



# Can a Virtual City Fix a Real Problem?

By Donald L. Knapp Jr.

## FAST FACTS

The virtual city was not created to provide police, fire, or rescue services, but instead to offer opportunities to provide back-office services such as payroll and accounting, assessing, and information technology.

On June 13, 2013, the Municipal Services Authority Executive Committee voted to employ Thomas R. Curran, an attorney who has served as the director of portfolio management for Alticor Enterprise Services, as the new CEO of the Authority. Since the Authority was never intended to have its own bureaucracy, Curran will be its only employee for the foreseeable future.

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With rare exception, every city, township, and village in Michigan has been forced to ask the same question: How do we provide the services residents expect as tax revenues diminish because of declining property values, ever-reducing state-shared revenues, and the seemingly inevitable repeal of the personal property tax? Part of the question may be answered by the Snyder administration's Virtual City project led by State Treasurer Andy Dillon.

## Background

In January 2012, Dillon approached Livonia Mayor Jack Kirksey and Grand Rapids Mayor George Heartwell about partnering in this project. Livonia and Grand Rapids were selected because they are large, historically well-managed cities on opposite sides of the state. Dillon inquired whether Livonia and Grand Rapids would enter into an interlocal agreement to create an authority—now called the Michigan Municipal Services Authority or “Virtual City”—which would partner with the state to provide community services. The intention was not to have Livonia and Grand Rapids service their respective halves of the state, but rather to create a separate authority governed by representatives appointed by

Livonia, Grand Rapids, and the state to provide services that are likely duplicable across different communities for which local residents have little attachment or affinity.

While the idea has not been widely discussed in Lansing or municipal circles, it should be no surprise to anyone. Dillon discussed the concept of a virtual city in an April 27, 2012, article in the *Detroit Free Press*,<sup>1</sup> and it was specifically referenced in the financial stability agreement between the state and the city of Detroit.<sup>2</sup>

## Purpose

Undoubtedly, many residents and city leaders would resist having a separate authority provide police, fire, or rescue services. And in fact, from the outset of discussions, those individuals involved in the development of the Municipal Services Authority did not envision it providing police, fire, or rescue services. However, local leaders will certainly find it easier to answer the question, Why not have payroll, assessing, or other back-office services managed by a city or contractor vetted by the virtual city? At the July 9, 2012, Livonia City Council meeting, Dillon explained how smaller communities that cannot afford to purchase sophisticated financial reporting and payroll systems would likely be able to take advantage of such services from the Municipal Services Authority. It also stands to reason that larger communities analyzing their current financial systems and deciding

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whether to spend hundreds of thousands of dollars to update them would have an alternative to consider. Indeed, at the same meeting, Dillon remarked that requests for proposals were being drafted for a cloud-based financial system and public employee health care plan.<sup>3</sup> The potential list of services does not begin or end with assessing and payroll, but instead will likely be driven by the needs of the municipalities considering collaboration and consolidation in an effort to meet the demands of their residents.

## Legal Authority

The virtual city is not the child of a new law passed by the legislature; rather, it is authorized by Article III, Section 5<sup>4</sup> and Article VII, Section 28<sup>5</sup> of the Michigan Constitution which detail the authority for municipalities to enter into agreements with each other and the state. The Urban Cooperation Act of 1967<sup>6</sup> is the statute that provides the legislative authority and framework set forth in those sections of the Constitution.

## Structure of the Virtual City

According to the interlocal agreement, the Municipal Services Authority Board would be comprised of 12 members. Grand Rapids and Livonia would each appoint two representatives, while the governor would appoint eight members.<sup>7</sup> The day-to-day management would be governed by a five-member executive committee.<sup>8</sup> Grand Rapids and Livonia, as founding members, are each entitled to one member on the executive committee.<sup>9</sup> The governor appoints the remaining three committee members “with not less than 1 of the members appointed by the Governor representing local Public Agencies in the State.”<sup>10</sup> Members of the executive committee may not be employees or officers of the state.<sup>11</sup>

“The Executive Committee has the responsibility, authority, and right to manage and direct” the functions and services performed or exercised under the agreement.<sup>12</sup> “[T]o administer all programs, funds, personnel, facilities, contracts, and all other administrative and academic functions of the Authority,” the executive committee may appoint a chief executive officer who is overseen by and serves at the pleasure of the committee.<sup>13</sup> On June 13, 2013, the executive committee voted to employ Thomas R. Curran, an attorney who has served as the director of portfolio management for Alticor Enterprise Services, as the new CEO of the Authority. Since the Authority was never intended to have its own bureaucracy, Curran will be its only employee for the foreseeable future. The members of the authority board and executive committee will not receive any compensation except for actual and necessary expenses associated with the performance of their duties.<sup>14</sup> The authority board is empowered to (1) authorize and approve the annual audit; (2) evaluate the performance of the authority; and (3) if required by law, review the acts of the executive committee.<sup>15</sup> Importantly, much like the steering and technical work



groups that are part of the most recent contracts with the Detroit Water and Sewer Department, it is anticipated that the executive committee will establish subcommittees, work groups, task forces, and other advisory bodies.<sup>16</sup>

