Citizens Research Council
of Michigan

Reforming Statutory State Revenue Sharing

February 2015

Report 388

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February 18, 2015

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Representatives:

Pursuant to a request from the General Government Subcommittee of the Appropriations Committee, there is transmitted herewith the Citizens Research Council of Michigan report on the *Reforming Statutory State Revenue Sharing*.

This report took longer to prepare than anticipated because of some problems internal to the Citizens Research Council of Michigan. When I was appointed President of CRC in September of 2014, I became the third person to hold that position in six months. The dust has settled on our time of transition and we have completed this work.

The enclosed report describes the composition and diversity of Michigan's local governments, explores their unequal fiscal capacities, describes the history and value of state revenue sharing, and analyzes possible factors that could be used to distribute state revenue sharing.

I am happy to describe the paper and answer any questions in a presentation to your subcommittee and also make myself available to discuss this issue after you have had time to digest its contents.

We hope this report helps the State of Michigan to make informed decisions relative to this important issue.

Respectfully Submitted

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Reforming Statutory State Revenue Sharing

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Summary

The State of Michigan runs a program that is somewhat unique – distributing a portion of state-collected tax revenues to local governments for their unrestricted use. The restricted revenue sharing programs operated in Michigan – sending state-collected funds to local governments to fund programs such as education, highway construction and maintenance, court funding, liquor enforcement, and mental health care, etc. – can be found in most states. Programs in which the state collects taxes and sends the revenues to local governments for them to use at their discretion are not as common.

Michigan's unrestricted state revenue sharing program is now 75 years old. For the first 30 years of its history, it served solely to send funding to all local governments. That purpose is currently served by the constitutional revenue sharing program that shares funding with local governments through a per capita distribution. Since 1971, the state has attempted to give revenue sharing greater purpose by directing funding in the statutory revenue sharing program to local governments with the greatest needs – defined at various times as the demand for expanded menus of services and the lack of capacity to fund services from locally-collected revenue sources.

The last effort to define the goals of the statutory unrestricted state revenue sharing program – to supplement the revenue raising capabilities of local governments with less property tax capacity – were never fully implemented. Only about one-quarter of the local governments eligible for funding continue to receive statutory state revenue sharing funding today, and the methodology for determining the levels of funding distributed to each of those governments has more to do with the levels of funding in prior years than any measure of current needs.

Unequal Fiscal Capacity of Local Governments

Understanding the varying levels of fiscal capacity – the varying ability to finance public services and the varying demand to provide public services – across local governments is key to understanding the insufficiency of leaving governments to their own devices or attempting to address needs with a per capita distribution of state funds. First, variances in tax bases means that the challenge of raising revenues is not uniform across local government.

Additionally, the services provided and the intensity of service provision depends on a number of factors. Most significantly, the need for an active local government increases when large numbers of people live, work, and interact in small geographic areas. It is not practical to measure needs by assessing the demand for individual services on a unit by unit basis, but it is possible and common to assess needs based on "pseudo" measures of needs by using population density and housing density to identify jurisdictions in which the conditions suggest more demands will be placed on the local governments.

Taxable Value. Michigan local governments are highly dependent on property taxes to raise the necessary revenue to provide services. On average, Michigan communities have about $31,000 per person of taxable value upon which taxes can be levied to yield property tax revenue. Tax yield is a result of a tax rate applied to the tax base. One mill (a dollar of tax for every $1,000 of taxable value) levied in the City of Saginaw, therefore, will yield only about a third of the amount per capita that the same mill would yield in a community with the average tax base. On the other hand, communities with above average tax bases do not have to tax themselves at a full mill to yield what communities with average tax bases would yield.

Population Density. Local governments that serve large numbers of people located in close proximity to one another are called upon to provide more services and services at higher intensity levels than local governments that serve sparsely populated areas. In densely populated places:

- People's actions are more likely to affect other people.
- More ordinances are adopted to control what residents can do.
- Planning and zoning actions are more significant.
- Fire protection is needed not only to address a structure that is on fire, but to prevent damage from spreading to other structures nearby.
- Public transit is important to mitigate congestion.
- Higher traffic levels require an intensified police role to manage the interaction between drivers.

Housing Density. The demand for local government services also varies based on the number and density of houses and other buildings in the jurisdiction.

Combinations of Tax Base and Service Demands. The financial ideal for local governments is found when they have large tax bases to serve sparsely populated communities. Large tax bases would help them to generate needed revenues at low rates. Sparsely populated communities would have less demand for local government services.

Chart A and **Figure A** shows that only about 11 percent of the local governments enjoy having high taxable value per capita and low population density. **Chart A** plots each local government's taxable value per capita against its population density. The vertical blue line represents the average population density of 175 people per square mile. The horizontal line represents the average tax base, with $31,911 of taxable value per capita. Each quadrant in the chart is labeled (1 through 4).

Quadrant 1 (upper left) is the ideal with high taxable value per capita and low population density. Quadrant 2 (upper right) is a favorable situation with high taxable value per capita used to serve populations with above average density. Local governments in Quadrant 3 (lower left) should be able to manage. They have below average tax bases, but their below average population densities means that they are called upon to provide few services. Quadrant 4 is to be avoided. These local governments have below average tax bases on a per capita basis, but their above average population densities means that they have higher service demands. More than a quarter of the local governments are found in this quadrant, but they serve half of the state's population.

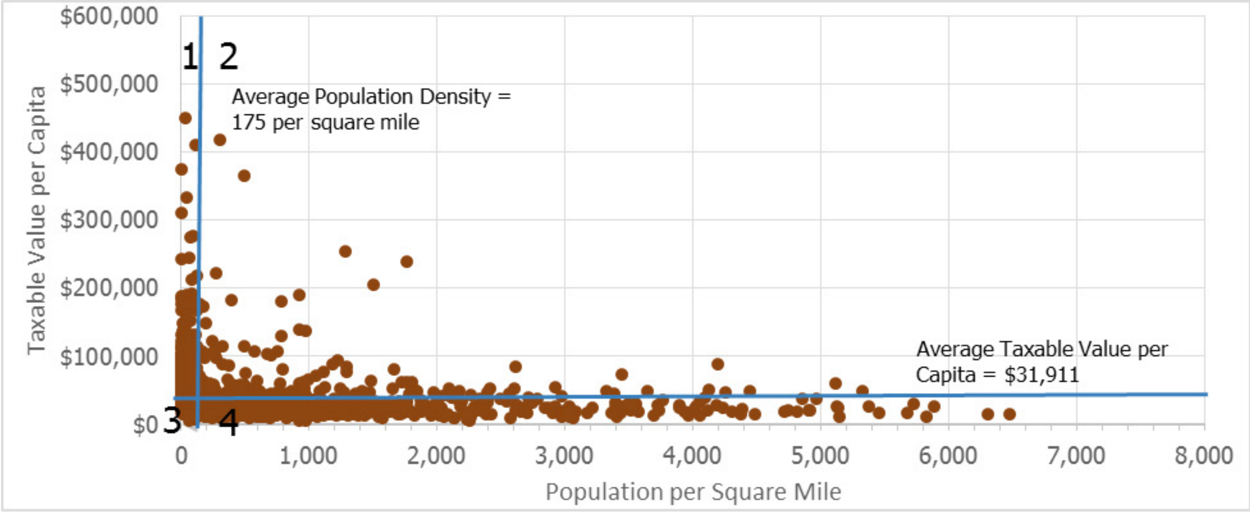
History of State Revenue Sharing

Michigan's state revenue sharing program was created in a series of policy actions spread over 60 years. In many ways it is constructive to think about the overall program in two parts: constitutional revenue sharing and statutory revenue sharing. Constitutional revenue sharing is the result of a 1946 amendment to the state Constitution that dedicated revenues to local governments and schools. The dedication of revenues from the intangibles, income, and single business taxes eventually came to be known as statutory revenue sharing. In the late 1990s, these individual dedications were melded into a single dedication of additional funding from sales tax revenues (beyond the constitutional dedication). The significance of constitutional and statutory state revenue sharing has grown as Michigan's systems of state and local government finance have evolved.

People at various times may interchangeably term the program state aid instead of state revenue sharing. State aid would imply that state policymakers at some point decided that state revenues were sufficiently plentiful that they could be put to good use helping the finances of local governments. Such an implication would assume that local governments were in need of assistance and since each revenue sharing distribution was designed to distribute revenues to all units of local government, that all local governments were in need of assistance.

In fact, the program is termed state revenue sharing because state policymakers agreed to serve in a revenue raising capacity to capitalize on revenue raising efficiencies and share state-collected revenue with local governments, usually because the finances of local governments were negatively affected

Chart A
2012 Taxable Value per Capita and 2010 Population Density of Michigan Local Governments



Note: For purposes of scale, two outliers were removed. Pointe Aux Barques Township in Huron County with taxable value per capita of $1,423,511 and a population density of 7 people per square mile was removed from the vertical axis and the City of Hamtramck in Wayne County with a taxable value per capital of $8,828 and a population density of 10,751 people per square mile was removed from the horizontal axis.

Sources: Michigan Department of Treasury, U.S. Census Bureau.

Figure A
Units & Populations in Each Quadrant:

1. Units with Below Average Density & Above Average Taxable Value per Capita (upper left): 604
   - Number of Units as Percent of all Local Governments: 34%
   - Population: 1,056,921
   - Population as Percent of State: 11%

2. Units with Above Average Density & Above Average Taxable Value per Capita (upper right): 235
   - Number of Units as Percent of all Local Governments: 13%
   - Population: 3,030,165
   - Population as Percent of State: 31%

3. Units with Below Average Density & Below Average Taxable Value per Capita (lower left): 446
   - Number of Units as Percent of all Local Governments: 25%
   - Population: 1,140,657
   - Population as Percent of State: 12%

4. Units with Above Average Density & Below Average Taxable Value per Capita (lower right): 488
   - Number of Units as Percent of all Local Governments: 28%
   - Population: 4,918,292
   - Population as Percent of State: 50%

by statutory changes that exempted parts of the property tax base from taxation. Historically, the state has adopted policies to distribute revenues to local governments for two purposes: 1) the replacement of revenue after certain local taxes were either discontinued or preempted by the state; and 2) to supplement local government revenues and general funds.

Reforming Michigan's State Revenue Sharing Distribution

Part of the need for this report rests with the fact that the goals of statutory state revenue sharing have not been clearly delineated in the past. State policymakers may just see a pot of money being distributed to local governments without a common understanding of the goals behind it. The loss of institutional knowledge inherent in the system because of term limits for state officials further lessens connections to past policy decisions.

Thus, it is of fundamental importance that state policymakers define a goal for state revenue sharing. Michigan has had different goals that drove the distribution of state revenue sharing over the years, but none of those goals are applicable to the distributions in the current program, which have been revised and changed yet again over the years without a focus on the overarching goal of the program. Given the current scarcity of resources at the state level and the challenges confronting many of Michigan's local governments, that goal should be to send funding to those governments with the greatest needs.

A necessary first step in defining need and setting goals for state revenue sharing is establishing a common understanding of the purpose of local government. For the Citizens Research Council of Michigan, the purpose of local government is to manage the interaction between people. People can exist in nature without government, but when people aggregate into communities, there begins to develop a demand for public services. People seek public safety to protect against injury to their person or property. They seek planning and zoning to protect against negative externalities such as noise or air pollution. They seek parks, recreation services and other quality of life amenities.

Having established the purpose of local government, a necessary next step is to establish the state's interest in local government. The common denominator for systems that attempt to recognize needs is an interest in equalizing the fiscal capacity of the local governments so that citizens are not deprived of basic governmental services simply because of the jurisdiction within which they live or work.

Fundamentally, need is defined either in terms of the capacity of a government to raise revenues or in terms of the demands placed on a government to provide services. Revenue sharing distribution programs that are designed to address fiscal capacity attempt to help local governments that are less capable of helping themselves.

Options for Reform

The options for reform that follow are divided into

- those that account for inequities in local government tax bases,
- those that are based on differences in service needs,
- those that recognize key places that contribute to the state's economy, and
- those that fund the local government services most valued by the state.

Equalize Tax Bases

Taxable Value per Capita. This formula divides the state average taxable value per capita by each local government's taxable value per capita and the result is multiplied by the unit's population to obtain the unit's weighted population.

