

Keeping Kalamazoo Competitive

**By
Howard Husock and Wendell Cox**

**Report Prepared for the
City of Portage**

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This report was researched and written by Howard Husock, director, case studies in public policy, John F. Kennedy School of Government, Harvard University, and Wendell Cox, principal, Wendell Cox Consultancy, Belleville, Illinois. It is based on the cooperation and assistance of public officials from the cities of Portage and Kalamazoo, the townships of Kalamazoo, Schoolcraft, Pavilion, Texas and Oshtemo; members of the Kalamazoo County Board of Commissioners; as well as officials from Western Michigan University, Kalamazoo College, civic organizations, businesses and foundations.

In addition, it is based on the review of data from the United States Census Bureau, Michigan State Police, Michigan Department of Education, the Michigan Economic Development Corporation and the U.S. Department of Commerce, as well as budget data and supporting materials of local governments cited.

The language and conclusions are solely those of the authors.

The challenge to craft public policies that help to create and sustain economic prosperity and, at the same time, honor the responsibility to remember and assist the poor, can be a vexing one for cities and their surrounding metropolitan areas. There are, after all, no sure-fire approaches which guarantee prosperity. The forces that influence the economic fate of a city and region are, as often as not, national or even global in their reach; the best-run, most business-friendly jurisdictions can see employers depart for reasons that have nothing to do with local practices. At the same time, economic improvement can also depend on the ideas and initiative of individual entrepreneurs, operating far below the radar screen of policy-makers and for whom an empty garage and a good education may be the most important factors in success. Put another way, there is an expectation that government can address the problems of local and regional economies — yet so many factors that crucially influence those economies are beyond the reach of government.

The problems of poorer citizens are similarly caught up in the uncertain environment in which cities seeking to develop an effective economic development strategy operate. When economic growth occurs — as it almost always does — unevenly across a metropolitan area, there is understandable and inevitable concern for those living in areas where growth may lag. Yet, as with economic growth generally, there is no simple formula for ensuring that prosperity is shared and that none will be left behind — in part because poverty, like prosperity, can reflect both larger social and economic forces and personal decisions. The problems of the poor, too, are complicated by the fear that doing too much to address poverty could undermine the incentives for firms and individuals, which help create prosperity.

Despite these uncertainties and complexities, however, local governments must strive to find the right balance, the right mix of policies that will invite and encourage investment, and, at the same time, include as many citizens as possible in the fruits of that investment. In the Kalamazoo metropolitan area,¹ the loss of two flagship employers — the corporate offices of Pharmacia & Upjohn and First of America Bank² —, as well as the persistence of a poor population even during prosperous times — have forced the issues of local government’s role in influencing the region’s economic and social development onto the public agenda.

The October 1998 publication of the proposed *Kalamazoo County Compact (Compact)* suggested one approach to these issues. That approach emphasized regional cooperation amongst the various units of government in the Kalamazoo area that would range from joint efforts to facilitate business recruitment to such dramatic steps as the sharing of tax revenue across city and township lines, the siting of subsidized low-income housing in middle-class neighborhoods, the placement of “at-risk” urban students in suburban school districts and county-wide zoning or planning designed to minimize outer-ring, so-called “sprawl” development. The one theme unifying all these proposals, however, is the seemingly attractive, positive value of a regional, or inter-governmental approach.

This paper, which can be viewed as another voice in the conversation which the Kalamazoo area began with the *Compact*, will offer a different analysis. It will offer strategies to encourage economic development and the recovery of declining areas through steps that build on existing governmental structures, rather than experimenting with dramatic departures from past practice. Its proposals are based in the following perspectives:

1. There is a strong argument to be made that the Kalamazoo region’s existing form of government — one which features many, relatively small political jurisdictions — may actually contribute to the relative prosperity which the region currently enjoys.
2. The case that expanded local jurisdictions play a role in fostering economic development prospects is unproved.
3. Many of the regionalization steps proposed by the *Compact* are likely, if their implementation is attempted, to spark protracted, unproductive controversy and resistance.

¹ In this report, the terms Kalamazoo metropolitan area and Kalamazoo area denote Kalamazoo County, which is the definition used in the *Kalamazoo County Compact*. (In 1993, the US Census Bureau redefined the Kalamazoo metropolitan area as the Kalamazoo-Battle Creek metropolitan area, which includes Calhoun, Kalamazoo and Van Buren counties).

² Which merged with National City Bank.

4. An impressive degree of inter-jurisdictional cooperation and coordination is already taking place in Kalamazoo County on matters in which localities see mutual benefits from working together.
5. Although expanded regional governance approaches to some issues are worth considering, there is significant value which arises from the competition—and the pressure for efficiency in public spending which comes with it—that only occurs when there are many small townships and municipalities in a metropolitan area.
6. This “competition can be positive” analysis implies that, long before such radical steps as tax-sharing (asking jurisdictions in which new economic development is ongoing to share the taxes generated by that development), it is crucial for areas in which development is lagging to examine their structure of spending and costs. They should determine whether they are, without intending to do so, discouraging their growth and recovery. A more competitive inner city can be the best economic aid for the poor and the best protection, too, against so-called urban sprawl.

Reviewing the *Kalamazoo County Compact*

It is the goal of this report to offer positive suggestions for public policies and practices that can help the Kalamazoo-area economy. Because, however, this document follows a previous effort to do the same thing—that is, *The Compact*—it seems appropriate to review the logic and proposals of that effort, prior to offering our own recommendations.

The *Compact's* comparison between the Kalamazoo area's economic growth and that of other metropolitan areas suggested as comparable would seem to indicate that the Kalamazoo area is badly lagging and confronting a sort of crisis. A closer look at the numbers, however, leads to a different, less alarming conclusion.

The *Compact* compares the Kalamazoo area to a group of 37 “peer” (comparable) metropolitan areas on 11 economic and social indicators. The comparable group includes 14 metropolitan areas that have particular advantages that make them generally inappropriate for evaluating the Kalamazoo area. This includes major metropolitan areas (areas with more than 1,000,000 population),³ state capitals and areas that have become outer ring suburbs of major metropolitan areas. Each of these metropolitan area categories has generally exhibited more positive economic performance than smaller metropolitan areas (similar in size to the Kalamazoo area).⁴ Among the

³ This includes three North Carolina metropolitan areas, which are discussed in greater detail below.

⁴ For example, during the 1990s, counties containing state capitals have experienced 20 percent greater income growth than other counties. Moreover, unemployment rates were found to be 26 percent lower in state capital counties. (Richard K. Vedder, “Capital Crimes: Political Centers as Parasite Economies,” *Policy*

more genuinely comparable 23 metropolitan areas, Kalamazoo County performs quite well, ranking first in the percentage of residents with a college degree, second in the degree of racial integration⁵ and first in the propensity for avoiding “urban sprawl.”⁶ In seven of 11 indicators, the Kalamazoo area ranks above both state capital Lansing and South Bend, with its prestigious University of Notre Dame. All of this is not to suggest that the Kalamazoo area should not compare itself against the best. But it should be recognized that it is extremely difficult for a smaller metropolitan area to compete against particularly advantaged larger metropolitan areas and state capitals.

Governing Structure, “Partnerships” and Economic Growth: The *Compact* asserts strongly that there is a link between a region’s economic competitiveness and the extent to which government is regional in nature.

“In order to grow successfully in the future,” asserts the *Compact*, “cities, villages and townships must work together.” Such statements have the ring of incontrovertibility. Only by devising a land use plan that encompasses all of Kalamazoo County’s cities and townships, asserts the *Compact*, can the region avoid the bleak future portrayed in the *Compact*: a population of a million or more, sprawling on former farmland, while older urban areas wither. Who would oppose cooperation in the face of such threats? And yet there is good reason to question the foundation of this assertion. The threat of sprawl appears to be overblown and to ignore the virtues of the present system.

The *Compact* compares Kalamazoo County and its level of new job growth unfavorably with urban areas such as the Research Triangle (Raleigh-Durham) in North Carolina. But alarmism based on the departure of specific employers in the Kalamazoo area ignores, first, the area’s impressively low unemployment rate. Comparison to the cities of the South and West ignores the far less-developed economic base from which such cities started, as they began their impressive growth of the past five decades. But, most important, in terms of its policy recommendations, it ignores the actual structure of government in the Raleigh-Durham model to which it compares the Kalamazoo area. The *Compact* promotes the idea of “big box” cities in which one government includes much of the metropolitan area. It must be said, first, that there are so many factors which have helped to spur the shift of jobs and wealth from the Northeast and Midwest to the South and Southwest over the past 25 years, that there is no way to determine what form (if any) of government is the most crucial pillar of that trend. But, even more to the point, the

Analysis [Washington: Cato Institute]). Outer ring suburbs, such as Ann Arbor, Joliet (Illinois) and Racine (Wisconsin), have experienced particular economic growth as metropolitan areas have expanded further.

⁵ Based upon the US Census Bureau’s residential “segregation index.”

⁶ Ratio of urbanized area change in land area to change in population from 1950 to 1990.

Raleigh-Durham area, which is held up as an exemplar for the Kalamazoo area, actually sees itself quite differently than the way it is portrayed by the *Compact*.

In the words of the Research Triangle Partnership, “Unlike many metro areas, the Research Triangle region does not have a dominant central city. Instead the region is a ‘community of communities’, with four mid-sized cities and 59 smaller cities and towns.”⁷ Indeed, the communities after which the *Compact* invites the Kalamazoo area to model itself actually contain core cities that comprise a smaller proportion of their metropolitan areas than does the city of Kalamazoo (Figure #1). This raises the question as to whether the size of the core city has really helped influence job growth and whether the size of the core city poses a problem for the Kalamazoo area.

It is true that North Carolina communities are joined, through state legislation, in “partnerships” to help promote and attract business.⁸ The *Compact* celebrates such arrangements, saying that “another key factor in the Carolinas’ success is that these regions have learned how to collaborate much more than Michigan regions.” The partnerships, however, are relatively new, most having taken form only in 1994, long after the long spurt of job growth in North Carolina. (Two have public-private antecedents that predate 1994 but none is as much as 10 years old.) Moreover, the emphasis on such partnerships is at odds with the factors that North Carolina officials themselves cite as key to the region’s prosperity. For instance, the Research Triangle Park Foundation (a private non-profit group which led the way in developing the famed industrial park region of the same name) cites such factors as its universities, its quality of life, and its labor costs, which are kept lower because North Carolina is a so-called “right to work” state (an “open shop” state in which union membership is voluntary).

It is worth noting, as well, that the North Carolina partnerships comprise much larger geographical areas than Kalamazoo County. A similar sized partnership in southwestern Michigan would comprise not only the Kalamazoo area, but also the Grand Rapids metropolitan area and Battle Creek, an area so large that Kalamazoo County could lose much of its local identity.⁹

⁷ Research Triangle Regional Partnership, *Research Triangle Region Data Book*, April, 1999.

⁸ There is no local “tax revenue sharing” in North , in contrast to what is proposed in the *Kalamazoo County Compact*. Further, the state’s premier business park, Research Triangle Park (Raleigh-Durham), is not within the boundaries of any city and pays no city taxes.

⁹ The North Carolina partnerships each contain only one commercial airport. A Grand Rapids-Kalamazoo-Battle Creek partnership would contain two commercial airports.

