care, public health programs, and criminal justice programs (House Bill 5168). Senate Bill 571 would increase the cigarette tax.
- Allow counties to adopt "patient care management systems" as an alternative means of providing health care to indigents. Counties adopting this approach would make the final decisions about the kind and amount of medical care to be covered (rather than the Department of Social Services), about patient eligibility, and, within limits, about the amount of reimbursement for medical costs. Wayne County could adopt such a system immediately. Other counties could apply to the DSS once the department had procedures and standards in place to evaluate proposals. The indigent care volume price adjuster would be modified so as to distribute an additional $24 million annually to hospitals providing a large proportion of their services to the indigent (House Bill 4452).
- Create an advisory council on intergovernmental relations (Senate Bill 624) and establish an "early warning" system that the state could use to become aware of and intervene in local financial emergencies (Senate Bill 625). These bills have not yet been enacted, but the bills authorizing the emergency loan and special bonds and the bill creating the new fund are tie-barred to them.

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A brief description of the bills in the package follows:

BONDING

House Bill 5164 would amend the Fiscal Stabilization Act to allow counties to apply to the State Administrative Board for authorization to issue general obligation bonds or other notes to pay off actual or projected operating deficits, as cities can under the act. Bonds and notes issued under the act would no longer be subject to the Michigan Distributable Aid Bond Act unless the city or county resolution required by the act provided for it. ("Distributable aid" is state revenue sharing money.) Bonds would have to mature within 30 years under the bill rather than within 10 years. Bonds could be issued for deficits in past fiscal years or for projected deficits, or for funding both. In the resolution, the county (or city) could pledge money it receives from state-levied taxes, and could allow the state treasurer to pay such money directly to a trustee. The resolution could also provide, for bonds or obligations issued on or before September 30, 1988, that an amount from property tax collections be set aside for the purpose.

MCL 141.1002 et al.

House Bill 5166 would amend the Shared Credit Rating Act to increase the amount of bonds that the Michigan Municipal Bond Authority could have outstanding at any one time. The current limit is $500 million, excluding bonds issued to refund outstanding bonds and notes. The bill would increase the limit to $800 million. In addition, the bill would allow a contract between the authority and a governmental unit to contain agreements with respect to the unit's fiscal, budget, debt and cash management, and accounting matters, as the authority requests.

MCL 141.1065a and 141.1073

House Bill 5171 would amend the Michigan Municipal Distributable Aid Bond Act so that its restrictions would not apply to obligations secured by either 1) a pledge of distributable aid pursuant to statutory authorization that expressly permitted a general pledge of distributable aid subject only to constitutional limitation; or 2) a pledge of distributable aid pursuant to statutory authorization that expressly excluded the pledge or the obligation from the provisions of the distributable aid bond act.

MCL 141.1030

STATE LOANS

House Bill 5198 would add counties under the Emergency Municipal Loan Act and authorize for the 1987-1988 fiscal year a loan of up to $120 million to Wayne County ("a county with a population of over 1.5 million"). The current limit under the act is $5 million in total loans in any one fiscal year. The bill would also allow the Local Emergency Financial Assistance Board to impose terms on loans to ensure timely repayment, compliance with budgeting and accounting standards, and to specify conditions of default and remedies for default.

For the Wayne County loan, the board could impose terms to ensure repayment at the earliest possible date, including terms requiring any general fund surplus and one-time revenue gains to be used to repay the loan and terms to require board approval of expansions of non-mandated programs. The loan agreement between the board and the county would establish a payment schedule and would call for ten percent interest, which would be waived if certain conditions were met. Those conditions include: operating a patient care management system for providing indigent health care; maintaining a balanced operating budget; meeting scheduled debt reduction payments; contributing the required share to mental health services; complying with the Control of Local Government Financial Emergencies Act; and, if appropriate, participating in the activities of the council on intergovernmental relations created by that act.

MCL 141.931 - 141.936

House Bill 5199 would amend the State Revenue Sharing Act to require the state treasurer to withhold all or part of a revenue sharing payment that a city, village, township, or county was eligible to receive under the act to satisfy a payment due and owing to the state or a state department or agency from the city, village, township, or county unless and to the extent that the unit had already agreed to assign all or a portion of revenue sharing payments to the Michigan Municipal Bond Authority or had pledged that amount for payment of an obligation with the authority or had pledged revenue sharing for payments on obligations it had issued as approved by the state treasurer.