Tax Yield Equalization. Rather than measuring the adequacy of each government's tax base on a per capita basis, this measure assessed the productivity of one mill of taxation in yielding revenues. Local governments for whom a mill of taxation does not generate revenues at the state average receive funding. Those for whom one mill generate revenue in excess of the state average receive nothing.

Evaluation of Tax Base Factors. The primary difference between taxable value per capita and tax yield equalization is that the first measure is more heavily predicated on the idea that local government services are provided to people, while the second measure is indifferent to whether the services are provided to people or properties. Certainly, much of the services provided to local governments are provided to people, but things like garbage collection, fire protection, planning and zoning, and others are less dependent on the number of people in the community.

Tax Exempt Properties. The state revenue sharing program could compensate local governments for hosting tax exempt properties as part of an effort to assist local governments less able to raise revenues from own-source revenues. Two options would be to fund each parcel of tax exempted property at flat amounts or fund each parcel of tax exempted property according to the amount of square footage or acreage encompassed by those properties.

Demand for Services

Alternative methods of revenue distribution are based on assessments of the services provided. These assessments are best if they are based on measures of units served – people or properties – or measures of services provided – crimes responded to, fires put out, park acreage, etc. They should not be based on the cost of serving people or property, or the cost of providing specific services. To do so, creates perverse incentives for local governments to inflate costs to enhance payments from the state.

On a macro level, there are no services universally provided by all cities, villages, and townships throughout Michigan. Many functions – property assessing, tax collection, accounting, planning and zoning, etc. – are nearly universally performed by local governments. However, these are fundamental responsibilities of local governments, the cost of which should be borne locally. Not all cities, villages, and townships in Michigan provide police and/or fire protection, provide parks and recreation, collect refuse, or engage in other activities commonly associated with local governments.

Because of the difficulty in weighing one unit of local government's needs against another's and because of the lack of uniformity in services provided, governments tend to use "pseudo" measures that are commonly accepted as indicators of heightened demand for services.

Nighttime Populations. Michigan, and most other states, have historically used data compiled by the U.S. Department of Commerce's Census Bureau for the distribution of constitutional revenue sharing. However, this approach for state revenue sharing (beyond the per capita constitutional revenue sharing distributions) has several shortcomings. Since the census counts people in their residence, it is essentially only counting the nighttime population of each community.

Daytime Populations. A revenue distribution methodology based on a measure of daytime populations would better reflect where interaction between people occurs. Many local governments have daytime or seasonal populations that are remarkably different than their census, or nighttime, populations. Communities that host office buildings, commercial centers of commerce, and industry tend to have larger daytime populations than their census populations would indicate. Conversely, Michigan's bedroom communities tend to empty out during daylight hours when residents commute to places of employment or commerce.

While the daytime and seasonal populations are preferable to census or nighttime populations as pseudo measures of need, this measure is still less than desirable for several reasons. Most significantly, like the nighttime population, this measure does not account for differences in density.

The greatest obstacle to using daytime populations as a factor in distribution calculations is the lack of reliable data. The problem is that there is not a third party that counts the number of people that come to these places. Each tourist attraction, shopping mall, etc. can have incentives to overestimate their popularity, and there are no means to audit or validate the populations that they may report.

Population Density. Population density is an alternative to the use of the census population. This is simply a measure of the average number of people living within each square mile of land area in a community. Since the population density of different communities is highly correlated with the number and intensity of services that the communities provide, this measure better reflects the demand for governmental services.

Building Counts and Building Density. In addition to services provided to people, local governments provide a number of services to properties. Fire protection, refuse collection, storm sewers, and snow removal are examples of services for which the intensity and cost of services depends to a greater extent on the number of buildings than the number of people being served.

Unit Type. Historically, residents of a community have chosen a level of incorporation – city, village, or township – for their local government to reflect the level of services they expect from that unit. The 1998 reforms to the state revenue sharing distribution formula included a measure of the unit type that was based on the contention that service delivery costs are a function of the type of unit and population size within a given unit type.

Evaluation of Service Demand Factors. Population density, building density, and/or unit type could be used, individually or in combination, to reflect the greater service demands on some local governments as opposed to others. They could be used to create weights that would be applied to the local government's population, as measured by the decennial census or the American Community Survey.

Funding Certain Key Places

Part of the state's exercise in defining its relationship with local governments and the goals it hopes to achieve through a revenue sharing program might include an assessment of whether some places are of extra significance to the state. Of course, the state has an interest in all local governments operating at their respective peak, but it has a stronger interest in some local governments. This strategy would direct state resources to those places for which the state has the strongest interest to the exclusion of other places or public services.

Agricultural communities, while important to the state economy, do not require a great deal of local government services. Forestry is a very important part of the state economy as well, but again it requires little by way of local government services. The idea here is that Michigan's core cities, commerce centers, manufacturing hubs, and tourist destinations, require a higher level of intensity in local government service delivery. Therefore since such places contribute significantly to the state economy and are important to outsiders' perceptions of the state, servicing these locations ought to be a priority.

Directly Fund Key Services

State policymakers could also drop the pretense of providing this funding for unrestricted use by local governments. Funding would be restricted to specific public services related to the health and safety of residents – police protection, fire protection, emergency medical services (EMS), courts, county health programs, and water and sewer quality services. This would bend the rules for state revenue sharing in many ways. Such a program would have to meld the revenue sharing programs that direct funding to cities, villages and townships with that which provides funding to counties. This approach would direct funding to the services without regard to the entity responsible for providing that service in different areas of the state.

Pros and cons are associated with such an approach. By tying the funding to specific programs, it might make it harder for future legislatures to redirect funding for state purposes as has often occurred throughout the history of state revenue sharing.

Alternatively, funding is fungible. The addition of funds for a specific service may simply free up existing local funds dedicated to that service to be redirected for other services. While on its face this might appear as a move away from unrestricted state revenue sharing, in the end it may provide the same freedom of spending as the current program.

Such a program would require assembly of multiple measures of services provided by the state's public safety entities. A police measure could use data reported to the state and the Federal Bureau of Investigation of crimes reported and cases cleared. A fire measure could be comprised of the number of fires and emergencies occurring within each department or authority's geography. Similar measures could be assembled for emergency medical services.

Recommendations and Alternatives

There are no clear answers to the matter of reforming Michigan's statutory state revenue sharing program. Accordingly, recommendations are focused on decision points for state policymakers. The alternatives offered below offer distribution methods that would get funding to Michigan's communities most in need in terms of their abilities to raise revenues or their service delivery demands.

Recommendations

The first recommendation is for state policymakers to decide if the statutory state revenue sharing program is a priority. If it is, its importance must be emphasized by a return to funding at the levels designated in statutory law. FY2014 funding levels equate to roughly a 75 percent cut in funding from the statutory base. After funding is sent to Detroit, which is arguably inadequate to meet the city's needs, there is not sufficient funds available to meet the needs of other local governments. If it is not the priority it once was, they should end the illusion and direct the funding to meet other needs.

If revenue sharing is a priority, then the second recommendation is for state policymakers to examine the purpose of local government and the role they see statutory state revenue sharing helping to serve that purpose. This analysis was done based on the idea that local governments exists to manage the interaction between people. This need not be the only role local governments are deemed to fill.

Based on CRC's understanding of this purpose, it therefore makes sense that the role of statutory state revenue sharing is to ensure that all local governments are equipped to perform this purpose at a minimum level. This can be done by directing funding to affect differences in fiscal capacity or by directing funding to the places or services that the state values.

Alternatives

CRC suggests the consideration of either of the following two approaches to achieving this aim:

1. A formula that considers both the capacity of a government to raise revenues and the demands placed on a government to provide services.

2. A program that moves away from the unrestricted nature of state revenue sharing to fund public safety programs.

A New Formula to Address Fiscal Capacity

A new formula to address fiscal capacity should recognize both that some local governments do not have the sufficient tax base to productively raise funding to support their own operations with local taxation, and that some local governments are called upon to provide services at higher levels. Keeping in mind the need to keep a new formula simple and understandable, a new formula should be broken into parts based on different factors that recognize that the needs of Michigan's local governments are not easily defined by one measure of need.

Given Michigan's heavy reliance on property taxes as the primary source of local taxation for cities, villages, and townships, the options that could be used to assess revenue raising capacity are few. The distribution of funding to equalize tax yields or on a tax base per capita basis both achieve the same goal. However as described above, wherein tax yield equalization operates independent of population, making it better suited to meeting the needs of Michigan's urban places at this time.

The second part of a fiscal capacity formula should recognize the heavier demands for services placed on some local governments. Because local government services are provided both to people and to properties, service demands should be measured as population density and building density. These measures recognize that the closer people are to one another, and by extension the closer their residences are to one another, the more they'll interact. This will result in a greater demand for public safety services, a greater demand for services such as garbage collection or planning and zoning, and increased interest in quality of life services such as parks, libraries, and recreation facilities and programs.

Transition to Restricted State Revenue Sharing

The present scenario, with state policymakers considering policy actions to rebuild the statutory state revenue sharing program and many local governments presently receiving no funding from this program, offers an opportunity to rethink the unrestricted nature of the funding that flows to local governments. Rather than distributing the funds to local governments with the understanding that public safety is the function that consumes the most local dollars, such a change would direct state funding directly for these purposes – police, fire, and emergency medical services.

Rather than using the pseudo measures of need, as is necessary in the unrestricted state revenue sharing distribution formulas, a restricted revenue sharing program for public safety should be based on actual measures of activities that drive the staffing and cost of public safety agencies.

Conclusion

An economic, efficient use of taxpayer dollars suggests that the government responsible for providing services should also be the government responsible for collecting the taxes. Despite this bedrock principle of good government, reasons to continue and reconstitute statutory state revenue sharing are plentiful. On top of the fact that Michigan's history of sharing revenues has created a dependence from which local governments will not easily be weaned, state revenue sharing also serves to diversify the revenue structure of local governments; to facilitate economic development by diminishing the need for local taxes to be levied at exorbitant and non-uniform rates; and to ensure that a minimal level of services are provided across all jurisdictions.

The circumstances of the past decade have left Michigan with a state revenue sharing program that bears little resemblance to its prior self. There is little rhyme or reason to the methodologies used to distribute statutory state revenue sharing to local governments, nor to the amounts that they receive.

This report identifies opportunities for addressing that weakness, either in a continued unrestricted state revenue sharing formula or as a new restricted revenue sharing program for public safety. The effective use of public resources in such a program depends not only on a sound formula for getting funding to the governments with the greatest needs, but also on a level of funding sufficient to make a difference.

Reforming Statutory State Revenue Sharing

Introduction

The State of Michigan runs a program that is somewhat unique – distributing a portion of state-collected tax revenues to local governments for their unrestricted use. The restricted revenue sharing programs operated in Michigan – sending state-collected funds to local governments to fundprograms such as education, highway construction and maintenance, court funding, liquor enforcement, and mental health care, etc. – can be found in most states. Programs in which the state collects taxes and sends the revenues to local governments for them to use at their discretion are not as common.[1]

Michigan's unrestricted state revenue sharing program is now 75 years old. For the first 30 years of its history, it served solely to send funding to all local governments. That purpose is currently served by the constitutional revenue sharing program that shares funding with local governments through a per capita distribution. Since 1971, the state has attempted to give revenue sharing greater purpose by directing funding in the statutory revenue sharing program to local governments with the greatest needs – defined at various times as the demand for expanded menus of services and the lack of capacity to fund services from locally-collected revenue sources.

The last effort to define the goals of the statutory unrestricted state revenue sharing program – to supplement the revenue raising capabilities of local governments with less property tax capacity – were never fully implemented. The state's budgetary decisions through the first decade of this century redirected funds statutorily earmarked for the revenue sharing program to other state purposes. The relationship of the revenue distribution methodologies to the statutory formula, and thus to the goals of the program, grew fainter with each cut to the revenue sharing program. Only about one-quarter of the local governments eligible for funding continue to receive statutory state revenue sharing funding today, and the methodology for determining the levels of funding distributed to each of those governments has more to do with the levels of funding in prior years than any measure of current needs.