Largest City Percentage of Metropolitan Area Population: 1996

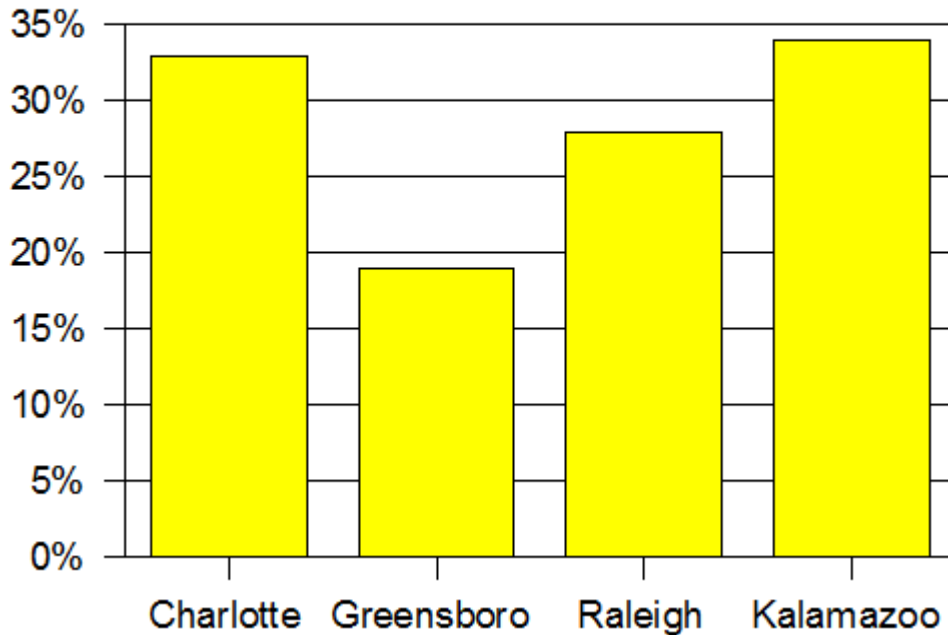


Figure 1

Similar questions about important, underlying factors promoting economic growth arise in a closer look at unfavorable comparisons between Kalamazoo County and its Michigan neighbors. For example, the *Compact* looks jealously at the 25 percent increase in jobs in the Grand Rapids area between 1988 and 1996. This increase in jobs did not, however, inhibit Grand Rapids from taking new steps that go in a starkly different direction than the *Compact* recommends. As part of Michigan's Renaissance Zone program, Grand Rapids has moved in the same direction this report will, below, recommend for the city of Kalamazoo: reducing the tax burden in older industrialized areas so as to spur growth.

Recent job creation progress in Battle Creek, too, has depended on low-cost land becoming available for new development. Specifically, Battle Creek relied significantly on the Fort Custer industrial park that was built on former military land obtained at low cost from the federal government.¹⁰

Regional Land Use Planning

¹⁰ The Fort Custer Industrial Park is, coincidentally, the type of sprawling development that the *Compact* seems interested in discouraging.

The *Compact* paints a bleak picture of the likelihood of helter-skelter population explosion and chaotic growth, based on a scenario that carries the current land use plans of Kalamazoo area communities to their logical extremes. The many independent townships — which the *Compact* derisively refers to as “little boxes,” each with their own zoning — could, asserts the *Compact*, lead to a nightmare of excessive growth culminating in a Kalamazoo County population of 1,050,000, more than four times the current level. “The point is,” asserts the *Compact*, “that the sum total of 24 independently prepared land use plans and zoning maps is no plan at all for Kalamazoo ... If Kalamazoo wants to avoid the future you’ve planned, you have to change how you approach land use planning and growth management.” The *Compact* clearly discounts the possibility that there is a great deal of value in the present system. But there may well be. At the least, the *Compact* is unrealistically alarmist.

Any time formerly agricultural lands become the site of shopping malls or industrial parks, there is a tendency to view such development as a dramatic departure from the past. But the rate of outward growth of development in Kalamazoo County is, the *Compact* notwithstanding, a modest one. Between 1950 and 1990, the amount of urbanized land in the county increased from 21 to 89 square miles. But between 1980 and 1990—the last date for which definitive census data is available-- only 11 additional square miles were urbanized, in contrast to 16 square miles added between 1970 and 1980. Thus, the rate of outward growth has actually been slowing, and, if it continues as it has been, approximately 80 percent of the county’s land will remain non-urban by the year 2040 (Figure #2).¹¹

¹¹ Assumes urban development at the average density of new development during 1980 to 1990. Population estimated based upon U.S. Department of Commerce Bureau of Economic Analysis, *Regional Projects to 2040; Volume 2: Metropolitan Statistical Areas*, June, 1990.

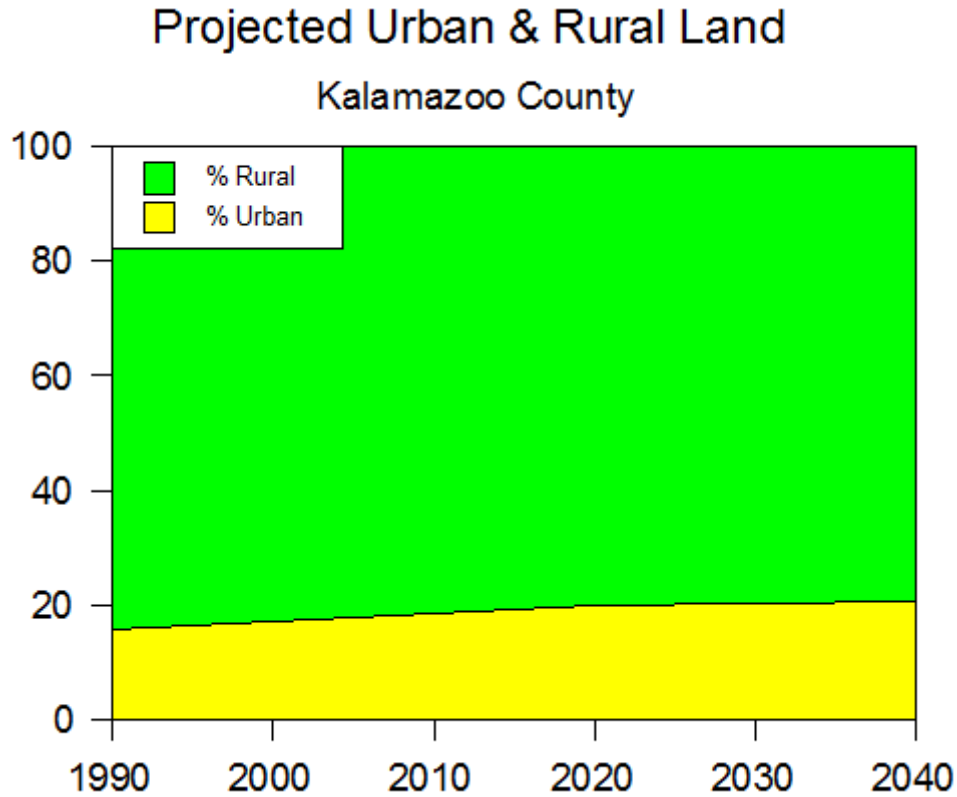


Figure 2

Estimated based upon US Department of Commerce projections.

Similarly, there is little cause for alarm about a Kalamazoo County population explosion. While there was a significant increase in population from 1950 to 1970, the rate has slowed substantially since 1970. Further, US Department of Commerce projections indicate an even slower rate of growth during the next one-half century (Figure #3). This mirrors the overall national trend toward slower population growth.

At the longer term rate,¹² the 1.05 million population of which the *Compact* warns would be reached well after the year three thousand (approximately 3250 A.D.) Moreover, there is a crucial inconsistency in the *Compact's* logic. If, as it asserts, the lack of regional, not local, land use decision-making makes it difficult to attract new businesses to the area, rapid growth should not be possible under present conditions. In other words, the *Compact* says that local control inhibits growth—and will also bring on too much of it!

¹² Assumes the U.S. Department of Commerce projected 2020-2040 annual increase rate.

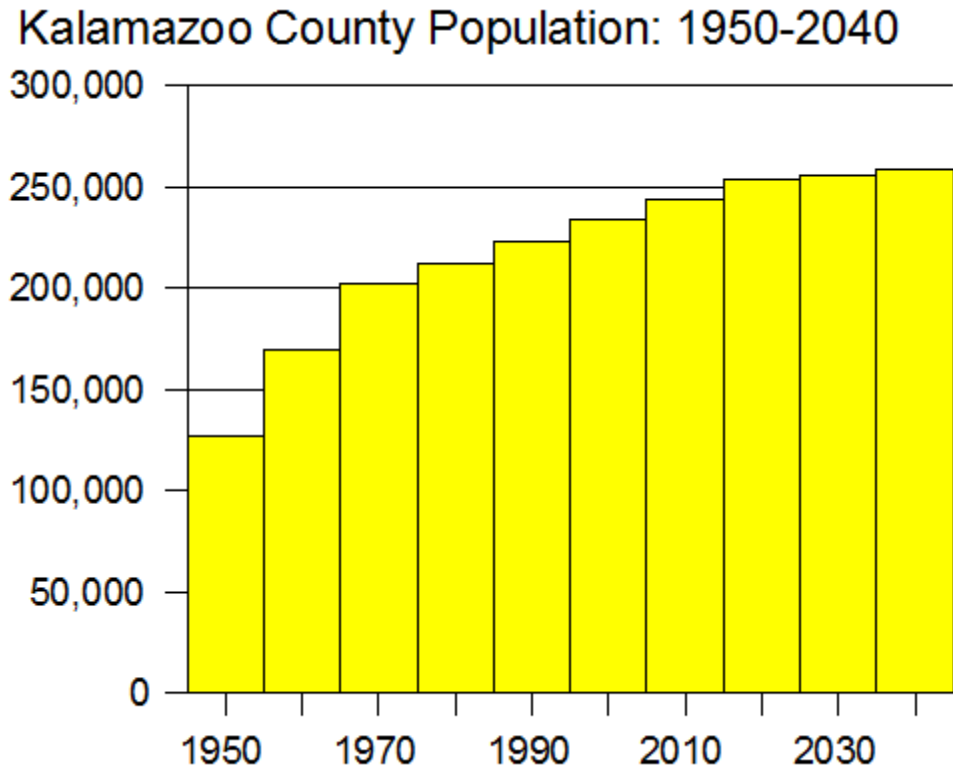


Figure 3

Source: US Census Bureau and Department of Commerce projections.

A patchwork of local governments may seem disorderly, but there is a strong case to be made for such a system. In a landmark essay in the literature of economics, the economist Charles Tiebout, in 1956, described the value of many small governments rather than a large one. Small governments, wrote Tiebout, can better serve the needs of their populations by offering the types of services their voters want, and not services they don't want. If governments begin spending too much on services voters don't prefer, or if services become too expensive or of poor quality, voters, wrote Tiebout, can "vote with their feet" and choose to live elsewhere.¹³ Competition amongst municipalities is a powerful pressure for efficiency, as well. So powerful and deep-seeded is the preference for small, local government in the United States, that voters in some large jurisdictions — including the City of Los Angeles, and Dade County (Miami) Florida — are actively seeking to break up their governments into the sort of smaller units which the

¹³ Charles M. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy*, October, 1956, pp. 416-24.

Compact disdains.¹⁴ This so-called Tiebout, or small-government model, can also play a role in encouraging and directing development. First, it provides the opportunity for communities that do not want the sort of sparse development against which the *Compact* warns, to adopt land use regulations supportive of denser development. More important, however, for a region concerned about nurturing, retaining and attracting businesses, newly-developing, outer-ring townships offer a low-tax environment that can spur economic growth. Further, recent research conducted by the political scientist Milan Dluhy at Florida International University found, in an analysis comparing costs of public services performed by large and small jurisdictions, that most services were delivered more cost-effectively on a small scale.¹⁵

There is no escaping the fact that tax rates are far lower in the newer, fast-developing sections of Kalamazoo County than in older areas, such as the city of Kalamazoo, where the tax rate is 97 per cent higher than the average of the other three cities in Kalamazoo County, 70 percent higher than the average village tax rate for the five villages and 460 percent higher than the townships in the county. This disparity is exacerbated by the Kalamazoo Public Library district, which at 4.0 mills is triple or more other library millages in the county and higher than the local millage average for the townships (Figure #4).