### Duration of the Virtual City

The interlocal agreement provides that it will continue for an initial term of 15 years and renew for additional 10-year terms unless it is not extended.<sup>17</sup> Nevertheless, Livonia and Grand Rapids may withdraw before expiration of the agreement by providing six months' notice to the executive committee of their intention to withdraw.<sup>18</sup> Of course, withdrawal could be accomplished sooner than six months with the consent of the executive committee or if there are more than two member cities.<sup>19</sup>

### Virtual City Finances

The lack of available funds to contribute for the initial capital and operating expenses is an obvious obstacle most communities would face if they were to attempt to establish a virtual city. In this instance, Dillon has committed to helping this first virtual city obtain the initial funding. Ultimately, it is expected that the Municipal Services Authority will be funded through revenues generated from contracts it receives from municipalities receiving those services. For example, if Acme<sup>20</sup> City wished to have the authority provide assessments, it would execute a contract with the authority and pay an established fee for those services out of its general fund from the savings it would realize by not having an Acme City Assessing Department. Under the interlocal agreement, Livonia and Grand Rapids are not obligated to contribute any funds to establish the authority, contribute to any ongoing operational expenses, or guaranty any debt incurred by the authority.<sup>21</sup> In fact, on October 23, 2012, the city of Grand Rapids and the Municipal Services Authority were awarded \$3,600,000 in Competitive Grant Assistance Program funding to develop a cloud-based financial management system.<sup>22</sup> According to Curran, the Authority is also currently developing a Virtual Health and Wellness project.

### Conclusion

While the virtual city will certainly not resolve all the financial issues faced by municipalities, it could offer a means to reduce expenses in a manner that would go unnoticed by the average resident at a time when collaboration, consolidation, and cost reduction are critical to the long-term fiscal health of local government. Some opponents may argue that this is nothing more than another component of a state takeover of distressed communities. Such rhetoric likely ignores the basic fact that the virtual city does not require any municipality to take advantage of the services it ultimately provides. Instead, the virtual city is, if nothing else, a tacit acknowledgement that more local governments and the rest of the world are becoming increasingly flat. ■

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### ENDNOTES

1. Riley, *Dillon gives his verdict: Detroit must want more*, Detroit Free Press, April 27, 2012, available at <<http://www.freep.com/article/20120427/COL10/204270439/Rochelle-Riley-Dillon-gives-his-verdict-Detroit-must-want-more>> (accessed June 11, 2013).
2. See Detroit Financial Stability Agreement, Annex E, p 11, available at <<http://www.detroitmi.gov/Portals/0/docs/mayor/pdf/Financial%20Stability%20Agreement.pdf>> (accessed June 11, 2013).
3. At the July 9, 2012, Livonia City Council meeting, Treasurer Dillon commented that he has had discussions with AFSME to create a public employee health care plan. No details were offered at that meeting.
4. "Subject to provisions of general law, this state or any political subdivision thereof, any governmental authority or any combination thereof may enter into agreements for the performance, financing or execution of their respective functions, with any one or more of the other states, the United States, the Dominion of Canada, or any political subdivision thereof unless otherwise provided in this constitution." Const 1963, art 3, § 5.
5. "The legislature by general law shall authorize two or more counties, townships, cities, villages or districts, or any combination thereof among other things to: enter into contractual undertakings or agreements with one another or with the state or with any combination thereof for the joint administration of any of the functions or powers which each would have the power to perform separately; share the costs and responsibilities of functions and services with one another or with the state or with any combination thereof which each would have the power to perform separately; transfer functions or responsibilities to one another or any combination thereof upon the consent of each unit involved; cooperate with one another and with state government; lend their credit to one another or any combination thereof as provided by law in connection with any authorized publicly owned undertaking." Const 1963, art 7, § 28.
6. MCL 124.501, *et seq.*
7. Grand Rapids and Livonia Interlocal Agreement, § 4.01.
8. *Id.* at § 4.07.
9. *Id.* at § 4.06.
10. *Id.* at § 4.06.
11. *Id.* at § 4.06.
12. *Id.* at § 4.07.
13. *Id.* at § 4.12.
14. *Id.* at § 4.15.
15. *Id.* at § 4.02.
16. See *id.* at § 4.07.
17. *Id.* at § 8.01.
18. *Id.* at § 8.01.
19. *Id.* at § 8.02.
20. It is not a reference to Acme, Michigan, which is a very nice place and a seemingly well-managed township.
21. See Agreement, n 8 *supra* at § 5.09 and § 6.02.
22. Press Release, Michigan Department of Treasury, Competitive Grant Assistance Program Grants Award (October 23, 2012) (on file with author).