The economic expansion that is currently benefiting state tax yields provides opportunities to begin allocating more funding to the statutory state revenue sharing program. Before that happens, state policymakers, in conjunction with local governments that benefit from the funding, need to reestablish goals for the statutory revenue sharing program and a formula for achieving those goals.

Understanding Michigan Local Government

The structure of local government in Michigan is characterized by a large number of local jurisdictions with overlapping geographical boundaries and often overlapping service responsibility and taxing authority. Not all states have organized their local governments in similar manners. Only a few states – predominantly those in New England (Connecticut, Massachusetts, Maine, New Hampshire, and Vermont), the mid-Atlantic (New Jersey, Pennsylvania, and New York), and the Old Northwest Territory (Ohio, Indiana, Illinois, and Wisconsin) – have towns or townships serving geographic areas outside of cities. Most of those states have not legally authorized their towns or townships to serve as complete service providers to the same extent as Michigan. Most Southern and Western states operate with much simpler local government organizations. Residents of these states receive local government services from cities or counties, with county service areas ending where city service areas begin. It is common in these states for special purpose authorities to be established in unincorporated areas of counties to provide certain services that are provided by general-purpose governments in Michigan.

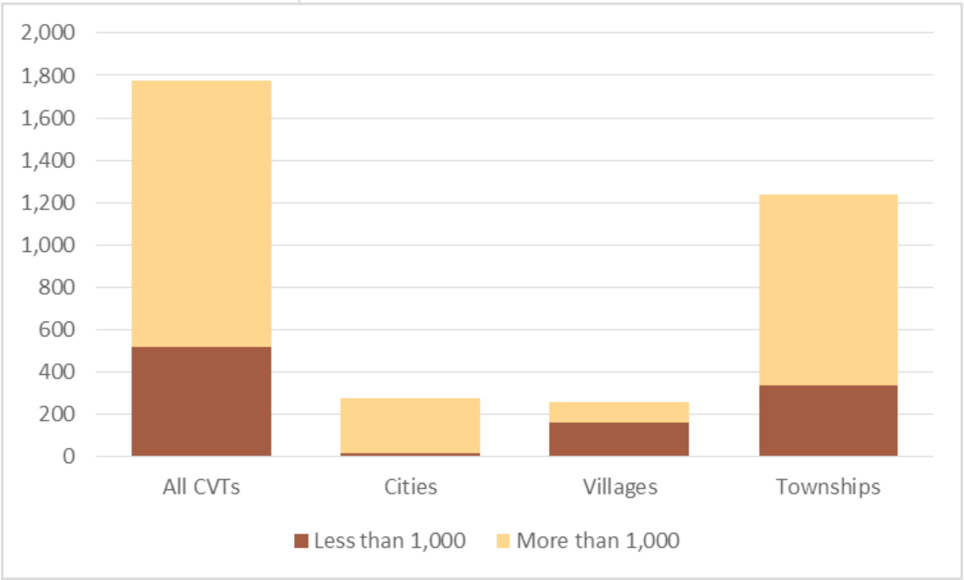
Michigan's arrangement of local government, with a large number of locally-elected government officials, finds its basis in the concepts of Jacksonian Democracy. Early to mid-19th century political theory held that the problem with government was the appointive status of government officials. The cure proposed was to have many small local governments with as many officials as possible elected directly to short (two-year) terms. This approach, which would theoretically keep democracy close to the people, reflected the frontiersman's belief in personal versatility and his suspicion of specialization. Government was not believed to require specialized skills or training. It was hoped that the fragmentation of power and frequent turnover of officials would prevent the formation of a government aristocracy. Government close to the people with high levels of accountability was valued over government operating at optimal efficiency.

The structure of local government in Michigan is characterized by a large number of local jurisdictions with overlapping geographical boundaries and often overlapping service responsibility and taxing authority.

Number of Governments

The entire state of Michigan is organized into counties and each citizen lives in one county. The entire state is also organized into cities and townships; and each citizen lives in either a city or a township, but not in both. A township resident might also live in a village, which has its own government but also remains part of the township.

Chart 1
Number of Michigan Governments Serving Populations of More or Less than 1,000 in 2010



Source: 2010 U.S. Census Bureau data

Most of Michigan's 1,773[2] general-purpose local units in Michigan serve relatively small populations: 1,420 units (80 percent) serve fewer than 5,000 people, and 478 of these (27 percent) serve fewer than 1,000 people (see **Chart 1**). Furthermore, 48 percent of the cities, 83 percent of the general law townships, and 99 percent of the villages serve communities with populations of 5,000 or less. Only 76 (4 percent) of the 1,773 general-purpose units of government serve 25,000 or more people.

Some states have legally classified their local governments in order to differentiate the powers and responsibilities possessed and to better enable the state to target specific entities. Conversely, legislative changes in Michigan over the past century have increased the powers of some units relative to others. For instance, villages and townships have gained some of the powers previously reserved only to cities. Rather than perpetuating a system in which increases in population density and greater demands for local government services cause a community to incorporate as a city, these changes have granted authority to villages and townships to perform many of the same services that had made cities unique. Similarly, counties have evolved from administrative arms of state government to regional local governments with increased authority to deliver local services, authority that previously had been reserved to cities, villages, and townships.

Most of Michigan's 1,773 general-purpose local units in Michigan serve relatively small populations: 80 percent serve fewer than 5,000 people, and 27 percent serve fewer than 1,000 people.

Since Michigan is organized into such a large number of relatively small local governments, few local units are large enough – in population, area, or taxable resources – to take advantage of economies of scale in delivering certain services or in solving current and future problems. To compensate, many local governments have adopted an intergovernmental collaboration service delivery model that allows governments to work in partnerships to approach the sizes needed to create economies of scale. The propensity of local governments to overcome their weaknesses using this tool varies across the state.

Diversity among Local Governments

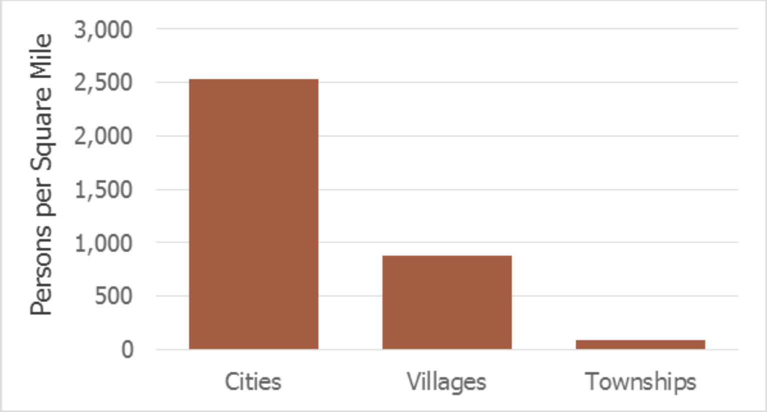
While this paper focuses primarily on Michigan local governments as a whole, it is important to keep in perspective the wide variety in the populations, demographics, and geographies among Michigan local governments. Communities differ in character as well; some are home to business and industry, others are heavily agricultural and others are predominantly residential.

Whereas 26 cities encompass 20 square miles or more, the other 249 cities are less than 20 square miles. Detroit, at 139 square miles is more than three times the size of Grand Rapids, Michigan's second largest city in geographic size. The geographic area of villages (averaging about 1.2 square miles) tends to be more uniform. Townships are fairly uniform in geographic size (averaging slightly more than 44 square miles per township), except where cities and villages have been created. Often the remnants of a township after incorporation of a city or village can be fairly small in geographic size.

The population of Michigan's local governments in the 2010 census ranged from 713,777 residents in Detroit to only 10 residents in Pointe Aux Barques Township in Huron County. Michigan's cities tend to be more densely populated than villages, which are more densely populated than townships. While cities have an average population density of 2,081 people per square mile, villages average only 870 people per square mile, and townships average only 144 people per square mile (see **Chart 2**). According to the same census data, out of the 30 most densely populated cities in Michigan, 29 are located in the metro Detroit area, Hamtramck being at the forefront with over 10,000 people per square mile. The 100 most densely populated local units of government in Michigan average 3,677 people per square mile. The 100 local governments with the smallest populations average 4 people per square mile.

Similar patterns in the numbers of housing units and housing density are observed among Michigan's cities, villages, and townships. Cities average approximately 1,144 housing units per square mile, villages average 407 housing units per square mile, and townships average 38 housing units per square mile. These factors have significant implications for the types of services and the intensity of service delivery that residents in each of Michigan's local governments demand from those governments.

Chart 2
Average Population Density of Michigan Governmental Units by Type, 2010



Source: 2010 U.S. Census Bureau data

Structure of Local Government

The hundreds of relatively small governments in Michigan, including hundreds of general law townships, tend to provide few services. These types of governments tend to have low population densities and low housing densities. As a result, there is less need for public safety, quality of life services, or zoning and planning functions. The governments tend to have few staff members, with the elected officials tending to be the administrators responsible for performing the functions that help these governments operate. It is common for these officials to hold regular, non-governmental jobs and perform the responsibilities of their government posts in a part-time capacity.

Residents of governments serving larger populations tend to expect those governments to provide more services. In local governments serving more densely populated areas, the actions of each resident have the potential to affect other residents in that community. Public safety agencies play increased roles in managing the interaction between people and in protecting properties. Local governments play roles in garbage collection and providing utilities, such as water supply and sewage disposal, and use functions such as zoning and code enforcement to maintain the esthetic attractiveness of the community. Larger communities also have the critical mass needed to warrant provision of quality of life services such as mass transit, recreation programs, and libraries, among others.

As the number of services and functions provided by each local government increases, the size of the municipalities' staffs also must increase. Those staffs are more specialized than the staffs serving small communities. Instead of individual municipal employees dividing time among multiple tasks, each staff member in these governments is charged with performing specialized tasks. Departments are created and support staff are employed to help carry out the tasks.

The size of the government staff is even larger and service responsibility even broader for the largest of Michigan's cities and townships. More and more services, such as recreation programs, refuse collection, and senior centers, are demanded by the municipalities' residents, leading to the creation of additional departments with the sole mission of administering single services.

The previous scenarios increase in complexity for localities with high rates of poverty and low taxable values are considered. Often such communities serving poorer populations require additional services, such as mass transit systems, which are costly to operate and maintain. Wealthier municipalities have less demand for such services.

A few efforts have been made to consolidate local governments in recent years. Proposals to merge Grand Blanc City and Township, Onekama Village and Township, and the cities of Saugatuck and Douglas made it all the way to the ballot. However, voters in each case opted to maintain the status quo. Analysis in each case indicated that the resulting new governmental entity would be only marginally larger than the current entities. It identified potential savings that could result in reduced costs for taxpayers in those entities. The defeat of the consolidation questions in each case suggests that the residents prefer small government, even if that means more costs and higher taxes.

Financing Michigan Local Government

In addition to a structure of local governments that is fairly unique among the states, Michigan has a finance structure for local governments that is also uncommon. Local governments in various states have different levels of dependence on property, income, and sales taxes as the primary source of local revenue. Laws in other states have afforded local governments the authority to diversify their revenue structures by levying more than one tax, thereby minimizing their dependence on a single

Michigan Local Government Types

Local governmental activities in Michigan may be divided into two broad classes of services based upon the type of activity performed. The first class of services consists of certain duties required by the state of primary local units of government. These legally required duties are:

1. Assessing property as a basis of county and school taxes.
2. Collecting taxes for the counties and schools.
3. Conducting county, state, and national elections.

The second broad class of services consists of elective local services such as fire protection, police protection, water supply, sewage disposal, zoning, public health, etc.

The primary local units of government in Michigan are cities and townships. These two types of governments furnish both classes of services – those duties required by the state and, in varying degrees, elective local services. Accordingly, the entire state is divided into non-overlapping cities and townships, to which the legally required duties are assigned. Whenever a new city is incorporated, its area is withdrawn from the township for all governmental purposes.

In cities, all local government activities – both state-imposed duties and elective local services – are unified in one government. In townships, the township alone conducts all these activities, outside of village boundaries. Only in villages are the governmental activities divided between township and village governments. Village residents, therefore, are the only persons in Michigan living under and supporting two local units of government, a village and a township.

Townships were organized without resident input, as geographical entities created by a congressional survey under the Northwest Ordinance of 1787. Michigan currently has 1,240 townships. The majority of the townships operate under general law.