The *Compact* proposes, through the concept of an “urban growth boundary,” that county-wide zoning and planning direct new development into the already-urbanized core of the region. This assumes that businesses would be just as willing to locate there—if that’s where the land use plan directed them—as anywhere else. Crucially, however, it ignores the strong possibility that, were it not for Kalamazoo County’s many small townships and their low tax rates, the new development that the Kalamazoo region has seen in recent years (and which would buffer the economy against the loss of the Pharmacia & Upjohn and First of America headquarters and the Comstock General Motors plant) might not have taken place at all. The risk of discouraging new business and business expansion to protect the county against what is arguably a less-than-serious problem with urban sprawl seems ill-advised. It is worth keeping in mind that jobs in new-growth areas are by no means reserved for residents of those townships and villages alone.

As the census data below indicates, Kalamazoo area residents, not surprisingly, regularly cross political boundaries when they go to work; city of Kalamazoo residents work in the city of Portage and other jurisdictions just as residents of Portage and other jurisdictions work in the city of Kalamazoo and other jurisdictions (Figure #5).

¹⁴ Howard Husock, “Breaking Up Cities: Behind the New Urban ‘Secession’ Movements,” Taubman Center for State and Local Government, Harvard University, March, 1998

¹⁵ Milan Dluhy, *Designing New Governmental and Service Delivery Systems in Metro Areas: The Case of Metropolitan Dade County, Florida*; Florida International University, Institute of Government, 1998

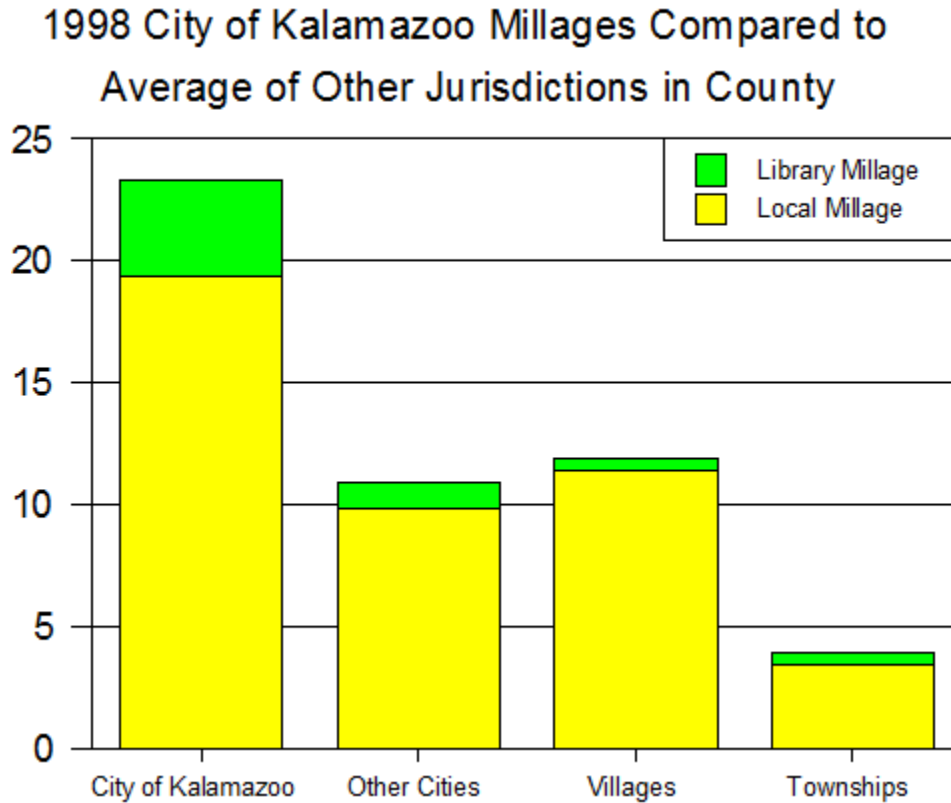


Figure 4

Data from Michigan Department of Treasury

It is important to remember that suburban jobs held by city of Kalamazoo residents indirectly — but definitely — generate property tax revenues for the city. The income from employment leads to demand for housing; an increase in housing prices (or, at the least, stable housing prices) leads to stable or increased property valuations and a stable or increased tax base. (Economists would characterize this as suburban employment being “capitalized” in the city’s tax base.) It is short-sighted and inaccurate, then, to view jobs in other parts of the county as a drain on the city of Kalamazoo. The truth is more complex.

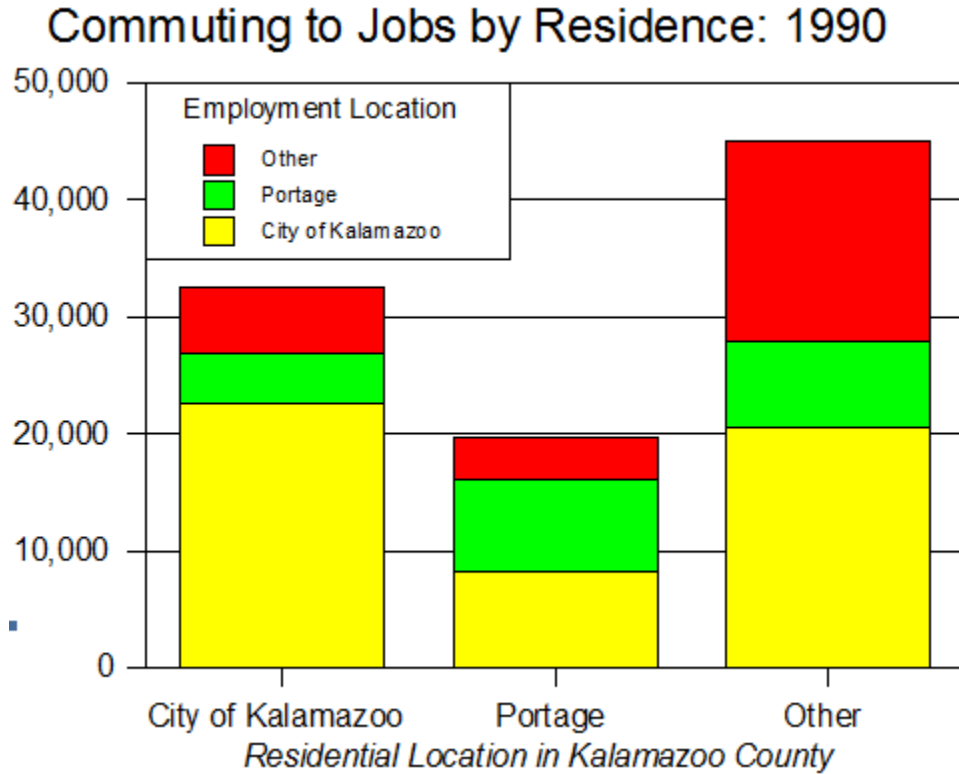


Figure 5

Source: US Census Bureau

Practical versus Impractical Regionalism

Whatever its virtues, no one would, of course, make the case that all government should be strictly local. Although many services—police, fire, public works—have been widely shown to be most cost-efficient when performed or purchased at the local level—there are others, such as water treatment, libraries, protection against unusually large fires, which do call for regional cooperation. Local governments, because of their desire to control costs, have a strong incentive to work together when there is a clear economic rationale and (crucially) a political consensus that regional cooperation makes sense. Effective regionalism cannot be mandated; in the U.S. federalist system, it must, as a practical matter, be negotiated.

The *Compact* seeks to establish a greater degree of regionalism through tax base sharing, since consolidation of governments is not feasible under Michigan law. Yet, its call for regionalism ignores the fact that tax base sharing already occurs at virtually every level of government. Local citizens pay taxes to the federal government for services that are largely used to serve functions deemed to be in the national interest, regardless of state and local boundaries. The state of Michigan provides revenue sharing funding through various programs.

- Each jurisdiction in Kalamazoo County receives general revenue sharing funds, which will range from \$52 per capita in Texas Township to \$153 per capita in the city of Kalamazoo. These figures are expected to rise to \$61 and \$238, respectively, by 2006. In 1999, the city of Kalamazoo will receive nearly \$3 million more through this program than if it received the average of local Kalamazoo County jurisdictions. This will rise to \$5.7 million above the average in 2006 (Table #1 and Figure #6).¹⁶

- The state also provides assistance for roads to local jurisdictions. For example, in 1999, the city of Kalamazoo will receive \$72 per capita, while Portage will receive \$57.¹⁷

- Local school operations are now funded through the state, which provides relief to local taxpayers. Kalamazoo County per pupil allowances range from \$5,652 in Vicksburg Community Schools, Schoolcraft Community Schools and Portage Public Schools to \$6,323 in the Kalamazoo Public Schools.¹⁸

Similarly, taxpayers throughout the county pay county taxes to finance a number of services that are provided in all jurisdictions, such as family services, employment security, emergency management, and health. For example, a Kalamazoo County analysis estimated the city of Kalamazoo received \$1.53 in law enforcement and justice services per each dollar of general county and law enforcement levy collected, which compares to \$0.51 in Portage and \$0.98 in the rest of the county (1996).¹⁹ This represents a net financial gain of more than \$2.3 million annually for the city of Kalamazoo.

¹⁶ Calculated from data in State Fiscal Agency memorandum to members of the state Senate, February 12, 1999.

¹⁷ Calculated from city of Kalamazoo and city of Portage budget information.

¹⁸ Fiscal Year 2000 state Foundation Allowances per K/RESA.

¹⁹ County of Kalamazoo, "Law Enforcement Agencies Analysis of Taxes Generated/Responses to Services," April 15, 1997.

Jurisdiction	Per Capita Revenue Sharing		Difference from County Wide Average		Gross Difference (Net Recipient or Donor Status)	
	1999	2006	1999	2006	1999	2006
Alamo Twp	\$65	\$90	(\$49)	(\$70)	(\$181,940)	(\$286,348)
Augusta	\$93	\$168	(\$21)	\$8	(\$18,025)	\$6,429
Brady Two	\$59	\$77	(\$55)	(\$83)	(\$206,218)	(\$358,370)
Charleston Twp	\$59	\$77	(\$55)	(\$83)	(\$116,147)	(\$199,731)
Climax	\$104	\$190	(\$10)	\$30	(\$5,945)	\$17,427
Climax Twp	\$61	\$78	(\$53)	(\$81)	(\$97,465)	(\$173,585)
Comstock Twp	\$72	\$97	(\$42)	(\$63)	(\$569,761)	(\$964,200)
Cooper Twp	\$69	\$110	(\$45)	(\$50)	(\$398,010)	(\$461,974)
Galesburg	\$94	\$161	(\$20)	\$1	(\$37,372)	\$1,932
Kalamazoo (City)	\$153	\$238	\$39	\$78	\$2,993,321	\$5,703,178
Kalamazoo Twp	\$110	\$180	(\$4)	\$20	(\$82,636)	\$420,622
Oshtemo Twp	\$81	\$113	(\$33)	(\$47)	(\$465,475)	(\$692,115)
Parchment	\$113	\$151	(\$1)	(\$9)	(\$2,121)	(\$16,699)
Pavilion Twp	\$72	\$125	(\$42)	(\$35)	(\$218,479)	(\$177,997)
Portage	\$95	\$120	(\$19)	(\$40)	(\$832,784)	(\$1,911,936)
Prairie Ronde Twp	\$73	\$111	(\$41)	(\$49)	(\$52,983)	(\$61,404)
Richland	\$88	\$105	(\$26)	(\$55)	(\$13,505)	(\$31,679)
Richland Twp	\$61	\$75	(\$53)	(\$85)	(\$293,801)	(\$541,584)
Ross Twp	\$59	\$74	(\$55)	(\$86)	(\$251,452)	(\$455,594)
Schoolcraft	\$110	\$153	(\$3)	(\$7)	(\$5,209)	(\$10,713)
Schoolcraft Twp	\$58	\$74	(\$56)	(\$86)	(\$246,699)	(\$440,149)
Texas Twp	\$52	\$61	(\$62)	(\$99)	(\$638,937)	(\$1,292,118)
Vicksburg	\$125	\$175	\$11	\$15	\$22,302	\$28,941
Wakeshma Twp	\$58	\$84	(\$56)	(\$76)	(\$92,889)	(\$144,118)
Average	\$114	\$160				

Source: Calculated from State Fiscal Agency projections

In addition, the Kalamazoo area has an impressive ongoing range of regional efforts. The following are just a few of the many such initiatives.