MCL 141.917 and 141.917a

House Bill 5200 would amend the surplus funds act to exempt the loan to the county from the limitation that total loans made from surplus funds (or common cash) not exceed $5 million in any one fiscal year.

MCL 21.141 and 21.143

TAXES/APPROPRIATIONS

House Bill 5168 would create the "Health and Safety Fund Act," which would make use of a four-cent per pack increase in the cigarette tax (imposed by Senate Bill 571). In the 1987-1988 fiscal year, all money in the fund would be distributed to Wayne County (as the only county with a patient care management system during the 1986-1987 fiscal year) to be used exclusively (1) to pay outstanding obligations for services rendered before March 1, 1984, under the resident county hospitalization program, community mental health shared management and state institutions programs, and the state ward charge-back program; and (2) for repayment of principal on loans under the Emergency Municipal Loan Act. For the 1988-1989 fiscal year and thereafter, the fund's money would be distributed as follows:

- One-quarter for indigent volume adjustors for hospitals within the Medicaid program.
- $16 million to Wayne County to be used to repay pre-1984 indebtedness, principal on emergency loans, or bonds issued under the Fiscal Stabilization Act, or to be put into a county deficit retirement fund if bonds could not be sold. (The state treasurer could withhold the distribution or the county could assign it to meet these purposes.) When the $16 million was no longer needed to satisfy Wayne County's obligations, the county would retain a percentage of that amount equal to its percentage of the state population to be used for public health and criminal justice programs as described above. The remainder would be used on a per capita basis to offset the cost to the state of assuming the financing of the state court system in the other counties.
- The remainder to all other counties based on population, with 11/17 going to local health departments for additional (not replacement) spending on prevention program and services and 5/17 to be used only for jails, juvenile facilities, or court operations. Distributions counties received for these purposes, however, would have to be included in "truth in taxation" calculations required by the General Property Tax Act. Counties that want to apply a millage rate that would produce more revenue in the coming year than in the current year, after accounting for changes in assessed values, must

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provide notice, hold a public hearing, and adopt a resolution or ordinance. Generally speaking, this means counties will have to follow this procedure to make use of the distributions for their intended purposes. (Otherwise, the distributions would result in a lower millage rate.)

The bill would appropriate from the Health and Safety Fund an amount necessary to make distributions, and would require the legislature to appropriate annually, beginning in the 1988-89 fiscal year, an amount necessary to make distributions.

House Bill 5170 would create, effective January 1, 1988, an excise tax on the operators of airport parking facilities at the rate of 30 percent of the charge for parking. (The tax would apply only to Detroit Metropolitan Airport.) Parking facilities within the boundaries of the airport or within five miles of the boundaries would be subject to the tax. The revenue would go to a special state fund and be distributed monthly. During 1988, the distributions would go entirely to Wayne County. As of 1989, 20 percent would go to the city in which the airport is located (Romulus) and the remainder to the county. A county could assign or pledge some or all of its portion to pay off obligations under the Fiscal Stabilization Act or Shared Credit Rating Act. The distribution to the city would not be made if the city is collecting taxes on airport concessions under Public Act 189 of 1953.

INDIGENT MEDICAL CARE

House Bill 4452 would amend the Social Welfare Act to permit a county to establish a "patient care management system" as an alternative to other methods of providing indigent health care. A county that established a patient care management system would have the final decision as to the denial, granting, form, and amount of medical care to be covered under the program.

As mentioned before, Wayne County could operate the new system immediately, while other counties could apply to the DSS once the department had procedures and standards in place to evaluate proposals. The state would be required to appropriate for the management system in fiscal year 1988-89 the amount appropriated in Fiscal Year 1987-88 for both resident county hospitalization and medical care for general assistance recipients. The state funds would be contingent upon Wayne County's spending in 1988-89 $15.5 million on its RCH program. The state would provide $19.5 million. (Future appropriations would maintain that spending ratio.) Wayne County would have to set aside at least $5 million annually to meet inpatient hospitalization expenses of people who are not general assistance recipients at the time of their admission. If the full amount is not needed for that purpose it could be applied to other patient management purposes. If a county other than Wayne established a patient care management system, the state would appropriate an amount equal to its former contribution for resident county hospitalization and general assistance programs. Payments to counties based on previous general assistance medical spending would be adjusted based on general assistance caseloads. Appropriations for patient care management systems not spent would be carried over for use in subsequent years.