Charter townships do not, as the name might seem to imply, adopt a charter for determining the powers of their elected officials and otherwise determining the structure of the local government. Only home rule cities, villages, and counties are authorized to incorporate with their powers spelled out in locally drafted charters. Instead, charter townships operate under the structure and powers spelled out in a different chapter of state law. About 11 percent of the townships have opted to operate under the Charter Township Act, which provides some additional powers and some additional protection from annexation from cities. The structure and powers of general law and charter townships are more alike than different.

Cities enjoy broader powers than do villages and townships. The powers of townships and general law villages are confined to those specifically enumerated in the state laws pertaining to these types of governments: these delegated powers are liberally construed. The purpose of the home rule powers conferred by the Constitution to home rule cities and villages and the implementing statutes was to provide broader powers in the conduct of their own affairs. Home rule municipalities have the power to manage their own affairs in their own way, within constitutional and statutory restrictions.

source of revenue.

Michigan local governments are very dependent on property taxes as their source of local revenue. Property taxes are authorized to every type of local government in Michigan: counties, cities, villages, townships, school districts, community college districts, and some special authorities. Counties and cities have been authorized to levy some other taxes to fund particular services or to diversify their revenue sources. Very few cities have utilized this authority.

The propensity for local taxes to be levied at different rates has the unintended consequence of affecting economic behavior.[3] Taxes levied only in one jurisdiction within a region, or at markedly different rates among neighboring jurisdictions, may affect where people or businesses locate, where they shop, or engage in other economic actions. Those consequences, or sometimes the mere possibility of those consequences, can influence economic behavior. One of several motives for resident and business flight from Michigan's urban core areas has been the differentials in property taxes levied between communities. Some cities that levy local-option income taxes have suffered from a loss in both population and business activity. Other cities have contemplated the levy of local-option income taxes but opted to abstain because of this perceived consequence. Other states have seen how local-option sales taxes may affect where individuals choose to purchase goods or services.[4]

The reality is that many of Michigan's local governments that are small in population or geography (or both) lack the administrative capacity to administer alternative taxes. Additionally, the lack of wealth or economic activity within many of these jurisdictions would make a new taxing authority ineffectual.

Rather than providing broad authority for local governments to levy a range of taxes, or extending that authority across all types of local governments, policymakers in Michigan have used a state revenue sharing program to create revenue diversity. A single tax levied at a uniform rate across the state eliminates the possibility of these external consequences negatively affecting economic behavior for a single local government or within a region. By sharing revenues from taxes on certain types of economic activity – income, sales, and business activity – the local governments have diversified their revenue sources, but also have exposed their revenue sources to the fluctuations associated with economic cycles.

State revenue sharing also was seen as a form of compensation for potential revenue foregone because of limitations on property taxes, the one source available to local governments.

Consequences of Property Tax Dependence

> Michigan local governments are very dependent on property taxes as their source of local revenue.

Over the years, Michigan local governments have developed a heavy reliance on the property tax as a source of local revenue. With only one significant locally-generated source of revenue available to local governments throughout most of the last century, the multitude of governments and the overlapping layers of those governments created incentives for the local units to compete with one another for tax resources in the form of tax incentives and uncoordinated economic development efforts.

As local governments grew bigger over the past century, they often assumed responsibility for expanding menus of services and became more sophisticated in their operations. As a result, the cost of funding operations grew and property taxpayers assumed increasingly larger burdens. Not only did taxpayers have to bear the burden of increasing tax rates for individual governments, but they had to cope with the compounding effect of overlapping local governments funding larger service menus.

This dependence on the property tax in Michigan was a major factor behind two major changes in Michigan law: tax limitations and state revenue sharing. Tax limitations were first adopted in the 1930s and have been implemented in different forms a number of times since then. Voters adopted what we now know as the 15, 18, and 50 mill tax limitations.[5] Then state policymakers took action by exempting intangible property from the local tax base in 1939.[6] In 1976, inventory property was removed from the local tax base.[7] This was followed in 1978 with voter adoption of the Headlee tax limitations that offset growth in a jurisdiction's property tax base above the rate of inflation, with subsequent reductions in the tax rates, which pegged revenues to the rate of inflation.[8] Voters took another stab at property tax limitations in 1994 with adoption of the modified acquisition value method of determining taxable value.[9] Finally, in 2012 (with replacement revenue secured through a 2014 vote of the electorate) state policymakers again acted by exempting industrial and some commercial personal property from the local property tax base.[10]

Parts of state revenue sharing originated as a means of compensating local governments for the taxes shifted to the state level that either were formerly collected at the local level or that preempted local collection of that tax. A 1939 law required that the state should share revenue from the new state intangible property tax with local governments as compensation for their lost revenues – actual or perceived. Similar efforts were made with adoption of the Single Business Tax in 1975. The law called on the state to send revenues from this tax to local governments as compensation for their lost revenues. However, the further removed in time from 1975 that these revenue compensation systems grew, the less relationship they had to the actual revenue losses of the local governments. The state and local governments have gone to great lengths to devise a system for compensating local governments for the recent exemption of personal property from their tax bases.

The prolonged recession that gripped the state from 2001 until 2009 hurt Michigan's local government finances as much as anywhere in the nation.

Another reaction to Michigan local government's dependence on property taxes was the authorization of taxes other than property taxes to ease the property tax burden. All cities gained access to local-option income taxes. Few municipalities have adopted a city income tax – only 22 cities (8 percent) have adopted local option income taxes that are available to all 275 cities.[11] Additionally, Detroit gained access to the utility users excise tax and a tax on casino gaming. Counties have gained access to hotel taxes, vehicle rental taxes, and telephone taxes. Also, there has been little significant reduction of the property tax burden by those that have adopted local-option income taxes.

The prolonged recession that gripped the state from 2001 until 2009 hurt Michigan's local government finances as much as anywhere in the nation. The end of the housing bubble and ensuing foreclosure crisis was especially significant because Michigan's local governments depend heavily on property taxes. The decline in property values added to the challenges caused by the exodus of residents from the state due to the decline of the manufacturing sector during this period. Some municipalities experienced declines in their taxable values in excess of 30 percent. Because of the tax limitations in the state Constitution, recovery of those tax bases could stretch late into the next decade before they reach the levels observed in 2007.

Unequal Fiscal Capacity of Local Governments

Different levels of government play very different roles in the provision of public services. The federal government provides for defense of the nation and management of the currency. It has assumed roles managing a social security system and a welfare program. It also collects funds that are sent to the states and local governments for the provision of services.

State governments provide for systems of public education (K-12 and higher education), operate courts of justice and corrections programs, and provide the welfare services funded primarily by the federal government.

It is at the local government level that most services that directly affect people are provided – public safety, water and sewer, refuse collection, parks and recreation, etc. Some of these services – such as police projection, parks and recreation, libraries, etc. – directly serve people. Other services – such as water and sewer services, fire projection, garbage collection, etc. – serve properties, and the service to people is less direct.

Understanding how the demand varies across local governments for the types of services and the intensity of services is key to understanding the insufficiency of leaving governments to their own devices or attempting to address needs with a per capita distribution of state funds.

Understanding the varying levels of fiscal capacity – the varying ability to finance public services and the varying demand to provide public services – across local governments is key to understanding the insufficiency of leaving governments to their own devices or attempting to address needs with a per capita distribution of state funds. First, variances in tax bases means that the challenge of raising revenues is not uniform across local government.

Additionally, the services provided and the intensity of service provision depends on a number of factors. Most significantly, the need for an active local government increases when large numbers of people live, work, and interact in small geographic areas. It is not practical to measure needs by assessing the demand for individual services on a unit by unit basis, but it is possible and common to assess needs based on "pseudo" measures of needs by using population density and housing density to identify jurisdictions in which the conditions suggest more demands will be placed on the local governments.

Taxable Value. As discussed, Michigan local governments are highly dependent on property taxes to raise the necessary revenue to provide services. Thus, the taxable value of property is a critical indicator of municipal revenue-raising capacity since it is the base upon which property tax rates are applied.

Tax yield is a result of a tax rate applied to the tax base. One mill (a dollar of tax for every $1,000 of taxable value) levied in the City of Saginaw, therefore, will yield only about a third of the amount per capita that the same mill would yield in a community with the average tax base. On the other hand, communities with above average tax bases do not have to tax themselves at a full mill to yield what communities with average tax bases would yield.

This dynamic plays out throughout government, whether the focus is state or local governments or property, income, or sales taxes. It takes on added significance in Michigan because of the limits on tax rates and the tax limitations that have been added to the state Constitution. Communities with below average tax bases have constraints on their ability to raise tax rates to make up for the tax base deficiencies. Additionally, even when the tax bases of communities experience growth, the tax limitations offset this growth with rollbacks in the tax rates so that the net growth in tax yields is limited on a yearly basis to the rate of inflation (generally one to two percent over the past 20 years).

On average, Michigan communities have about $31,000 per person of taxable value upon which taxes can be levied to yield property tax revenue. Roughly 50 percent of all Michigan communities, 881 communities, have taxable values per capita that are less than the state average. These communities serve just over 58 percent of the people in Michigan and account for just under two-fifths of the total taxable value in the state. Most of Michigan's core and legacy cities – including Flint, Saginaw, Benton Harbor, Detroit, Pontiac, Ypsilanti, Ironwood, Mouth Pleasant, Muskegon, Lansing, Jackson, Kalamazoo, Sault Ste. Marie, Port Huron, Alpena, Grand Rapids, Escanaba, Cadillac, Warren, Wyoming, Battle Creek, and Marquette – have taxable value per capita below the state average.

Table 1
Michigan Local Governments with Lowest Taxable Values per Capita (Ranked from Lowest in State)

Local Government	County	Population	Taxable Value Per Capita
Kinross Township	Chippewa	7,728	$5,693
Baraga Village	Baraga	2,027	$6,431
Cooper City Village	Houghton	284	$6,460
North Adams Village	Hillsdale	1,030	$6,501
City of St. Louis	Gratiot	7,430	$6,524
Sodus Township	Berrien	9,972	$6,605
Waldron Village	Hillsdale	532	$8,564
City of Hamtramck	Wayne	22,101	$8,828
Bloomer Township	Montcalm	3,915	$9,370
City of Flint	Genesee	100,515	$9,374
Sherwood Village	Branch	309	$9,532
Montgomery Village	Hillsdale	340	$9,638
City of Ionia	Ionia	11,422	$9,795
City of Olivet	Eaton	1,609	$9,946
Applegate Village	Sanilac	244	$10,082
Mount Morris	Genesee	3,029	$10,173
Ahmeek Village	Keweenaw	150	$10,173
Burr Oak Village	St. Joseph	822	$10,176
Pierson Village	Montcalm	172	$10,284
Columbiaville Village	Lapeer	1,049	$10,380
Mecosta Village	Mecosta	460	$10,499
Concord Village	Jackson	2,057	$10,586
Powers Village	Menominee	420	$10,603
City of Saginaw	Saginaw	50,790	$10,672
Perrinton Village	Gratiot	401	$10,952
State Average		**5,723**	**$31,871**
State Median		**1,880**	**$30,958**

Source: Population figures are based on 2012 U.S. Census American Community Survey data. Taxable values per capita were calculated using 2012 data from the Michigan Department of Treasury.

The 25 municipalities listed in **Table 1** have the lowest taxable values per capita in the state. The City of Saginaw is 35 percent of the state median value, while the value for Kinross Township in Chippewa County, the lowest value per capita, is only half of that.

The municipalities that face the most significant challenges are the ones that are unable to expand their tax base due to being almost entirely built-out. Such is the case with three local governments listed in **Table 1**, Hamtramck, Flint, and Saginaw. In addition to low taxable values per capita, these communities also face high levels of poverty and low educational attainment rates.

Population Density. Local governments that serve large numbers of people located in close proximity to one another are called upon to provide more services and services at higher intensity levels than local governments that serve sparsely populated areas. In densely populated places:

- People's actions are more likely to affect other people.
- More ordinances are adopted to control what residents can do.
- Planning and zoning actions are more significant.
- Fire protection is needed not only to address a structure that is on fire, but to prevent damage from spreading to other structures nearby.
- Public transit is important to mitigate congestion.
- Higher traffic levels require an intensified police role to manage the interaction between drivers.