- **Kalamazoo County Airport:** What had been a city of Kalamazoo facility with obvious county-wide costs and benefits was, in fact, shifted in 1984 to the purview of the county and subsequently upgraded.

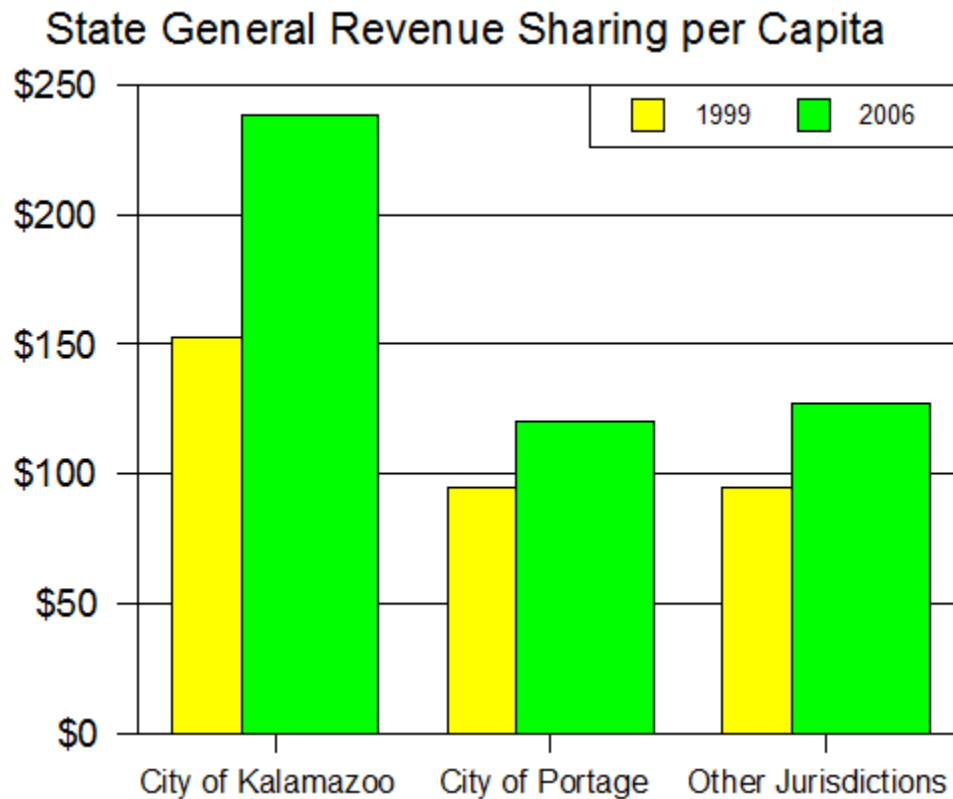


Figure 6

Calculated from Michigan State Fiscal Agency estimates. Population projected at 1990-6 rate.

- **Court Consolidation:** Through negotiations initiated by the Kalamazoo County Council of Governments — a voluntary, but nonetheless significant means for cities, villages and townships to learn of each others' needs and interests — what had been three separate court units have been merged into one. Potential results include not only cost-savings but significantly increased convenience for citizens who, historically, had to travel to courts distant from their homes to deal with even minor issues such as traffic citations.
- **Business Recruitment:** The *Compact* makes much of the fact that there are many townships and villages in Kalamazoo County with their own zoning nomenclature, a situation, it says, which poses a significant barrier to new business expansion. In addition to the virtues of a multitude of governments described above, the *Compact* ignores the fact the County Chamber of Commerce supports a “business development bureau” dedicated to steering firms toward developable sites throughout the county.
- **Kalamazoo Area Academic Achievement Program:** The Kalamazoo area pools its resources to provide counseling and tutoring to “at-risk” public school students. This

initiative is a cooperative venture supported by the private sector and local educational organizations.

- **Framework for the Future:** A collaborative effort between 10 school districts and the Kalamazoo Regional Education Service Agency (K/RESA) has been established to create broader educational opportunities for students throughout Kalamazoo County while preserving the integrity of the local school districts.
- **The Forum for Kalamazoo County:** A partnership between private companies, non-profit organizations and governments has overseen and promoted successful programs in brownfield redevelopment, restoring the formerly polluted Kalamazoo River basin and other projects.
- **The Metro Transit system:** This city of Kalamazoo enterprise provides services under contract to additional jurisdictions, including Portage, Parchment, Kalamazoo Township, Oshtemo, and Comstock.

Unrealistic Regionalism: Mixed-Income Housing

The sorts of inter-governmental forms of cooperation described above can take root and be sustained, because they benefit all sides of the deal. The same simply is not likely when two of the key proposals of the *Compact* are considered: (1) the siting of “affordable” (subsidized, low-income) housing in suburban areas, a strategy the *Compact* suggests is necessary to (2) improve the educational achievement of poor children currently attending schools in the Kalamazoo School District. To understand why, requires, as a beginning, an understanding the nature of neighborhoods in the United States.

As the University of Chicago geographer Phillip Rees has pointed out,²⁰ “socioeconomic status is a universal sorting principle in American cities”. In other words, people of similar incomes and educational backgrounds choose overwhelmingly to live together. Americans feel most comfortable—and strongly prefer—to live in neighborhoods in which they have education and income in common with their neighbors. Metropolitan areas may be thought of as comprising a series of rungs on a socio-economic ladder; Americans believe strongly that, on the basis of their own effort, they can and do climb from rung to rung. This is the unwritten, but powerful, rule of American neighborhood formation.²¹ It may or may not seem that things should work this way, but, in fact, they do. Kalamazoo area census data demonstrates that the region’s neighborhoods fit this pattern.

²⁰ Philip H. Rees, “Residential Patterns in American Cities,” the University of Chicago, Department of Geography, Research Paper No. 189, 1979.

²¹ Howard Husock, “A Critique of Mixed-Income Housing,” *The Responsive Community*, Spring, 1995.

Government-subsidized efforts to site low-income housing in even slightly higher-income neighborhoods are, because of this rule of neighborhood formation, destined to be strongly resisted.

And, in fact, pilot programs such as the federal Housing and Urban Development Department's "Moving to Opportunity" program have been highly controversial. That plan, like the *Compact*, proposed to locate poor, inner city residents in blue-collar and middle-class neighborhoods. In Baltimore, the first metropolitan area in which it was tried, political resistance was so strong that a liberal Democratic member of Congress (Representative Barbara Mikulski of Maryland, whose district included suburban Baltimore) spoke against the proposal. In the wake of the backlash, Congress cut the program's funds.²²

It would be impractical and, thus, unwise to gamble on suburban acceptance of low-income housing as a key strategy for improving the educational achievement of lower-income children. This has been emphasized already, in the Kalamazoo area, by the fact that not one suburban school district has chosen to participate in the Michigan public school choice program, despite the fact that such participation would mean that school districts would—because of the state system in which school funding is attached to individual students—have stood to realize revenue gains by accepting urban school children. (The Kalamazoo public school district has also declined to participate).²³

It is important to note that, apart from the political resistance which suburban low-income housing or cross-district school busing (another potential means of achieving the *Compact's* end of placing low-income children in suburban school districts), there is no consensus among educators that this is the best or only way to help low-performing children. Although the *Compact* asserts that Texas and New Mexico studies have definitively proved that low-income children attain higher test scores if placed in mixed-income classroom settings, there is reason to be cautious in accepting this conclusion. The *Compact* cites studies focused, for instance, on students in the third grade. At that stage of schooling, reading scores do not yet diverge greatly, since students have only recently learned to read. Thus, a small increase in a student's score could show up as a large increase in percentage terms. A truer test of the concept of economic integration as a means to improve educational test scores would look at comparable groups of significantly older students. The challenge of improving educational achievement among students from lower socio-economic groups is among the most difficult and important tasks facing American society. Those who have studied the problem over long periods of time find it resistant to any magic bullet approach. The sociologists Christopher Jencks and Meredith Phillips — although noting that the so-called test score gap between, for instance, white Americans and African-Americans has

²² "Hill Panel Halts Plan to Move Poor Families", Ann Mariano, *The Washington Post*, September 3, 1994.

²³ Kalamazoo County: Schools of Choice Letter of Agreement.

already been narrowing in recent years — urge that “the United States should be conducting large-scale experiments to discover how to reduce the gap further — tests to find out exactly what are the effects of schools’ racial mix, class size, teachers’ test scores, ability grouping and other education strategies.”²⁴ Finally, recently published research has identified virtually hundreds of cases in which low income schools are outperforming schools in more affluent neighborhoods:

*... low income kids can achieve at the highest levels. Our national survey points to how adults, policymakers and educators alike, can assure high achievement for these kids, and frankly, for all kids.*²⁵

Even more to the point is the fact that, in contrast to the gloomy tone of the *Compact*, there has been notable progress in recent years in the Kalamazoo Public School District. For instance, in the high-poverty Edison School, the number of students scoring low on the Michigan Educational Assessment Program (MEAP) fourth-grade reading test fell from 35.9 percent in 1989 to 20.0 percent in 1998: a 44.3 percent improvement. Fourth-grade reading scores for the Kalamazoo district as a whole improved similarly.

While 35.4 percent of all fourth-graders scored low on the MEAP reading test in 1989, only 17.9 did so in 1998, outperforming some suburban districts (Galesburg and Climax-Scotts). There was notable improvement in reading scores for seventh graders, as well, in addition to improved math performance for the fourth and seventh grades (Figure #7) *Every Kalamazoo City public elementary and middle school has demonstrated improving test scores on all of the reading and mathematics indicators.*²⁶ The Kalamazoo School District is justly proud of this performance and credits a number of management strategies and a committed staff.²⁷

Further, efforts to improve education are not limited to school districts. For example, the business supported Kalamazoo Area Academic Achievement Program (KAAAP) involves volunteers who tutor students identified as “at risk” in elementary school. At least 800 students have been assisted through this program.

²⁴ Christopher Jencks and Meredith Phillips, “Closing the Black-White Test-Score Gap”, *Annual Report 1998-99, Program on Education Policy and Governance*, Harvard University.

²⁵ Press Release: “They Can and Do: Low-Income Students and high Academic Achievement,” The Education Trust, May 5, 1999 (emphasis in original).

²⁶ Historic data not available for high schools.