A county establishing a patient care management system would have to create an office among whose duties would be to:

- authorize or deny authorization for treatment on a timely basis;
- review the utilization of services by patients and providers;
- deny reimbursement to a provider for services determined to be medically unnecessary;
- establish and publish medical protocols to allow the program to deny reimbursement to a provider if services can be provided elsewhere at a lower cost and the patient can be transferred, or to reimburse providers at the rate charged at a facility with a lower cost;
- implement appeals procedures for providers and for recipients;
- handle inquiries from providers about patient eligibility and past admissions.

A county could contract to have these duties performed.

In addition, the bill would allow those counties that had opted out of the state reimbursement system for the care of general assistance clients to reenter the system. Counties would have to submit a written notice of revocation to the DSS at least 60 days before the beginning of the fiscal year in which the revocation would take effect. The bill would also delete the requirement that general assistance clients be allowed to select either a "private professional attendant...or the city physician or pharmacist."

MCL 400.55 et al.

FISCAL IMPLICATIONS:

Senate Bill 571, which would raise the cigarette tax by four cents per pack, provides the revenue for the package. According to the Senate Fiscal Agency, the cigarette tax increase would raise approximately $43.8 million in Fiscal Year 1987-88 and each year thereafter. For the 1987-88 fiscal year, the revenue would go to Wayne County to pay debts to the state. In later years, the package would distribute the money as follows: $11 million to the Medicaid program for the adjustments to the indigent volume adjustors; $16 million to Wayne County for its indebtedness; and $17 million to other counties for property tax relief or, if approved by the commissioners, to be divided among public health programs ($11 million) and criminal justice programs ($5 million). House Bill 5168 would make those distributions. According to the House Taxation Committee staff, the airport parking tax in House Bill 5170 would raise about $6 million annually. All of the revenue would go to Wayne County during 1988; beginning in 1989, 80 percent would go to the county and 20 percent to the city in which the airport is located, Romulus.

ARGUMENTS:

For:

The package provides desperately needed financial relief to Wayne County, by authorizing a one-time emergency loan and granting the county special bonding authority to deal with its operating deficits. Revenue from an increase in the cigarette tax would help the county repay its debts. An airport parking excise tax will provide an additional steady source of revenue for the county. Without this kind of assistance, the county would be forced to make devastating cuts in essential services and would even face the prospect of bankruptcy. Because so many of the services the county provides are mandated by the state, state government ought to help its most populous, most urban, county stabilize its budget. The package, furthermore, gives the county greater authority to control the costs of its resident county hospitalization (RCH) program. The open-endedness of the indigent health care program is a major contributor to the county's fiscal woes. A patient care management system that allows the county more leeway in determining what services will be provided, to whom, by whom, and at what price, should enable the county to get a handle on its indigent care budget

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problems. Other Michigan counties, too, will benefit from this package. They will divide about $17 million each year from cigarette tax revenues to bolster public health and criminal justice programs.

Tied to the aid package are two bills, yet to be enacted, that would put in place an "early warning system" so that the state can be better informed about impending financial crises in local governments and can have clearly defined powers to intervene.

Against:

While it may be appropriate for the state to "bail out" Wayne County, it is wrong to use a cigarette tax increase to do it. In essence, the two million smokers in the state are being forced to pay for the problems of one county. While other counties have been promised revenue, they will not get back as much as their residents who smoke pay out. Beyond the issue of tax fairness, there are practical problems. Increasing cigarette taxes in Michigan will lead to more bootlegging of the product, to more smuggling, to more thefts and hijackings. The loss in sales in the state and the increased expenditure for tax enforcement will wipe out any revenue gains from a tax increase, according to tobacco industry representatives.

Against:

Some observers of Wayne County have argued that the county needs to do more to correct its budget problems, including cutting the disproportionately high salaries and benefit packages of county employees and eliminating non-mandated, non-essential services. The county needs a serious, thoughtful, long-term effort to get its budget under control not a bailout by the state. Otherwise, bailouts will become routine (not only for Wayne County but other local units that cannot learn to live within their means).