While Michigan's 9.9 million residents are spread all over the state, they tend to be concentrated in a few areas of the state. Almost half of the population resides in five counties: Wayne, Oakland, Macomb, Kent, and Genesee. Another dozen counties contain the next 25 percent of the population: Washtenaw, Ingham, Ottawa, Kalamazoo, Saginaw, Livingston, Muskegon, St. Clair, Jackson, Berrien, Monroe, and Calhoun. Thus, about 75 percent of the state population resides in 19 of Michigan's 83 counties. It is not surprising therefore, that communities in these counties have high population densities.

Table 2
Population Densities for Michigan Local Governments

Population Density Range	Number of Local Governments
999 – 2,999	250
3,000 – 4,999	52
5,000 – 6,999	13
7,000 – 8,999	0
9,000 – 10,999	1

Surce: 2010 U.S. Census Bureau

The differences in urban and rural places have long been understood. The U.S. Census Bureau defines an "urban area" as an "...incorporated place of any size within a densely settled area of at least 50,000 [in] population" and at least 1,000 individuals per square mile.[12] In 2010, 316 local governments in Michigan had a density of at least 1,000 individuals per square mile (See **Table 2**).

While Michigan's 9.9 million residents are spread all over the state, they tend to be concentrated in a few areas of the state.

Table 3[13] lists the local governments with the 25 highest rates of population density. All of these municipalities are located in the southeastern region of the state. Their densities exceed both the state average and state median values by significant margins. These municipalities possess population densities that are approximately 55 times the state median. Hamtramck has a density that is 100 times the median.

Nonetheless, these local governments represent but a fraction of those that possess above-average levels of density. There are 495 local governments with population densities that are equal to or greater than the state average. This accounts for roughly one fourth of all local government units in Michigan, but nearly three fourths of all residents. Some 887 local governments have a population density that is equal to or greater than the median. This represents half of all local governments in Michigan and accounts for almost 90 percent of all residents. Even when considering a higher threshold, three-fifths of Michigan residents live in a municipality that observes a population density that is at least 10 times the state median value.

As mentioned, when considering factors that can indicate inherent need, population density alone has a significant implication. Yet coupled with these high density levels, there are instances (such as that of Hamtramck, which is the most densely populated unit of local government in the state), where a unit of government observes below average levels of taxable value per capita, indicating an inherent incapacity to generate revenue in order to address the service impacts of high density urbanization. Indeed, of the 25 local governments listed in **Table 3**, 21 have taxable values per capita below both the state average and median, seven of them have a value that is less than 50 percent of the state average, while six have a value that is less than 50 percent of the state median value.

In terms of other indicators that have historically been linked to greater revenue-generating challenges, the local governments above generally fare well in terms of high school completion rates for people over the age of 25. Nevertheless, the rates of poverty indicate further challenges and burdens and a considerable contrast between some of the units.[a]

a See **Appendix B** for city, village and township rankings based on child and adult poverty rates, high school completion rates and median family income figures at the county level.

Table 3
Michigan Local Governments with Highest Levels of Population Density
(Ranked from Highest to Lowest)

Local Government	County	Population per Square Mile	Poverty Rates Child	Poverty Rates Adult	Taxable Value Per Capita
City of Hamtramck	Wayne	10,751.0	62.9	44.6	$8,827.51
City of Lincoln Park	Wayne	6,478.3	27.1	18.4	$15,562.59
City of Eastpointe	Macomb	6,307.4	33.4	21.8	$14,321.10
City of Keego Harbor	Oakland	5,890.8	36.6	28.0	$26,659.82
City of Hazel Park	Oakland	5,828.5	34.9	26.0	$11,581.19
City of Berkley	Oakland	5,724.9	4.4	6.5	$30,023.00
City of Oak Park	Oakland	5,677.2	25.5	18.8	$16,049.62
City of Harper Woods	Wayne	5,455.1	18.5	13.9	$17,483.72
City of Clawson	Oakland	5,376.7	8.7	8.3	$25,925.94
City of Grosse Pte Park	Wayne	5,327.5	4.8	4.4	$49,643.98
City of Detroit	Wayne	5,144.3	52.4	38.1	$12,042.30
City of St. Clair Shores	Macomb	5,139.5	13.9	9.8	$23,567.06
City of Ferndale	Oakland	5,129.6	18.5	13.6	$25,915.34
City of Grosse Pointe	Wayne	5,118.1	0.0	2.7	$59,332.31
City Grosse Pte Woods	Wayne	4,965.6	6.5	5.0	$38,131.72
City of Dearborn Heights	Wayne	4,919.9	25.6	16.9	$19,780.08
City of Wyandotte	Wayne	4,908.1	11.9	10.9	$21,358.45
City of Royal Oak	Oakland	4,856.8	4.5	7.3	$37,602.40
City of Roseville	Macomb	4,813.9	21.2	15.1	$19,329.05
City of Center Line	Macomb	4,743.2	21.8	17.4	$20,874.63
City of Garden City	Wayne	4,718.1	10.4	8.7	$18,382.92
City of Ypsilanti	Washtenaw	4,489.0	39.1	28.8	$14,817.24
City Pleasant Ridge	Oakland	4,440.9	1.1	3.9	$49,236.75
City of Southgate	Wayne	4,389.0	9.4	9.6	$22,120.75
Royal Oak Twp.	Oakland	4,376.5	44.9	33.2	$15,000.43
State Average		**175.0**	**22.4**	**16.3**	**$31,870.69**
State Median		**99.7**	**17.5**	**13.1**	**$30,958.16**

Sources: Population density figures are all based on 2010 Census Bureau information. High school completion rates, child poverty rates, and adult poverty rates are all based on 2012 U.S. Census American Community Survey. Taxable values per capita were calculated using 2012 data from the Michigan Department of Treasury.

Housing Density. The demand for local government services also varies based on the number and density of houses and other buildings in the jurisdiction. A fire department must be more aggressive putting out fires if the proximity of other houses threatens to have the fire jump from one structure to another. It can have a less aggressive approach if large spaces between structures leaves little threat of other houses being damaged. Likewise, jurisdictions with high housing density tend to more involved in garbage collection than those with large spaces between properties where neighbors are less likely to be harmed by the sight or smell of refuse. The level of service provision for these types of local governments services are generally determined by factors other than population or population density. The fire department must be able to respond to a fire regardless of whether the house has a single resident or a family with adults and children.

Table 4 lists the local governments with the 25 highest rates of housing density. Like population density, all of the municipalities with the highest levels of housing density are located in the Southeast Michigan. Their densities exceed both the state average and state median values by significant margins. The housing densities in these municipalities are more than 25 times the state average. Hamtramck has a housing density that is more than 50 times the state average.

As the average and median would suggest, most of Michigan's local governments have much lower housing densities. Only about 14 percent of the local governments, mostly cities and charter townships, have more than 500 housing units per square mile. More than 60 percent of the local governments have less than 100 housing units per square mile.

Table 4 just relates to inhabitable housing. Local governments of course also host buildings for commerce, business, industry, and other functions.

Table 3
Michigan Local Governments with Highest Levels of Population Density
(Ranked from Highest to Lowest)

Local Government	County	Housing Units per Square Mile
City of Hamtramck	Wayne	4,139.5
City of Keego Harbor	Oakland	2,946.0
City of Lincoln Park	Wayne	2,850.0
City of Hazel Park	Oakland	2,718.2
City of Eastpointe	Macomb	2,705.1
City of Ferndale	Oakland	2,686.4
City of Berkley	Oakland	2,666.5
City of Clawson	Oakland	2,632.3
City of Royal Oak	Oakland	2,559.9
City of Oak Park	Oakland	2,556.4
City of Detroit	Wayne	2,517.4
City of Harper Woods	Macomb	2,501.5
City of St. Clair Shores	Macomb	2,475.4
City of Center Line	Macomb	2,305.9
City of Wyandotte	Wayne	2,279.4
City of Grosse Pte Park	Wayne	2,271.4
City of Grosse Pointe	Wayne	2,223.6
City of Roseville	Macomb	2,169.4
City of Plymouth	Wayne	2,114.5
City of Ypsilanti	Washtenaw	2,107.0
City of Birmingham	Oakland	2,079.0
City of Grosse Pte Woods	Wayne	2,066.4
City of Dearborn Heights	Wayne	2,057.1
City of Highland Park	Wayne	2,030.0
City of Southgate	Wayne	2,019.3
State Average		**80.2**
State Median		**37.1**

Sources: Population density figures are all based on 2010 Census Bureau information. High school competion rates, child poverty rates, and adult poverty rates are all based on 2012 U.S. Census American Community Survey. Taxable values per capita were calculated using 2012 data from the Michigan Department of Treasury.

Combinations of Tax Base and Service Demands. The financial ideal for local governments is found when they have large tax bases to serve sparsely populated communities. Large tax bases would help them to generate needed revenues at low rates. Sparsely populated communities would have less demand for local government services.

Chart 3 shows that only about 11 percent of the local governments enjoy having high taxable value per capita and low population density. **Chart 3** plots each local government's taxable value per capita against its population density. The vertical blue line represents the average population density of 175 people per square mile. The horizontal line represents the average tax base, with $31,911 of taxable value per capita. Each quadrant in the chart is labeled (1 through 4).

> Michigan has 28 percent of the local governments serving 50 percent of the population with below average taxable value per capita and abover average population density.

Quadrant 1 (upper left) is the ideal with high taxable value per capita and low population density. Quadrant 2 (upper right) is a favorable situation with high taxable value per capita used to serve populations with above average density. Local governments in Quadrant 3 (lower left) should be able to manage. They have below average tax bases, but their below average population densities means that they are called upon to provide few services. Quadrant 4 is to be avoided. These local governments have below average tax bases on a per capita basis, but their above average population densities means that they have higher service demands.

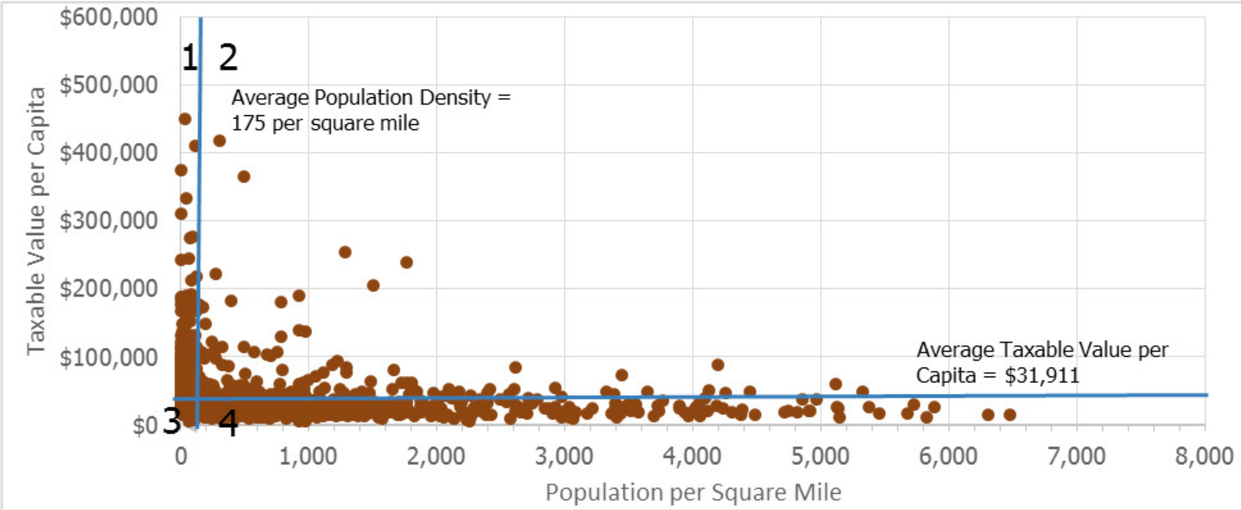
Figure 1 below the chart quantifies the number of local governments and the populations served by those governments in each quadrant. About one-third of the local governments are in Quadrant 1, but those governments serve only about 11 percent of the state population. These local governments are almost entirely townships such as Glen Arbor Township in Leelanau County (856 residents in 28.6 square miles, 30.3 people per square miles, tax base of $450,577 per capita) or Blue Lake Township in Muskegon County (2,390 residents in 34.4 square miles, 74.4 people per square mile, tax base of $275,044 per capita).