²⁷ Specifically, Kalamazoo Public School administration credited the progress to its strategic plan, a focus on student achievement, staff development, a committed staff and use of performance data for instructional improvement.

Change: Scores in Lowest Category

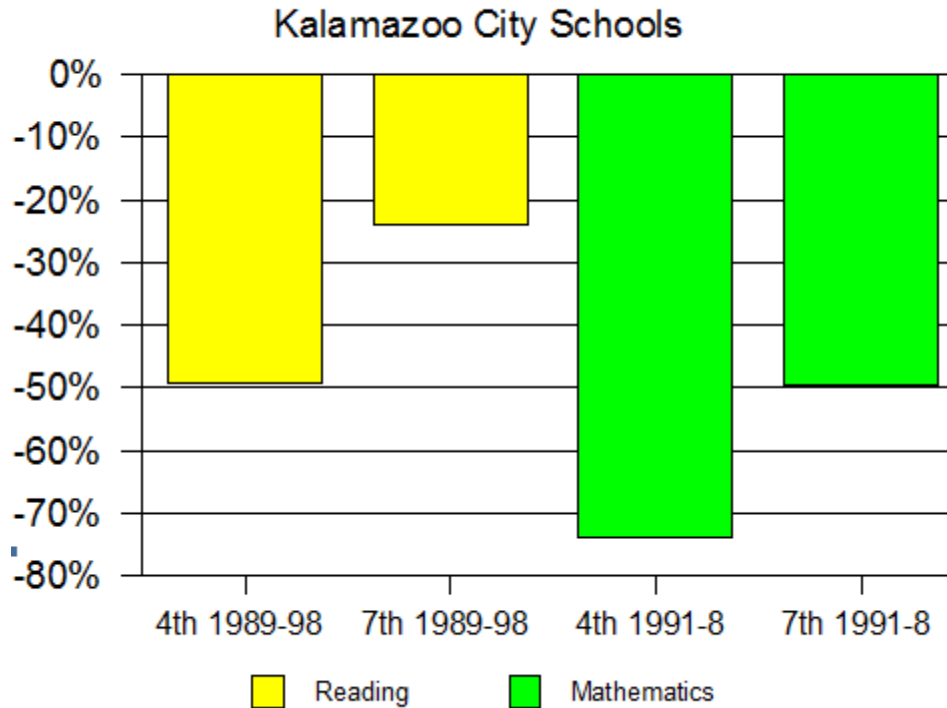


Figure 7

Calculated from Michigan Department of Education data.

None of this negates the fact that educational achievement, overall, is lower in the Kalamazoo school district than in its suburban neighbors. Nor does it negate the view widely-shared among close observers of the Kalamazoo schools that many parents of young children are choosing to buy homes outside the city of Kalamazoo and the Kalamazoo school district, in order to ensure the best possible education for their children. If the goal of helping poor children learn is accepted, and that mixing them with better-off children is one way to do so, it would seem prudent to adopt policies to attract the children of middle-class families who have a choice to select the Kalamazoo school district, rather than pursuing a policy of sending what will inevitably be limited numbers of poor children to schools in other districts. Current proposals to increase the power of Kalamazoo school district parents to request that their children attend a specific school would seem to be a step in the right direction.

Michigan is currently embarked on a dramatic effort aimed at education funding reform and improved achievement. This includes financial support tied to the number of students the school districts are able to retain (per capita funding) as well as the use of newly-established charter schools to create the environment in which there is, in reality, competition for the dollars that come with increased numbers of students. The *Compact* advocates an entirely different approach—that

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based on the subsidized housing construction strategy designed to scatter poor students throughout the region. Such a proposal runs counter to strategies already being implemented in the state of Michigan—and which, based on the Kalamazoo school district data, shows promise for the very children about which the *Compact* expresses most concern.

Competitive Government: A Better Alternative than Tax Base Sharing:

There is a larger point implied here. Lower-income neighborhoods can, and should be, good neighborhoods. All jurisdictions, including cities and suburbs, should be able to deliver high-quality public services—including education, public safety and public works—effectively and efficiently. Doing so, of course, requires an adequate tax base. In one of its key proposals, the *Compact* asserts that the city of Kalamazoo is drastically handicapped in its ability to provide for its citizens because of its inadequate revenue base. The *Compact*, therefore, proposes that the cities, townships and villages of Kalamazoo County in which new development is now concentrated, share a percentage of the tax revenue realized from such development with the city of Kalamazoo.

This report offers the strong conclusion that this approach is ill-advised and unjustified. The reasons include the effect such an approach would have on the pace of development. But most important and, indeed, central to this report, tax-base sharing cannot be justified when the major (but not only) proposed recipient community (city of Kalamazoo) spends far more per resident for the provision of its services than do its neighbors and when it has not taken sufficient steps to make itself competitive with other jurisdictions by lowering its costs and, thereby, its tax rate.

Killing the Golden Goose

Tax base sharing takes, as its first assumption, the view that new development will continue to occur, so that its fruits can be shared with older urbanized parts of the county, as well as enjoyed by newer, developing parts of the county. As noted above, it is wrongheaded to believe that new development does not benefit older urban areas already, by providing jobs for residents. But it is wrong, as well, to believe that new development will inevitably continue, even if residents of developing areas must share property taxes with other jurisdictions. Quite simply, new development brings costs as well as benefits. It frequently inspires opposition. The residents of jurisdictions where development is occurring accept it, when they do, because they believe they will, on balance, benefit from it. If they must share their tax base, there is a far greater likelihood that they will not permit development to occur in the first place. If, in order to ensure that their own tax revenue remains constant even after tax-base sharing, they take steps to increase their tax rate, the possibility exists that new business will choose not to build. In other words, tax base sharing assumes that the golden goose of development will continue to lay its golden eggs, but, instead, risks killing it. Such redistribution also would deliver aid with no strings attached; one jurisdiction would, in effect, be raising tax revenues from the voters of another jurisdiction, without pressure to account for how those funds are spent. In addition, the higher taxes that

would be required to finance tax base sharing in the lower tax jurisdictions could drive some corporate relocations outside the Kalamazoo area altogether

The tax-base sharing proposal of the *Compact* effectively assumes that new development will occur in outlying areas — and that there is little the city of Kalamazoo can do about this except find ways to force outer suburbs to share tax revenue, or mandate (through countywide planning) that new development be forced to locate in now-urbanized areas. These proposals overlook — and, indeed, the *Compact* did not at all address—the fact that there may be economic reasons — within the control of city governments — which drive new development outward, or, just as important, discourage new businesses from being started in the old buildings of older neighborhoods. Quite simply, the cost of government services in the city of Kalamazoo is significantly higher than that of surrounding areas. That makes it more expensive to own or start a business in the city of Kalamazoo and handicaps the city in what is an undeniable competition both with other nearby jurisdictions and other regions.

High City of Kalamazoo Costs: The cost of government per capita in the city of Kalamazoo is the highest in Kalamazoo County, approximately 50 percent above the next highest, the city of Portage and Schoolcraft Village (Table #2).²⁸ Further, city of Kalamazoo costs per capita are high compared to other Michigan cities, ranking 15th highest out of 49 reporting jurisdictions (Table #3).²⁹

²⁸ Per capita cost and revenue measures actually give the city of Kalamazoo and other cities with large universities a comparative advantage. Students rely on the educational institution to provide some public services that would otherwise be provided by the city, which lowers per capita costs. Similarly, local taxes per student tend to be lower than local taxes per permanent resident. As a result, all things being equal, per capita spending and local taxation should be lower in university cities. Approximately 20 percent of the city of Kalamazoo's 1990 population was university students.

²⁹ This (1996) is the latest data available through national reporting sources.

Jurisdiction	Admini-stration	Public Safety	Public Works	Parks & Recreation	Develop-ment & Regulation	Total
Comstock	\$70	\$78	\$18	\$28	\$10	\$204
Kalamazoo (city)	\$104	\$329	\$171	\$42	\$34	\$680
Kalamazoo Twp.	\$48	\$166	\$33	\$0	\$5	\$281
Oshtemo	\$64	\$72	\$18	\$2	\$25	\$181
Pavilion	\$47	\$20	\$42	\$0	\$10	\$119
Portage	\$74	\$204	\$117	\$41	\$23	\$459
Schoolcraft Village	\$121	\$167	\$133	\$22	\$8	\$450
Texas	\$73	\$21	\$5	\$1	\$19	\$119

Costs for jurisdictions with fiscal years ending before 12/31/99 inflated for balance of year.
Source: Annual Budgets³⁰

It is crucial to understand the high cost structure in the city of Kalamazoo. Not only the city's tax rate should be considered, but also its rate of spending. City of Kalamazoo officials insist that city government is as efficient as its suburban neighbors, because the amount of money the city raises per capita through its higher property tax millage is roughly the same as neighboring Portage.³¹

The rate of revenue collection is by no means the whole story, however. It is crucial to note that spending per resident in the city of Kalamazoo far outstrips spending per capita in Portage or any other community in Kalamazoo County. This means that, in addition to the funds it raises locally, the city of Kalamazoo is receiving extensive assistance in the form of both state and federal funds. It is not, however, using these funds to ensure that its spending per resident is simply equal to other communities. It is using its other sources of revenue to spend far more than its neighbors rather than to reduce local property taxes, which would create a climate more conducive to home ownership and other forms of investment. In other words, there is no reason for the city of Kalamazoo to boast that it is raising no more revenue per resident than other communities. Because it receives state and federal assistance, city government should be striving to reduce its property tax rate and spur new investment.

³⁰ Data on this Table #2 differs from Table #1 because of differing years (Table #1 portrays the latest available state-wide data, 1996. Table #2 uses 1999 data).

³¹ An analysis by the city of Kalamazoo calculates local taxation (largely millage) in the city of Kalamazoo at \$330 for fiscal year 1998 and at \$322 in the city of Portage for fiscal year 1998-1999 (Analysis provided by the city of Kalamazoo Deputy City Manager, June 3, 1999).

Nor are the city of Kalamazoo's high costs justified by the city's comparatively high level of poverty. The welfare and employment security services that impose higher costs in lower income neighborhoods are largely the responsibility of state and county governments, rather than the city government.

The city of Kalamazoo's higher costs are at the root of its much higher local millage, Yet there may be insufficient sensitivity to the competitive disadvantage higher costs and higher taxes present. For example:

- The city has tried in the past to adopt a city income tax. While local income taxes are common among the larger and older Michigan cities, they are rare in newer suburban growth areas and outside the state of Michigan. Local income taxes are considered an important *disadvantage* for companies seeking to relocate.³²

³² For example, there is concern that the St. Louis city income tax is both driving employers away and making it difficult for the city to attract new employers. As a result, a Missouri state legislative initiative has been begun to repeal the tax.

- A “living wage” ordinance has been proposed by some for the city of Kalamazoo, and is under consideration. The ordinance would require firms doing business with the city or receiving tax abatements to pay a minimum wage above that required by state and federal law. This would increase city costs as well as the costs of doing business in the city of Kalamazoo. Regardless of the abstract merits or demerits of such an ordinance, the reality is that it would discourage job creation in the city, and in all likelihood impose a higher price in economic growth than any gain to impacted employees. Such legislative initiatives belong at the state and federal level, not at the local level.³³

High costs and high taxes can be major contributors to city decline. As Milwaukee’s Democratic Mayor, John Norquist, put it:

*A city that spends itself to high tax levels suffers for it; people with means choose not to live or conduct commerce there.*³⁴

Rank	City	Per Capita Spending	Rank	City	Per Capita Spending
1	Detroit	\$850	26	Lansing	\$414
2	Pontiac	\$686	27	Taylor	\$408
3	Dearborn	\$647	28	Troy	\$406
4	Traverse City	\$626	29	Livonia	\$398
5	Flint	\$625	30	Holland	\$394
6	Southfield	\$615	31	Hazel Park	\$393
7	Saginaw	\$606	32	Hamtramck	\$385
8	Marquette	\$600	33	Niles	\$380
9	Highland Park	\$590	34	Ann Arbor	\$372
10	Trenton	\$573	35	St. Clair Shores	\$364
11	Grand Rapids	\$568	36	Farmington Hills	\$363
12	Port Huron	\$566	37	Royal Oak	\$353
13	Mount Clemens	\$533	38	Portage	\$350
14	Battle Creek	\$517	39	Garden City	\$347
15	Kalamazoo	\$504	40	Wyandotte	\$342
16	Grand Haven	\$496	41	Sterling Heights	\$341
17	Monroe	\$479	42	Novi	\$340
18	Warren	\$471	43	Wyoming	\$324

³³ The living wage proposal is of particular concern when coupled with the *Compact’s* revenue sharing proposal, which would involve taxpayers outside the city of Kalamazoo being required to contribute to a higher cost base without recourse to the ballot box.

³⁴ John O. Norquist, *The Wealth of Cities* (Reading, MA: Addison-Wesley, 1998).

19	Midland	\$469	44	Dearborn Heights	\$294
20	Muskegon	\$464	45	Westland	\$284
21	Escanaba	\$456	46	Kentwood	\$284
22	Lincoln Park	\$446	47	Rochester Hills	\$255
23	Oak Park	\$434	48	Grandville	\$255
24	Bay City	\$426	49	Mount Pleasant	\$203
25	Roseville	\$420			

Excludes libraries.

Calculated from US Census Bureau data.

Impact of Tax-Exempt Land: The notion is often advanced that the higher millage rate reflects the large percentage of non-taxable land within the city of Kalamazoo—land owned by its two major hospitals, Kalamazoo College and Western Michigan University, among others. It is true that non-taxable land totals 36.7 percent of all land in the city of Kalamazoo. But a significant amount of that land—8.3 percent—is actually owned by the city itself (Table #4). The per capita value of tax exempt city property in the city of Kalamazoo is more than three times that of such property in Portage. Thus, the amount of existing city government owned-property is itself a barrier to new, revenue-generating enterprises. Moreover, two city enterprises, the water reclamation plant and the water works make payments in lieu of property taxes of nearly \$800,000 annually, despite their being tax exempt. And, as noted above, the large number of jobs these institutions generate, many held by city residents, help to support the property values in the city of Kalamazoo (Figure #8).

Category of Exempt Property	Value	Percentage of Value (SEV)
Western Michigan U.	\$367	10.8%
Other State	\$42	1.2%
City	\$284	8.3%
Non Profit Hospitals	\$129	3.8%
Schools:	\$103	3.0%
Kalamazoo College	\$171	5.0%
Nazareth College	\$4	0.1%
Other	\$150	4.4%
Total Exempt	\$1,248	36.7%
Total Not Exempt	\$2,156	63.3%
Total	\$3,403	100.0%

Amounts in Millions
Data from 2-21-97 Kalamazoo City Assessor's Memorandum

Nor is the presence of state-owned, tax-exempt institutions as great in the city of Kalamazoo as in some other Michigan cities. Among 14 cities with state universities, the

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city of Kalamazoo ranks ninth in percentage of tax exempt state properties, and far below other cities (Table #5), such as East Lansing, Big Rapids, Houghton, Mount Pleasant and Ann Arbor (where economic growth has been particularly strong).

There are no available figures as to how many of these jobs are held specifically by city of Kalamazoo residents, nor is there reason to believe this is an insignificant number. (University officials estimate that about one-third — 1,000 of 3,000 — of university employees are city of Kalamazoo residents.) In addition, Western Michigan University has a significant positive impact upon the economy of Kalamazoo County, and it is likely that the benefit accrues primarily to the city of Kalamazoo. It has been estimated that the university adds approximately \$250 million annually to the gross county product.³⁵ Moreover, property values in the vicinity of the university are likely higher than they would otherwise be. Nor are there hard numbers as to the cost of providing city services to the educational and medical institutions. To determine the financial impact of Western Michigan University on city finances, positive or negative, (or Kalamazoo College or the non-profit hospitals) would require a much more rigorous economic analysis than has been completed to date.

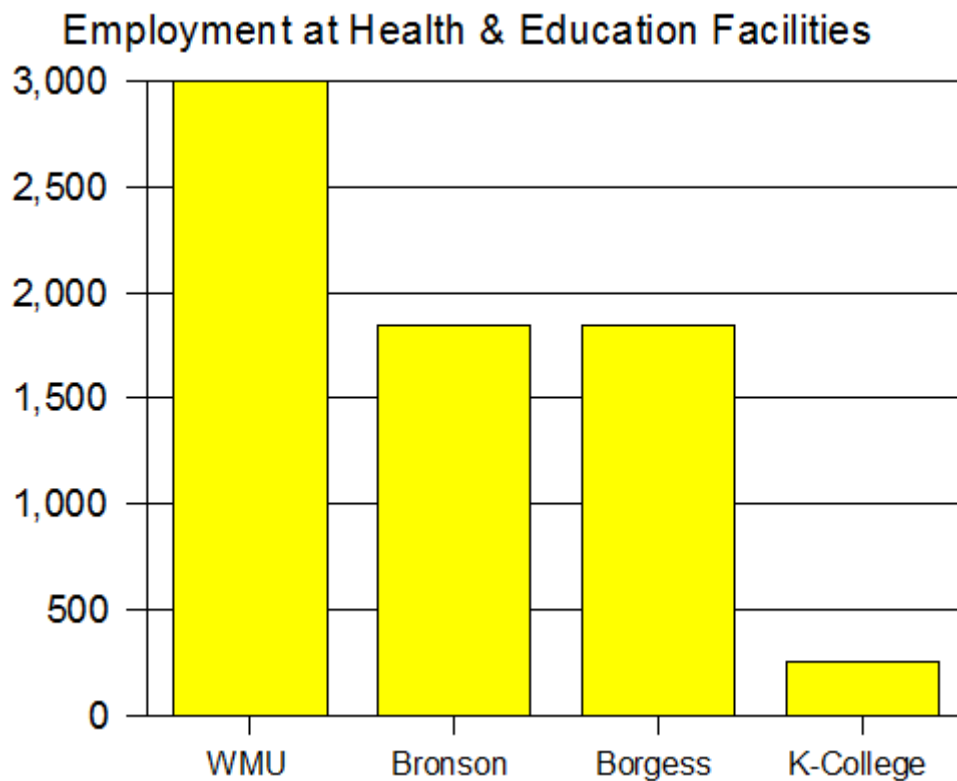


Figure 8

³⁵ Bassam E. Harik, *The Economic Impact of Western Michigan University*, September 1995.

Data from educational institutions and Michigan Economic Development Corporation

Still, calls for tax-base sharing based on the presence of state owned tax-exempt property in a jurisdiction ignore the fact that there is already well-established mechanisms in Michigan to help municipalities cope with that presence. Public Act 289 of 1977 provides for state reimbursement, for instance, for fire protection of such state assets as office buildings, prisons and universities. The city of Kalamazoo, is, indeed, reimbursed for costs, under Public Act 289, having received \$593,000 in 1998. It is worth noting, however, that another jurisdiction has been more aggressive in going after funds for services provided to tax-exempts. East Lansing has a contract with Michigan State University that calls for MSU to pay \$942,000 annually for fire protection *in addition to* the state aid the city gets through Act 289. (The university is, however, currently seeking to reduce that figure.) Above and beyond state assistance related to the presence of tax-exempt institutions, it is worth noting the formula for the state of Michigan’s revenue-sharing program already directs a disproportionate share of state assistance to older urbanized areas which may have a high percentage of tax-exempt property and the sort of “concentrations of poverty” noted by the *Kalamazoo County Compact* (referenced above).

Rank	City	University	Taxable	State Non-Taxable	Total	State Exempt
1	East Lansing	Michigan State U.	\$597	\$541	\$1,138	47.5%
2	Big Rapids	Ferris State U.	\$121	\$92	\$213	43.3%
3	Houghton	Michigan Tech	\$74	\$56	\$130	43.1%
4	Mt. Pleasant	Central Michigan U.	\$297	\$146	\$443	33.0%
5	Ypsilanti	Eastern Michigan U.	\$291	\$115	\$406	28.4%
6	Allendale	Grand Valley State U.	148.8	56.6	\$205	27.6%
7	Marquette	Northern Michigan U.	\$394	\$112	\$506	22.1%
8	Ann Arbor	U of Michigan	\$3,049	\$747	\$3,796	19.7%
9	Kalamazoo	Western Michigan U.	\$1,302	\$205	\$1,507	13.6%
10	Sault Ste. Marie	Lake Superior State U.	\$239	\$29	\$268	10.7%
11	Auburn Hills	Oakland U.	\$1,121	\$61	\$1,181	5.1%
12	Detroit	Wayne State U.	\$7,567	\$315	\$7,882	4.0%
13	Flint	U of Michigan	\$1,735	\$57	\$1,792	3.2%
14	Dearborn	U of Michigan	\$3,829	\$44	\$3,873	1.1%
Average						21.6%
Amounts in millions						

Source: Director of Finance, City of East Lansing

However, judging from actual, on-budget costs, it is difficult to view the university, at least, as a non-profit institution that burdens the city. WMU maintains its own streets and its own 26-person police department and thus does not rely on the city, except in the most unusual circumstances, *Keeping Kalamazoo Competitive* 27

for police protection. Police, who are present for crowd control and football and basketball games, are otherwise off-duty officers hired through the Fraternal Order of Police. The city does provide up to two officers to direct traffic before and after football games; this would seem, however, to incur minimal cost. The university does rely on fire protection from the city of Kalamazoo, but it is for this protection, specifically, that the city receives nearly \$600,000 annually from state government. There are very few serious fire calls at the university. It is not beyond the realm of possibility that the funds received from the state help, in reality, to pay for fire protection elsewhere in the city. For example, in 1998, 0.5 percent of city of Kalamazoo fire calls were attributable to Western Michigan University, a figure well below its 10.8 percent of valuation.³⁶ It is unclear that the city incurs significant direct costs as a result of the presence of Western Michigan University and other non-profit facilities.

It is crucial, however, to emphasize that, the level of state aid notwithstanding, the supposed relationship between the presence of tax-exempt state institutions and high local property taxes must be questioned.

To underscore the need for skepticism on this count, consider the comparison between the city of Kalamazoo and the smaller city of Mt. Pleasant. Mt. Pleasant has less than a third of the city of Kalamazoo's population (23,000 as compared to 77,000) and is home to a university—Central Michigan University—which has an enrollment (24,700) virtually equal to that of Western Michigan University (26,100). Despite the proportionally larger presence of the university in its midst, Mt. Pleasant spent only \$203 per capita in 1996, compared to the city of Kalamazoo's \$504. The gap remains substantial even if the city Kalamazoo's high public safety costs are excluded, with per capita spending at \$120 in Mount Pleasant, compared to the city of Kalamazoo's \$215.³⁷ Simply put, the city of Kalamazoo — the intended chief beneficiary of the *Compact*— has a spending problem, not a funding problem.

More broadly, most communities seek to become home to branches of colleges and universities, knowing implicitly that, even if these institutions do not pay taxes, they spur employment (reflected ultimately in home values) and catalyze the establishment of a wide range of other business which do pay taxes. The city of Kalamazoo's recent effort to secure the Western Michigan University college of engineering is a recent example of this dynamic.