Quadrant 2 has 13 percent of the local governments and serves 31 percent of the state population. About one third of these local governments are cities and another half are townships. Traverse City (3,373 residents in 8.1 square miles, 1,1761 people per square mile, tax base of $239,769 per capita) and the City of St. Joseph (1,926 residents in 3.4 square miles, 1,508 people per square mile, tax base of $204,514 per capita) are examples of the local governments in this quadrant.

Quadrant 3 has 25 percent of the local governments and serves 12 percent of the state population. All but 5 of these local governments are townships. Examples in this quadrant include the Village of Turner in Arenac County (112 residents on one square mile with a tax base of $13,857 per capita) or Lee Township in Midland County with 4,003 people in 36 square miles, 121 people per square mile, tax base of $13,123 per capita).

Quadrant 4 is the least ideal situation, but Michigan has 28 percent of the local governments serving 50 percent of the population represented in this quadrant. Cities (40 percent) and villages (43 percent) make up 83 percent of this group. It is not just local governments in Michigan's most urban counties. It includes the City of Ionia in Ionia County (11,422 residents in 2.8 square miles, 2,131 people per square mile, tax base of $9,795 per capita), the Village of Waldron in Hillsdale County (532 residents in one square mile with a tax base of $8,564 per capita), and the Village of Copper City in Houghton County (284 residents in 0.1 square miles, the equivalent of 2,840 people per square mile, tax base of $6,460 per capita).

Chart 3
2012 Taxable Value per Capita and 2010 Population Density of Michigan Local Governments



Note: For purposes of scale, two outliers were removed. Pointe Aux Barques Township in Huron County with taxable value per capita of $1,423,511 and a population density of 7 people per square mile was removed from the vertical axis and the City of Hamtramck in Wayne County with a taxable value per capital of $8,828 and a population density of 10,751 people per square mile was removed from the horizontal axis.

Sources: Michigan Department of Treasury, U.S. Census Bureau.

Figure 1
Units & Populations in Each Quadrant:

1. Units with Below Average Density & Above Average Taxable Value per Capita (upper left): 604
   Number of Units as Percent of all Local Governments: 34%
   Population: 1,056,921
   Population as Percent of State: 11%

2. Units with Above Average Density & Above Average Taxable Value per Capita (upper right): 235
   Number of Units as Percent of all Local Governments: 13%
   Population: 3,030,165
   Population as Percent of State: 31%

3. Units with Below Average Density & Below Average Taxable Value per Capita (lower left): 446
   Number of Units as Percent of all Local Governments: 25%
   Population: 1,140,657
   Population as Percent of State: 12%

4. Units with Above Average Density & Below Average Taxable Value per Capita (lower right): 488
   Number of Units as Percent of all Local Governments: 28%
   Population: 4,918,292
   Population as Percent of State: 50%

History of State Revenue Sharing

As detailed below, Michigan's state revenue sharing program was created in a series of policy actions spread over 60 years. In many ways it is constructive to think about the overall program in two parts: constitutional revenue sharing and statutory revenue sharing. Constitutional revenue sharing is the result of a 1946 amendment to the state Constitution that dedicated revenues to local governments and schools. The dedication of revenues from the intangibles, income, and single business taxes eventually came to be known as statutory revenue sharing. In the late 1990s, these individual dedications were melded into a single dedication of additional funding from sales tax revenues (beyond the constitutional dedication). The significance of constitutional and statutory state revenue sharing has grown as Michigan's systems of state and local government finance have evolved.

Promises Made

Michigan's unrestricted revenue sharing program began in the early 1930s when 85 percent of retail liquor-license tax collections were paid to cities, villages, and townships. From the end of the 1930s to the mid-1970s, several commitments were made to have the state collect tax revenues and distribute them to local governments.

This part of the history is key. People at various times may interchangeably term the program state aid instead of state revenue sharing. State aid would imply that state policymakers at some point decided that state revenues were sufficiently plentiful that they could be put to good use helping the finances of local governments. Such an implication would assume that local governments were in need of assistance and since each revenue sharing distribution was designed to distribute revenues to all units of local government, that all local governments were in need of assistance.

The program is termed state revenue sharing because state policymakers agreed to serve in a revenue raising capacity to capitalize on revenue raising efficiencies and share state-collected revenue with local governments, usually because the finances of local governments were negatively affected by statutory changes that exempted parts of the property tax base from taxation.

In fact, the program is termed state revenue sharing because state policymakers agreed to serve in a revenue raising capacity to capitalize on revenue raising efficiencies and share state-collected revenue with local governments, usually because the finances of local governments were negatively affected by statutory changes that exempted parts of the property tax base from taxation. Historically, the state has adopted policies to distribute revenues to local governments for two purposes: 1) the replacement of revenue after certain local taxes were either discontinued or preempted by the state; and 2) to supplement local government revenues and general funds.

Revenue Replacement

State policymakers have whittled away at the tax base upon which local governments levy property taxes over the years. Each time a type of property – intangible, inventory, and personal property – has been exempted from local taxation, the state has devised a revenue sharing program to compensate local governments for the lost revenues.

Intangible Property Exemption

In 1939, intangible property was removed from the base of local property taxes and a state intangibles tax was enacted with the state sharing revenues from the state tax with local units. (The intangibles tax was levied on ownership of stocks, bonds, bank deposits, certificates of indebtedness, mortgages, debentures, annuities, accounts and notes receivable, land contracts, money on hand or in transit, and all other credits and evidences of indebtedness are subject to the tax.) Two-thirds of the revenues from the state tax were returned (on a per capita basis) to cities, villages, and townships that levied at least one mill. In 1945, the state began paying all of the tax revenue to cities, villages, and townships. The percentage distribution was subsequently

Revenue Sharing Diversions & Recent History

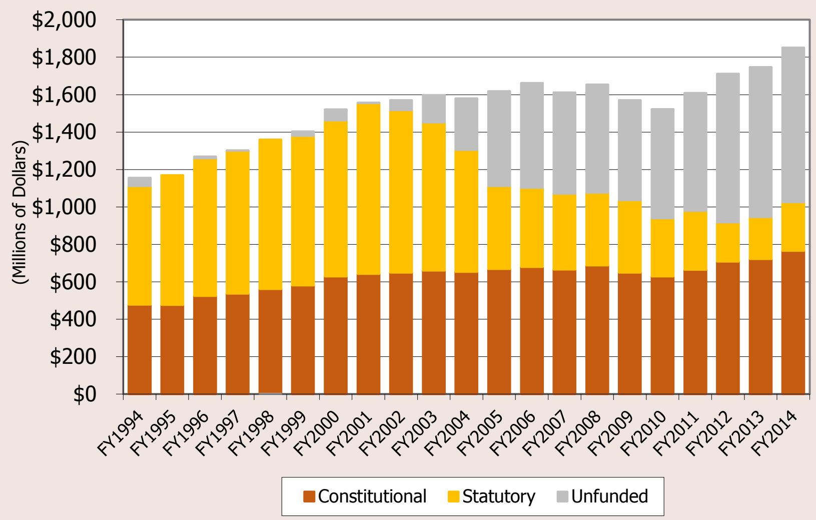
The effects of the prolonged economic recession Michigan experienced in the first decade of the 21st Century were not unlike previous downturns in creating serious budget challenges for the state government. The relative ease with which the state can alter the statutory payments to local governments has offered opportunities to use that money to balance its own budget rather than distribute funds as earmarked by prior legislatures.* Historically, state policymakers have diverted funds from revenue sharing and universities when the need has arisen because, unlike other state programs such as corrections or Medicaid, universities and local governments have other revenue sources (tuition and property taxes respectively) that are capable of making up some or all of the decreased state funding. However, the ability of local governments to adjust property tax rates to accommodate changes in state funding has been greatly diminished by the property tax limitations embedded in the state Constitution.

The diversion of funding out of the statutory state revenue sharing program has occurred on multiple occasions before, but never to the extent that it occurred in the 2000s. In FY1992, reductions totaling $112 million were made from statutorily defined amounts, using a combination of executive order spending reductions and statutory amendments. A portion of these reductions continued in fiscal years 1993 through 1996. They ranged from $46 million in FY1993 to $81 million in FY1996 and were implemented by statutory amendment.

The recent round of funding diversions were far more severe than the incremental cuts in the 1990s. Beginning in FY2002, the state began cutting the statutory revenue sharing payments to assist in balancing its own General Fund budget. In total, a cumulative $6.9 billion was diverted from statutory state revenue sharing, freeing up General Fund revenues for uses on other purposes. The projected FY2014 statutory revenue sharing payments were more than $825 million, or 76 percent, below the amount that would have funded the program if the 21.3 percent statutory allocation of the Sales Tax specified in law was applied.

The reductions in statutory revenue sharing payments over the 13-year period of cuts between FY2001 and FY2014 have eliminated statutory payments to more than 900 of Michigan's 1,773 local units of government, predominantly townships. By any comparative measure, the diversion of state revenue sharing dollars contributed more to balancing the state's General Fund budget than did reductions to any other area of the budget. Total revenue sharing payments, including constitutional allocations which have increased, are down more than 45 percent and statutory payments have dropped 78 percent. General Fund support for state universities and student aid was down 32.9 percent, community colleges dropped eight percent, and school aid appropriations from state revenue sources increased 0.2 percent.

Chart 4
Statutory Revenue Sharing, Actual and Statutory Reduction



Source: Michigan Department of Treasury

About $260 million in statutory revenue sharing remains. Less than one quarter of the cities, villages and townships are projected to receive any statutory payments in FY2014 and only 15 of the largest cities and charter townships will account for about 75 percent of the payments. The City of Detroit is expected to receive 60 percent of the total.

* See Benson, L., et al., An Examination of the State of Michigan's Constitutional Revenue Sharing System. Eastern Michigan University, 2012

reduced; beginning in 1951 the state began capping the distribution at a specific dollar amount. In 1975, distribution was limited to $9.5 million by statute and, in 1992 and thereafter, the distribution was eliminated by annual budget reductions approved by the legislature. The intangibles tax itself was repealed, with a phase out of the tax completed on January 1, 1998.

The use of a per capita distribution method created obvious problems. The tax was shifted to the state because of uneven application by local governments, but every local government benefited from the new tax regardless of the physical location of those holding intangible property or of the past practices of that local government.

Inventory Property Exemption

When the state established the Single Business Tax (SBT) in 1975, it replaced eight state and local taxes on businesses, including the personal property tax levied by local governments on inventories. The state agreed to provide payments to cities, villages, townships, counties, and authorities to reimburse these units for the initial impact of the elimination of inventories from their tax base.

For the next 20 years, a unit's inventory personal property tax base in 1975 was multiplied by its tax rate in the current period and the amount was paid to the unit from state Single Business Tax revenues.

The inventory reimbursement mechanism had some very obvious flaws. Since the tax base remained at the 1975 level, the mechanism's ability to compensate local units for their losses in real terms declined over time. In nominal terms, inventory payments increased only 16 percent during a period when the overall property tax base increased 257 percent. Since inventory was not measured or reported for property assessment purposes after its exemption in 1975, it was not possible to measure the degree of distortion that occurred in the reimbursement mechanism over the years. It is not likely that the location of inventory remained static in the years following exemption. Moreover, it is probable that some units that lost inventory continued to receive payments for revenues that would have declined as a result of migrating inventories. Likewise, other units that gained inventory were unable to avail themselves of additional state payments.

In FY1998, the last year of distribution, 25 communities, mostly cities, received per capita payments of $30 or more from this source. Fifteen of these units received more than one-fourth of their total revenue sharing from inventory reimbursement payments.