Finally, it is important to note that Western Michigan University is not a regional institution, but a state institution. Any reimbursement of city of Kalamazoo costs should, therefore, come from the state and not from the taxpayers in other Kalamazoo County jurisdictions.

³⁶ According to the city of Kalamazoo Fire Marshall, the city had 6,657 fire calls in 1998, 30 of which were at Western Michigan University.

³⁷ Both Western Michigan University and Central Michigan University rely upon their own police forces rather than the municipal police forces. Data from Table #3 and Table #6.

City of Kalamazoo Public Safety Spending

If high costs related to tax-exempt institutions are not the key cause of the high city of Kalamazoo tax rate, what are the key parts of higher spending? The conventional wisdom among both city and county officials focuses on the city's decision in the 1970s to combine its police and fire departments. Implementation involved labor contract incentives to convince members of both departments to accept the model of the single "public service officer." As a result, this unusual approach has resulted in higher costs.³⁸ It is beyond the scope of this report to analyze the details of city of Kalamazoo's contract with its public service officers. But it appears the conventional wisdom about public safety spending is, in fact, correct. It is incontrovertibly true that public safety costs in the city of Kalamazoo are among the highest, per capita, in the state of Michigan (Table #6). Further, the city of Kalamazoo devotes a higher percentage of its operating budget to public safety than any other reporting city (Table #7). The city of Kalamazoo's high public safety costs are particularly significant in light of the fact that Western Michigan University has its own police force.

Crime may arguably be more of a problem in the city of Kalamazoo than in immediately surrounding areas, thus accounting for some differential compared to villages and townships. But the city of Kalamazoo's high per capita spending on public safety compared to comparable older, lower-income cities in the state with similar crime rates, suggests that the city of Kalamazoo's higher costs are not necessarily the result of its higher crime rate (Figure #9).³⁹

³⁸ According to the city of Kalamazoo budget, Kalamazoo is the largest city in the United States with a combined public safety department.

³⁹ Based upon 1997 serious crime rate data (index crimes) from the Michigan State Police.

Table #6
Public Safety (Police and Fire) Expenditures per Capita: 1996
Reporting Michigan Cities Over 10,000 Population

Rank	City	Per Capita Spending	Rank	City	Per Capita Spending
1	Detroit	\$373	26	Sterling Heights	\$190
2	Flint	\$343	27	Escanaba	\$188
3	Highland Park	\$340	28	Midland	\$187
4	Saginaw	\$322	29	Muskegon	\$187
5	Pontiac	\$318	30	Mount Clemens	\$186
6	Southfield	\$310	31	Niles	\$182
7	Kalamazoo (city)	\$291	32	Marquette	\$181
8	Trenton	\$289	33	St. Clair Shores	\$177
9	Battle Creek	\$286	34	Ann Arbor	\$172
10	Dearborn	\$279	35	Portage	\$171
11	Warren	\$267	36	Farmington Hills	\$167
12	Traverse City	\$264	37	Novi	\$165
13	Port Huron	\$250	38	Holland	\$157
14	Bay City	\$240	39	Wyoming	\$156
15	Monroe	\$231	40	Wyandotte	\$155
16	Grand Rapids	\$226	41	Royal Oak	\$147
17	Lincoln Park	\$220	42	Garden City	\$144
18	Lansing	\$215	43	Kentwood	\$143
19	Oak Park	\$213	44	Grandville	\$107
20	Roseville	\$212	45	Rochester Hills	\$97
21	Hamtramck	\$211	46	Mount Pleasant	\$83
22	Livonia	\$211	47	Dearborn Heights	\$80
23	Troy	\$209	48	Taylor	\$68
24	Hazel Park	\$209	49	Westland	\$54
25	Grand Haven	\$204			

Calculated from US Census Bureau data.

Rank	City	Per Capita Spending	Rank	City	Per Capita Spending
1	Kalamazoo	57.8%	26	Pontiac	46.4%
2	Highland Park	57.7%	27	Ann Arbor	46.1%
3	Warren	56.7%	28	Farmington Hills	46.1%
4	Bay City	56.4%	29	Wyandotte	45.1%
5	Sterling Heights	55.9%	30	Port Huron	44.2%
6	Battle Creek	55.2%	31	Detroit	43.9%
7	Flint	54.9%	32	Dearborn	43.1%
8	Hamtramck	54.8%	33	Traverse City	42.2%
9	Hazel Park	53.2%	34	Grandville	41.9%
10	Saginaw	53.1%	35	Royal Oak	41.7%
11	Livonia	53.0%	36	Garden City	41.5%
12	Lansing	52.0%	37	Grand Haven	41.2%
13	Troy	51.6%	38	Escanaba	41.1%
14	Roseville	50.5%	39	Mount Pleasant	40.9%
15	Trenton	50.5%	40	Muskegon	40.3%
16	Southfield	50.5%	41	Midland	39.9%
17	Kentwood	50.2%	42	Holland	39.9%
18	Lincoln Park	49.2%	43	Grand Rapids	39.8%
19	Oak Park	49.1%	44	Rochester Hills	37.9%
20	Portage	48.9%	45	Mount Clemens	35.0%
21	St. Clair Shores	48.8%	46	Marquette	30.1%
22	Novi	48.5%	47	Dearborn Heights	27.2%
23	Wyoming	48.2%	48	Westland	19.0%
24	Monroe	48.1%	49	Taylor	16.8%
25	Niles	47.9%			

Calculated from US Census Bureau data.

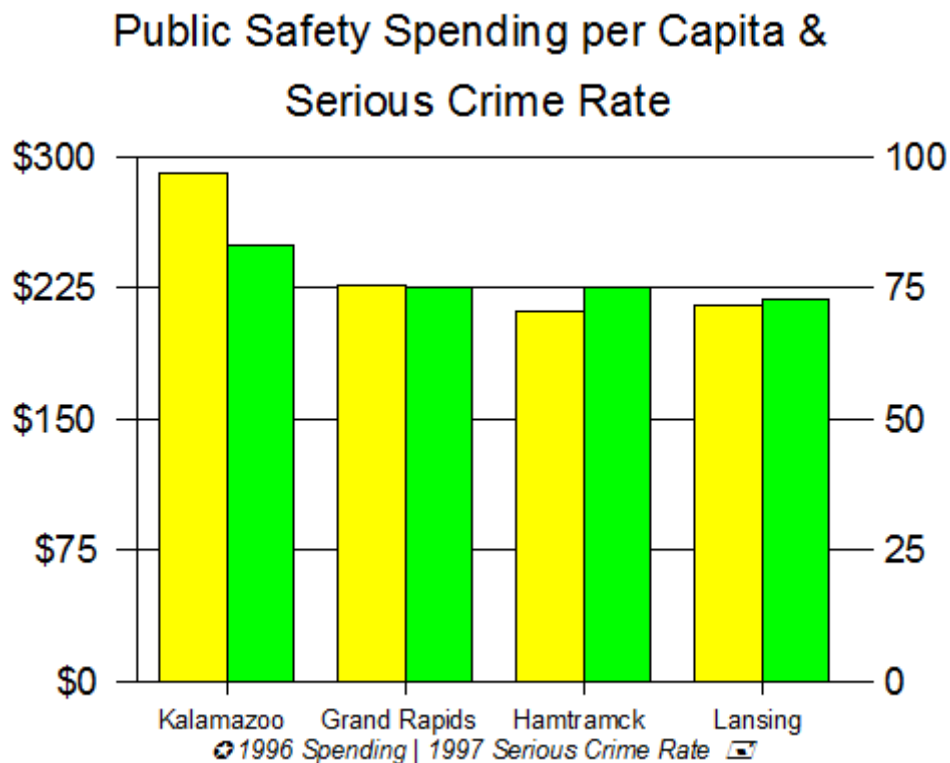


Figure 9

Source: US Census Bureau and Michigan State Police.

Cost Reduction to Improve Competitive Position

The *Kalamazoo County Compact* must be judged to be right about one central point. It is worth trying to revive older urbanized parts of the Kalamazoo region. Economic growth within cities can mean jobs for city residents, less taxation per resident and improvement in the appearance of dilapidated parts of a city.

But if it is unwise and impractical to use regional planning and tax-base sharing to achieve such ends, what approach can be recommended? The alternative to redistribution is competition. Just as corporations must struggle for market share, older cities must work to determine what advantages they can offer businesses, how they can nurture new businesses, and how they can lower their costs and the tax rates they charge as part of improving their competitive position.

The idea of lowering tax rates so as to make cities competitive in incubating and attracting economic development is not original to this report. It is a centerpiece of current state urban policy in Michigan, as framed by Governor John Engler's administration. The Michigan Economic Development Corporation has designed what it calls the Michigan Renaissance Zone

program specifically in order to make older industrial zones in older cities—often contaminated lands designated as “brownfields”—more attractive to business. The program, created by the Renaissance Zone Act of 1996, is designed to waive all taxes—state, local, school district (except for debt service millage) within designated zones. It is notable that the state considers the Renaissance Zone’s greatest success to date to have been its efforts in Grand Rapids, whose level of economic growth is sharply contrasted with the Kalamazoo area’s by the *Compact*, and which, according to the Michigan Economic Development Corporation, is the site of 40 Renaissance Zone projects which will lead to the creation of 1,000 jobs. The state promotes this tax-reduction approach both for its economic development potential and, explicitly, as an anti-urban sprawl initiative. Yet despite the fact that both job creation and sprawl are major concerns of the *Compact*, that document does not mention the Renaissance Zone program and according to state officials, no application was ever made on behalf of the city of Kalamazoo, despite the fact that public concern about brownfield sites is widespread in the city.

The importance of creating low-cost business environments is important not only in attracting existing firms but in nurturing new ones. As Jane Jacobs, perhaps this century’s most famous observer of urban dynamics has observed in *The Economy of Cities*,⁴⁰ the incubation of start-up firms is the traditional role of cities. Older buildings in inexpensive neighborhoods are the ideal vehicles for new ideas. Luring existing firms is not the only, or even the best, way for cities to regenerate their neighborhoods and economic bases. Small start-up businesses are a powerful engine of economic growth. Consider the sources of American jobs in the period of 1975 to 1995, when more than one-half of job creation occurred in establishments with fewer than 100 employees (Figure #10).

It would be unfair and inaccurate to say the city of Kalamazoo has made no effort to reduce its costs. The 1996-97 initiative known as Reducing the Cost of Government Services (RCGS), led by the office of the Kalamazoo City Manager, resulted in 283 cost-saving suggestions from city departments. These ideas, in turn, led — over two years— to the elimination of 55 positions and cost savings of \$1.6 million from the city’s general fund, and an additional savings of \$2.4 million in the city’s enterprise funds — those funds such as wastewater treatment which charge user fees to recoup their costs. It is hard to avoid concluding, however, that these savings are relatively small, amounting, as they do, to less than two percent of the city’s \$100 million annual budget. Moreover, the city’s own RCGS report⁴¹ makes it clear that the effort did not elect to employ powerful cost-saving tools to which many cities nationwide have turned in recent years, tools based in the idea of comparing the cost of publicly-provided services to their cost in the private sector, and comparing the cost of providing services across various public jurisdictions.

⁴⁰ Jane Jacobs, *The Economy of Cities* (New York: Vintage Books), 1970.

⁴¹ *RCGS Final Report: Project a Success; Money Saved*, City of Kalamazoo, June 24, 1997.