Personal Property Exemption[14]

Legislation was enacted in 2012 (and revised in 2014) to eliminate a large portion of the personal property tax burden on Michigan businesses. While personal property tax exemption had long been a goal for many state policymakers, the key to success with this package was a mechanism to reimburse local units of government for their revenue losses. Given the fiscal tensions between the state and local units of government, the agreement relied on a unique and somewhat peculiar arrangement through which a new local (yet statewide) unit of government (the Local Community Stabilization Authority) was given authority to levy a portion of the state's existing use tax as a new local tax. The new authority will exist primarily to fulfill the purpose of administering the distribution of local community stabilization share tax revenues to local governments.[b]

Local Government Reimbursement. The method of sending funds to local governments to reimburse them for the loss of personal property from their tax bases begins with a prioritization of the reimbursement to be administered by the LCSA to cover this second category of revenue losses. The legislation specifies that affected local units of government are to be first reimbursed for 100 percent of any revenue losses attributable to:

- School operating, debt, and sinking fund/recreation millages;
- Intermediate school district debt and operating millages;

b Additionally, the PPT legislation transfers to the LCSA the ability to exercise the powers and duties of the former Metropolitan Extension Telecommunications Right-of-Way Oversight Authority, which was established in 2002 to streamline the permitting processes involved with acquiring rights-of-way to facilitate expanded telecommunications services.

- All losses to tax increment financing authorities (e.g. downtown development authorities and local development finance authorities);
- All losses attributable to the small personal property holder exemption;
- Losses associated with revenue used to finance "essential services" – defined as police, fire, and ambulance services as well as jail operations.

After these losses are reimbursed, remaining state revenues would be distributed by formula to cover all remaining lost revenues (e.g. those related to services not designated as essential, losses related to community college and library district millages). In FY2016, this reimbursement formula would be based on the actual revenue loss in these other areas in FY2016, so that a municipality bearing 0.01 percent of the total statewide revenue loss would receive 0.01 percent of the available local share tax revenue under the formula. Starting in FY2020, the methodology used in the formula would be modified so that, over time, loss estimates are increasingly derived from data on acquisition costs of exempted personal property.

Local governments, and by extension state policymakers, seem to have learned from the lessons of intangible and inventory exemption from local tax bases and promises for reimbursement.

Lessons Learned. Local governments, and by extension state policymakers, seem to have learned from the lessons of intangible and inventory exemption from local tax bases and promises for reimbursement. Whereas previous efforts to keep local governments whole in revenue reimbursement plans eventually were underfunded or eliminated because of state budget pressures, the PPT reimbursement provides some protection for local governments. The revenues from the local share tax are to be deposited directly with the LCSA, not with the state. Further, the revenues are not subject to the annual state appropriations process because they are local revenues accruing to and distributed by a local authority. Nevertheless, this arrangement does not prevent a future legislature from making changes directly to the authorizing statutes to accomplish this goal.

Additionally, the PPT reimbursement methodology attempts to maintain a one-to-one relationship between the local governments foregoing the revenue from their local tax bases and those receiving reimbursement from the state. Whereas reimbursement for lost intangibles from local tax bases simply sent money to local governments on a per capita basis and reimbursement for lost inventory property from local tax bases sent funding to local governments based on the inventory within their jurisdictions at a point in time, the PPT reimbursement is based on a dynamic system that requires a continued measure of the value of personal property. Local governments will continue to assess personal property that is exempt from property taxation and report that value to the state as the basis upon which state revenue is distributed to local governments.

Supplementing Local Government Revenues

Some state taxes have been earmarked for distribution to local governments simply as a way to supplement the revenues yielded from the levy of the local property tax.

Sales Tax

The most significant aspect of the state revenue sharing program is the result of the 1946 Sales Tax Diversion Amendment to the 1908 Michigan Constitution (Adding a Section 23 to Article X). State revenue had been shared with local governments before this event from liquor and intangibles taxes and from other sources on an ad hoc basis. The constitutional amendment was initiated by local governments. It was broadened to include school funding before being sent to the voters.

The motivation for seeking this dedication was rather straight forward. While the state was benefiting from the economic growth in the post-war period, reliance on property taxes provided little direct benefit to local governments from this economic expansion. Although some local governments were attempting to adjust services to reflect the post-war expansion, they were handicapped in raising additional tax revenues by the property tax limitations.

This dedication was carried forward into the 1963 Constitution and is known today as constitutional revenue sharing. Proposal A of 1994 increased the sales tax rate by two percentage points with all revenues from that increase constitutionally dedicated to the School Aid Fund. Fifteen percent of the tax revenues yielded from the tax levied at the original rate of four percent is distributed on a per capita basis to cities, villages, and townships. In FY2014, roughly $765 million was distributed to local governments through this dedication.

Income Tax

When the state income tax was adopted in 1967, 11.5 percent of the gross receipts of the new tax were earmarked for local units on a per capita basis. The amounts were divided: 50 percent for counties and 50 percent for cities, villages, and townships. The sharing of the revenues from the new tax was likely a result of objections raised by some officials since cities had authority to levy local-option income taxes before the state tax was enacted. The objection was that the state level tax was preempting cities that might otherwise use the option. Also, sharing the revenues with local units broadened the base of support for the tax.

State policymakers have long recognized that some of the local governments in Michigan were less capable of funding core municipal services from their own resources than others.

By 1980, the distribution of the income tax revenue to local governments was phased to 35 percent to counties and 65 percent to other units. Beginning in 1972, the portion going to cities, villages, and townships was calculated on the basis of a relative tax effort formula that weighted the per capita distributions to reflect the relationship between the local unit tax rate and the state average of tax rates for those units. This feature of the distribution shifted the payments significantly toward cities with relatively high tax rates and away from communities with relatively low rates, principally townships. The portion of the distribution going to counties remained on a per capita basis until 1996.

Single Business Tax

In addition to the inventory reimbursement from Single Business Tax revenue, the law included a general distribution using the same relative tax effort weighting that was used for income tax revenue sharing. Initial amounts distributed on the RTE basis were half of that distributed for inventory reimbursement, but grew over time to be twice the amount distributed for inventory reimbursement by the time this distribution ended in 1996.

In 1996 the state consolidated the shared revenue portions of the income tax and the single business tax into an expanded percentage of the Sales Tax. Those statutory revenue sources were replaced by 21.3 percent of the sales tax at a four percent rate, making the total sales tax distribution 36.3 percent of the tax at a four percent rate.

Past Efforts to Address Need

In 1946, the organization that is now the Citizens Research Council of Michigan (then the Detroit Bureau of Governmental Research) advised against the Sales Tax Diversion Amendment when the state Constitution was amended to dedicate sales tax revenues to state revenue sharing and school funding. The arguments were that it violated the bedrock principle that responsibility for raising revenue should accompany the spending of it. Additionally, sharing the revenues on a per capita basis sent funding to some local governments that simply had no need for it. The distribution method bore no relationship to need and resulted in a straight hand out across the board.

The years that followed saw the state attempt to direct funding to communities with greater needs through direct appropriations, enhanced taxing authority, and other ad hoc measures. State policymakers have long recognized that some of the local governments in Michigan were less capable of funding core municipal services from their own resources than others. These efforts to address needs had to be fought in the court of public opinion each time they were proposed and tended to cater to local governments with greater political influence while other local governments with equal or greater needs did not receive assistance.

It was not until the 1970s that the per capita distribution was modified to have statutory state revenue directed to the local governments with the greatest needs.

Relative Tax Effort

Beginning in 1972, a significant portion of the revenues going to cities, villages, and townships were based on a formula that used the tax rates that the communities levied on their residents (tax effort) to determine their revenue sharing payments. In the relative tax effort (RTE) formula, each unit's payment was determined by computing its population weighted by the ratio of its local tax effort in mills divided by the local tax effort statewide. In most units the local tax effort was the local property tax rate; in 22 cities that levied a city income tax, the millage equivalent of the resident income tax collections was added to the calculation, and in Detroit the excise tax on utility payments was converted to mills as well. The local tax effort for each community was then divided by the average local tax effort statewide to obtain the RTE. Subsequently, the RTE rate was multiplied by each unit's population to yield the weighted calculation. Ultimately, the effect of the formula was to pay larger amounts to units with above average tax rates and lesser amounts to units with below average tax rates.

Beginning in 1972, a significant portion of the revenues going to cities, villages, and townships were based on a formula that used the tax rates that the communities levied on their residents (tax effort) to determine their revenue sharing payments.

Proponents argued that RTE reflected needs in the community, ability to raise revenues to support services, and the willingness of residents to tax themselves to pay for their government. Typically, higher tax communities tended to be: 1) communities with a more extensive array of services, 2) cities and villages (rather than townships), and 3) communities with lower taxable value per capita.[c] However, others argued that the RTE calculation might encourage higher taxes as well and therefore provide an unfair redistribution of state revenues to high tax areas.

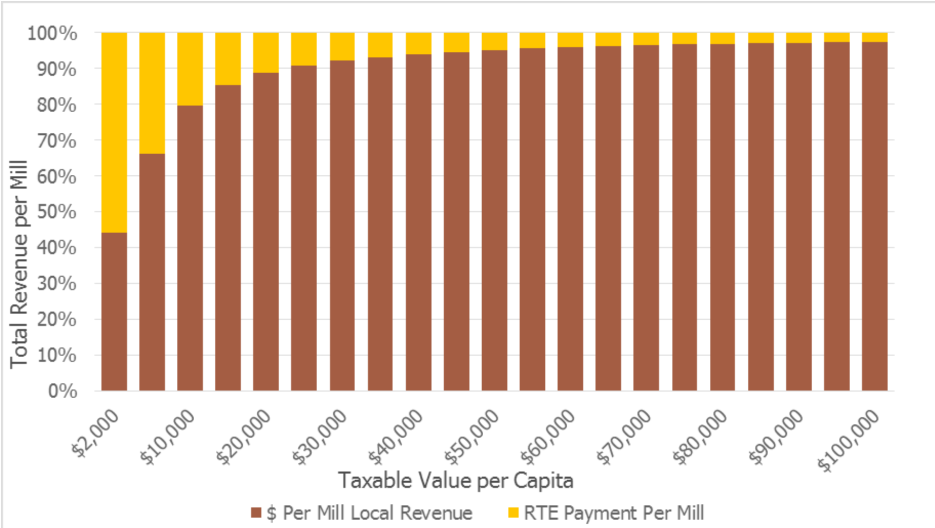
The criticism directed towards the RTE formula that it encouraged increased taxes was to some extent exaggerated. **Chart 5** combines local tax yield with RTE payments as a percentage of total revenue per mill, illustrating the declining importance of RTE payments as taxable value per capita increased. Since the "revenue sharing match" per capita for each mill of tax levy was only about $2.50 in the final year of the formula, and an average unit with taxable value per capita of $20,000 at the time would raise $20.00 per mill per capita, for most units the state payment was probably a small inducement to raising taxes. However, for units with low tax bases per capita, increased mills were matched at effectively a higher percentage, although the same dollar amount. A unit with taxable value per capita of only $10,000 would raise $10.00 per mill per capita and would still receive $2.50 through the RTE, effectively a 25 percent match. In FY1998, 136 units, only eight percent of all units, had taxable value per capita of $10,000 or less. While the prospect of increased state revenue sharing probably was considered as tax increases were being discussed by local unit legislative bodies, it seems unlikely that it would have been a controlling consideration in decisions to raise taxes.

Because the constitutional portion of revenue sharing is distributed on a per capita basis, per capita payments became the benchmark by which to gauge the RTE formula and other proposed alternates. Each unit received nearly $61 per capita constitutional payments in FY1998; compared with that per capita payment, the RTE formula generated very wide variations. A unit with one mill of local tax effort received about $2.50 per capita, while Detroit, with approximately 92 mills of local tax effort received about $230 per capita. More than 200 units levied one mill or less in FY1998. Almost all of them were townships.

Since within the three categories of local units (townships, villages and cities) there are generally wide variations in local tax rates, tax bases and tax collections, the RTE formula provided a degree of equalization of revenue-raising capacity. However, if

c Further discussion of the differences in tax rates for communities and factors responsible is available on pages 12-14 of Advisory Commission on Intergovernmental Relations Report, The State of State-Local Revenue Sharing, Report M-121, December 1980, www.library.unt.edu/gpo/acir/Reports/information/M-121.pdf.