Job Creation by Establishment Size

Number of Employees: 1975-1995

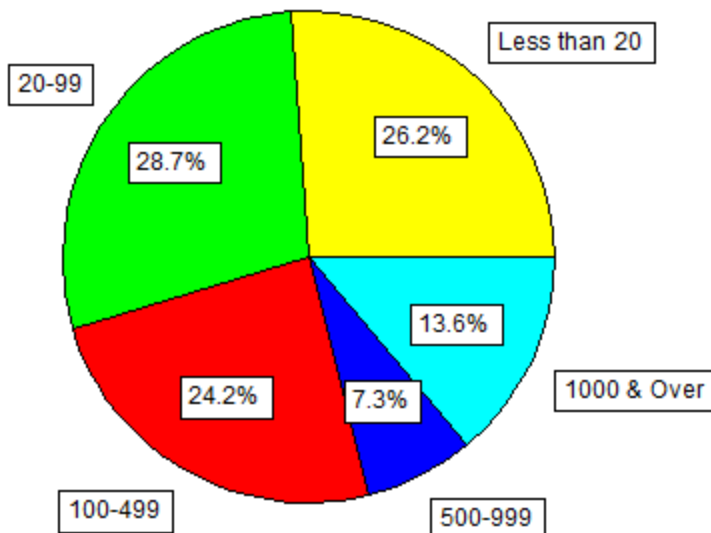


Figure 10

Calculated from US Bureau of Census data.

Recommendations:

These recommendations focus on the city of Kalamazoo, because it is central to the recommendations of the *Compact*; it would be the largest beneficiary of the proposed tax-base sharing; its “at-risk” students motivate the educational concerns and strategies of the *Compact*, as well. And—unacknowledged in the *Compact*—its per capita costs for government services far surpass those of its surrounding communities. What forms might a serious effort to reduce the cost of city services, and thus the tax rate in city of Kalamazoo, take? Such an effort should begin not only with suggestions from employees but with a far more ambitious and thorough effort, an effort to do the following—all of which could and should be part of an exercise undertaken not simply by the city of Kalamazoo but by surrounding cities, townships and villages in an effort to make the county as a whole more competitive in nurturing and attracting business.

1. Determine which services must be performed by government only (e.g. courts and police).
2. Compare the cost of services which must be performed by government with those of other jurisdictions so as to enforce budget discipline.

3. Compare the cost of other services, such as street sweeping road repair and snow removal, with their private sector counterparts and use competitive bidding to select the most cost-efficient service delivery mechanism (public or private).

These steps lay the groundwork for efficiency and cost-reduction and lead to the following specific strategies.

Competitive Pricing: The City of Indianapolis has undertaken an extensive competition-based policy in which the cost of individual city services are, to the extent possible, compared to — or “benchmarked” against — the cost of purchasing such a service from a private contractor.⁴² Such efforts should not be confused with a single-minded program of privatization, that is, the switch to private vendors for the provision of city services. Instead, a competition-based policy begins by undertaking what is known as “activity-based costing;” i.e., determining how much a city is currently paying to deliver services. How much does it cost to fill a pothole, for instance? Such a costing initiative turns out to be a complex matter, a calculation which demands review of the number of potholes filled, how many employee hours are devoted to that purpose, how much management oversight should be allocated to that work, and how much is being paid for the required materials. After activity-based pricing is completed, the function is subjected to public-private competition with city employees competing against private vendors for a contract to perform the service for a specified period of time (usually five years or less). The city of Indianapolis asserts that it has realized significant savings through this competition-based policy and has used the money both to stabilize its tax rate and to make investments in the infrastructure of its dilapidated neighborhoods. The Indianapolis competition-based policy resulted in an inflation adjusted per capita spending reduction of 20 percent from 1992 to 1998.⁴³

It is worth noting that Indianapolis, in 1970 expanded to what was called, at the time, a metro government, one in which the city and county essentially merged. Notwithstanding this approach, the city found, by the early 1990s, the lower-cost jurisdictions outside the political boundary of the city were attracting the lion’s share of new development. Rather than seeking to continue to annex these fast-growing areas, Indianapolis chose a competition-based approach.

The competitive process routinely results in lower costs than non-competitive operation. Cost savings have been reported from 10 percent to more than 40 percent⁴⁴ Internal public employee

⁴² Howard Husock, “Organizing Competition in Indianapolis,” Kennedy School of Government Case Study, #1269, 1995.

⁴³ Wendell Cox, *Bexar County Opportunity Analysis*, (San Antonio, Texas Public Policy Foundation), 1998.

⁴⁴ E. S. Savas, *Privatization: The Key to Better Government* (Chatham, NJ: Chatham House Publishers), 1987.

units have routinely reduced their costs and have often been able to win competitive procurements as a result.⁴⁵ Examples of services subjected to competition include waste collection, internal auditing, records management, information technology, corrections, public transit, and wastewater treatment.

The purpose of public-private competition is public service. That the process of public private competition incorporates private contractors does not mean that the private sector is superior to the public sector, rather it demonstrates that *competition is superior to monopoly*. Government employee units have demonstrated time and again their ability to improve efficiency and effectiveness in competitive situations as they have participated in the competitive market for contracts.

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Infrastructure: City of Kalamazoo Water Reclamation Plant

The city of Kalamazoo Water Reclamation Plant, which offers wastewater treatment service to communities throughout Kalamazoo County, should be scrutinized for its effect its on the course of county-wide development and as a potential revenue windfall source for the city of Kalamazoo.

The treatment plant is owned and operated by the city. The city charges suburban users a higher sewer (that is, water treatment) rate than it charges city residents, in recognition of the fact that part of the cost of building the plant was paid for through municipal bonding whose cost has been borne only by city residents. Although the city operates the plant as a so-called enterprise

fund, it is allowed to incorporate the cost of part of its core government services (such as its payroll and legal departments) into the rates which it charges suburban residents. (This is known as an overhead charge.) Moreover, the treatment plant currently runs at only 55 to 60 percent of its potential capacity. This situation creates a powerful incentive for the city of Kalamazoo to extend sewer lines to newly-developing suburban areas. In other words, it is an ironic fact that the city has a financial incentive to assist in the very suburban development which some believe will hurt it. Specifically, it now appears to make economic sense, from the city of Kalamazoo's point of view, to extend sewer lines to new areas. It can bond the cost of constructing the lines and do so at favorable rates, because of its own tax-exempt status. It can incorporate the cost of that bonding into its overall utility rates, thus sharing the cost with suburban residents. Because the plant runs below capacity, the city can accept more wastewater to be processed without increasing the number of employees. And, through the overhead rate it charges new customers, the city can receive additional funds to pay for its existing city departments, without having to hire any additional employees.

⁴⁵ Stephen Goldsmith, *The Twenty-First Century City: Resurrecting Urban America* (Washington, DC: Regnery Publishing, Inc.), 1997.
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By any measure, this is unwise policy with respect to the longer term future of the city of Kalamazoo. In particular, it allows the city of Kalamazoo to avoid looking at its cost structure by seeking new revenue, despite the fact that it may be helping to undermine its own property tax base. In keeping with a policy to make the city truly competitive, it is worth considering, instead, the sale of the wastewater treatment plant to a private owner. Such a sale would offer a number of potential advantages. First; sale of the plant would be a significant revenue windfall for the city, allowing it to pay off current debt, reduce taxation and make new investments, such as in streets and roads. Second; a privately owned-and-operated water treatment plant would have no artificial incentives to extend sewer lines to outer suburban areas in preference to closer locations. A private operator would not enjoy the subsidy of tax-exempt municipal bonding when it chose to extend sewer lines, for instance. Nor would it have the incentive to extend service to help pay for the cost of other parts of city government. Instead, it would feel pressure to keep its own costs down and to make maximum use of existing sewer lines. This would be good news for ratepayers both in the city of Kalamazoo and other jurisdictions.

As a result, the political tension between city and suburbs, which has centered in recent years on questions of the sewer rate, would be reduced, opening the door for other forms of cooperation in an improved political climate.

It is important to note that the city of Kalamazoo would be in a position to control the terms of the privatization process.⁴⁶ As a result, it could, and should, insist on transitional job security requirements for current plant employees.

Encouraging Non-Profit Conversions to For-Profits: Private Partners for City of Kalamazoo Hospitals: Throughout the United States, for-profit health care firms are buying up formerly non-profit community hospitals. Were the city of Kalamazoo's two major medical centers to move in this direction, the benefits to the city could be many. Because the properties would no longer be tax exempt, city of Kalamazoo revenues would increase. Second, such arrangements—in recognition of the years of implicit government subsidies which have come with non-profit, tax-exempt status—generally result, under the influence of state Attorneys General offices, in the establishment of well-funded community foundations. Such a foundation could become a major new charitable force in the Kalamazoo area, at a time when it is concerned about the long-term future of its traditional corporate philanthropists.

⁴⁶ If wastewater privatization is not pursued, then jurisdictions in the region should seek to establish a regional approach to wastewater treatment. Already some townships have joined in an initiative to investigate the potential for establishing alternative wastewater treatment arrangements, because of concerns with city of Kalamazoo administration. The city of Kalamazoo Water Reclamation Plant has better potential to survive as a regional facility if it is under regional governance (such as the county or a special district of served jurisdictions) than if administered by the city of Kalamazoo.

Application for Renaissance Zone status: The widespread community concern expressed, indicated in a number of interviews, about the “brownfield” areas in the city of Kalamazoo powerfully suggests that the city government — in cooperation with the county, school district and library district — seek to have the area designated as a limited-tax, urban renaissance zone. (The Michigan Economic Development Corporation indicates that a new round of applications will soon be opened.) Such an application is itself an important exercise in inter-governmental cooperation, requiring, as it does, agreement by multiple taxing authorities to join the state in creating the limited-tax zone. Specifically, such an application will require coordination with county, school district and library district authorities. Improved highway access to brownfield industrial locations should be considered part of this initiative.

Reduction of Public Safety Cost: Because the cost of public safety is so widely cited as a key cost driver in the city of Kalamazoo—and, by extension in other jurisdictions (such as Kalamazoo County) whose collective bargaining negotiations may be influenced by city of Kalamazoo precedents—the city should make a concerted attempt to reduce the costs which are now among the highest per capita in the state of Michigan. Such an effort should, as a starting point in collective bargaining, begin with an examination of staffing levels and benefits for comparable communities in the state with lower per capita cost. Dramatic new law enforcement configurations should not be ruled out. For instance, the city might be able to reduce law enforcement costs by phasing out portions or all of its own police function and purchasing law enforcement services from the county.

Avoid Measures that Discourage Business Investment: The city of Kalamazoo, and other jurisdictions throughout the county, should avoid enactment of measures that discourage job creation and business investment, such as imposition of local sales taxes and living wage ordinances.

Keeping Kalamazoo Competitive

In summary, the *Kalamazoo County Compact* is overly alarmist in its assessment and, as a result, proposes solutions that are impractical and even inappropriate. The Kalamazoo area has been very competitive and the prospects are that it will continue to be so long as both public and private interests remain dedicated to addressing issues that transcend local boundaries. Indeed, the Kalamazoo area’s record on regionalism would be the envy of most communities of similar size.

This is not to suggest that reforms are not needed. More than anything, *Keeping Kalamazoo Competitive* is recommending an attitude change, a change from the assumption that older cities must be supplicants rattling their tin cup — whether seeking state and federal aid, or assistance from their surrounding neighbors — to a view that older areas have their own advantages — existing infrastructure, convenient locations, nearby workforce — and that the burden of taxation should not be allowed to get in the way of capitalizing on them. Competitive cities can give birth to new forms of business. They can revive their older neighborhoods. They can resuscitate their tax bases and provide jobs for their poorer citizens. Adjusting to the need to compete can be

politically difficult but it is, nonetheless, the best long-term approach to ensuring growth and prosperity.