Chart 5
Revenue Sharing as a Percent of Combined Tax and Revenue Sharing Collections at Taxable Values Per Capita from $2,000 to $100,000



Source: Michigan Department of Treasury

the principal objective of the formula was equalization, it had a fundamental flaw. The level of state support was entirely independent of any direct relationship to revenue raising capacity, as measured by taxable value per capita. Many examples existed of communities with virtually identical levels of tax effort with very large differences in taxable value per capita and correspondingly differing levels of tax revenue. Since the RTE formula had the effect of adding a constant amount per capita to the revenues available to two units with the same tax effort, the formula maintained the absolute difference in resources while narrowing the relative difference. **Table 5** illustrates the wide range of total revenue sharing plus local tax revenue that resulted from large differences in taxable value and essentially the same local tax effort.

Table 5
Relative Tax Effort's Equalization Effects for Median Tax Rate Michigan Cities, FY1998

City	County	Local Tax Rate	Local Taxes per Capita	RTE Payments per Capita	RTE Plus Local Taxes	Ratio Local Taxes per Capita	Ratio RTE + Local Taxes per Capita
Crystal Falls	Iron	16.50	$118.09	$41.84	$159.93	1.00	1.00
Montrose	Genesee	16.60	151.38	42.09	193.47	1.27	1.21
Mt. Pleasant	Isabella	16.40	169.80	41.59	211.39	1.45	1.32
Davison	Genesee	16.45	203.96	41.71	245.67	1.73	1.54
Adrian	Lenawee	16.53	209.27	41.92	251.19	1.77	1.57
Belleville	Wayne	16.60	245.62	42.09	287.71	2.07	1.80
Plainwell	Allegan	16.78	269.20	42.55	311.75	2.24	1.95
Rockwood	Wayne	16.74	275.47	42.45	317.92	2.30	1.99
Roseville	Macomb	16.75	285.76	42.48	328.24	2.38	2.05
Warren	Macomb	16.58	369.00	42.04	411.04	3.11	2.57
South Lyon	Oakland	16.79	372.19	42.58	414.77	3.10	2.59
St. Clair	St. Clair	16.62	445.98	42.15	488.13	3.75	3.05
Fraser	Macomb	16.50	451.20	41.84	493.04	3.82	3.08
Au Gres	Arenac	16.44	497.94	41.69	539.63	4.23	3.37
Marysville	St. Clair	16.81	522.97	42.63	565.60	4.34	3.54

Freeze Detroit Allocation

In 1998, as it is now, state policymakers were caught between conflicting purposes. As much as outstate legislators used the aphorism, "as goes Detroit, so goes the rest of the state," it was clear that a formula that sent a large proportion of the funding to Detroit and Southeast Michigan was a cause of conflict. Detroit serves residents with greater needs than most of Michigan, regardless of how need is measured. Combining the measures of need with the disproportional number of people that live in Detroit, even after the outmigration that has accelerated in the last decade, results in large allotments for Michigan's largest city.

The solution that made the 1998 reforms palatable was to remove Detroit from the equation. A deal was struck to attend to Detroit separately. The city would continue to receive state revenue sharing, but the amount was to be frozen. As a result, the formulas reached by compromise were in place to divvy the funding among the rest of the cities, villages, and townships.

Detroit's combined constitutional and statutory revenue sharing payments were to be frozen at $333.9 million for fiscal years 1999 through 2006. This was attractive to the city because the economy was much stronger and it stood to lose funding if the 2000 census counted less people in the city than were counted in 1990. The strong economy left city leaders feeling good about the prospects of funding city services from locally-raised revenues. Besides the loss of population, city leaders were concerned because calculations of the formulas under consideration for the proposed reforms were not as kind to the city as had been the RTE formula. These pending changes created a sense of urgency to protect what the city could count on.

Not only did removing Detroit from the new formulas alleviate state policymakers of the political trouble of new formulas that continued to send large sums to Detroit, but Detroit's leaders agreed to reduce tax rates in return. In exchange for the protection from declines in payments resulting from census reductions and the new formulas, the city's personal income tax rate was to be reduced by one-tenth of a percentage point per year from its 1998 rate of three percent to a two percent rate 10 years later. The rate on non-residents working in the city also would have been reduced from 1.5 percent to one percent over the same period of time.

A number of state laws that create special authorizations for Detroit, do so by referencing a population threshold. Cities above that threshold are given special powers. At the time of the compromise, the population threshold for Detroit was 1,000,000 residents. The 2000 census was sure to take the city below that threshold. Thus, Detroit also benefited in this compromise due to legislation that revised the threshold to lower levels that permitted only Detroit to continue to levy an income tax at rates higher than other cities utilizing the Uniform City Income Tax Act and only it to continue levying the utility users excise tax.

By freezing Detroit's payments, the growth the city would have received under the prior payment formulas was to be made available to distribute to other units.

Ultimately the bargain fell apart on both ends. Provisions of the law that rolled back the city's income tax rates protected the city from continuing the rollback if the economy soured and the income tax revenues were needed for operations. In 2012, the City Income Tax Act was amended to freeze Detroit's income tax rates for resident (2.4 percent) and nonresident (1.2 percent) taxpayers. The act was part of a legislative package that authorized the creation of a public lighting authority within the city to service and operate the municipally owned lighting system. The act provided that if such an authority was created (which the Detroit City Council did vote to approve in 2013), the revenue collected from 0.2 percent of the rate levied on residents and 0.1 percent of the rate levied on nonresidents was to be dedicated to the city's police department budget. Beginning in the tax year immediately following the year in which all bonds and indebtedness issued by the new lighting authority have been fully paid, the maximum rates will be reduced to 2.2 percent for residents and 1.1 percent for nonresidents.

At the same time, the state was cutting the total funding available for state revenue sharing beginning in 2001. These cuts caused the state to renege on its earlier promise to keep payments to Detroit at $336 million per year.

The last 2 columns in **Table 5** highlight this difference. Each column is a ratio of that city's per capita revenue generation compared to the City of Crystal Falls in Iron County, which had the smallest taxable value per capita. The City of Belleville in Wayne County, with roughly the same tax rate, was able to generate twice as much revenue from local taxes than Crystal Falls was able to raise. The City of Au Gres in Arenac County and the City of Marysville in St. Clair County were able to generate more than four times the revenue that Crystal Falls was able to generate at roughly the same tax rates. The final column, the ratio of RTE plus local taxes per capita compared to Crystal Falls, shows that the state revenue sharing only marginally acted to close these gaps.

1998 Restructuring of State Revenue Sharing

As time went on, the criticisms of the relative tax effort formula grew louder. Whether the complaints were real or perceived, it became apparent that the state would need to identify a new formula for distributing state revenue sharing funds based on needs. The criticisms raised against the RTE formulas were expressed in three respects:

- Too much of the statutory revenue sharing was going to cities, primarily in southeast Michigan. Cities and suburban and rural communities, principally townships, outside the Detroit metropolitan area were not receiving a large enough share.
- The formula used to distribute most of the statutory dollars to cities, villages, and townships encouraged local units to raise tax rates and it potentially encouraged local units with high tax rates to keep them high.
- The formula used to compensate communities for the 1975 exemption of inventory from local property taxation was no longer appropriate.

After several years of give and take, a compromise was reached in December 1998 that included elements of the formulas proposed by varied interests. The compromise that emerged from the legislature contained a new formula containing three sub-formulas applied to all cities (to the exclusion of Detroit) and all villages and townships. The formulas combined to change the payment shares significantly from the old two-part mechanism.

Statutory revenues were subject to three separate distribution formulas with each formula operating on one-third of the revenue base: unit type, taxable value, and yield equalization.

Unit Type Population Weighting. This component was based on the contention that service delivery costs are a function of the type of unit and population size within a given unit type. Cities are regarded as the most complex unit type, followed by villages and townships. A separate table of weights was used for each type of unit and the weights are different for different intervals of population size. Weights increased as population increased and weights were progressively higher for a given population as the unit types moved from township to village to city (See **Figure 2**). A unit's population was multiplied by a weight ranging from 1.0 (small township) to 7.46 (City of Grand Rapids).

Figure 2
Unit Type Population Weights Under 1998 Revenue Sharing Formula

Cities	**Population Weight**
5,000 or less	2.50
More than 5,000 but less than 10,001	3.00
More than 10,000 but less than 20,001	3.60
More than 20,000 but less than 40,001	4.32
More than 40,000 but less than 80,001	5.18
More than 80,000 but less than 160,001	6.22
More than 160,000 but less than 320,001	7.46
(The following weights are in the statute, but no units fell into the intervals)	
More than 320,000 but less than 640,001	8.96
More than 640,000	10.75
Villages	
5,000 or less	1.50
More than 5,000 but less than 10,001	1.80
More than 10,000	2.16
Townships	
5,000 or less	1.00
More than 5,000 but less than 10,001	1.20
More than 10,000 but less than 20,001	1.44
More than 20,000 but less than 40,001	4.32
More than 40,000 but less than 80,001	5.18
More than 80,000	6.22

Taxable Value per Capita Weighting. This component was intended to provide greater state support to units with smaller per capita tax bases. The state average taxable value (TV) per capita was divided by each unit's TV per capita and the result was multiplied by the unit's population to obtain the unit's weighted population.

By providing higher payments to units with lower TV per capita, the formula adjusted for revenue raising capacity.

Yield Equalization. This component was intended to create a minimum guarantee on combined state and local revenue per mill of tax levy. The aim was to supplement the amounts raised from each mill of tax levied so that every jurisdiction would receive at least that minimum amount (approximately $20,900 for FY2000 payments). Tax millages would be supplemented up to a maximum of 20 mills (the maximum tax levy authorized for operations by cities in the Home Rule Cities Act). Because this component had the effect of creating a floor under the total

Economic Vitality Incentive Program

Michigan's approach to sharing state revenues with local governments is constantly evolving. In addition to the diversions that began in 2002 and the subsequent cuts mentioned previously, the FY2012 budget marked another significant transition in Michigan's revenue sharing history. This evolution conditioned the distribution of statutory payments to cities, villages, and townships on these local governments meeting certain criteria established by the state. This program was labeled the Economic Vitality Incentive Program (EVIP).

Unlike previous efforts that targeted need, as measured in different ways, this program left the amounts distributed to each local government unchanged, but attempted to influence the behavior of those governments.

The new EVIP affected only the statutory component of the unrestricted state revenue sharing program (constitutional per-capita payments were unaffected). The total amount available in FY2012 ($210 million) represents a reduction of roughly one-third from the statutory payment amount authorized in FY2011, this helped address the projected state budget deficit in FY2012.

Rather than simply distributing the revenues to the local governments, as was promised at earlier times, EVIP turned revenue sharing into an incentive program through which funding flows to cities, villages, and townships based on their ability to satisfy certain criteria. When it was created, local governments that qualified for statutory distributions (those still getting funding after all of the cuts of the prior decade) had to show evidence of transparency in financial reporting, pension reform, and new efforts to collaborate with neighboring communities.[ai] *

The effectiveness of EVIP, such as it was, was predicated on the reduced number of local governments still qualifying for statutory revenue sharing, and the nature of those governments. Only the largest local governments qualified for the funding, which made efforts to incentivize pension reform and collaboration meaningful. Smaller local governments are much less inclined to offer fringe benefits to the limited number of employees they do employ, making pension reforms much less relevant. Likewise, smaller local governments tend to offer far fewer services than their larger counterparts. Often, the small local governments that offer a fair number of services are surrounded by sparsely populated townships that provide minimal services. The prospect of these smaller governments identifying and achieving savings through collaboration is limited. Even though those governments might identify some prospects for collaboration, that process could be replicated only a few times before their options were extinguished.

Finally, EVIP suffered from other flaws. EVIP was not written into statute, but was provided for in the boilerplate language of appropriations bills. As a result, the legislature had to decide whether the program would continue each year, the amount of funding available, and what the design of the program would be. Using an appropriation act to authorize the program created a level of uncertainty that might not exist if the program were included in regular statutory law. The EVIP, like its predecessor, was subject to appropriation risk.

* For a more comprehensive analysis of this program see CRC's State Budget Notes 2012-03, Using State Shared Revenues to Incentivize Local Government Behavior, July 2012, www.crcmich.org/PUBLICAT/2010s/2012/sbn2012-03.html.

state and local revenue yield for each mill levied, only units with taxable values per capita less than the guarantee amount ($20,900) were to receive payment under this formula. This addressed one of the criticisms of the relative tax effort formula that converted local-option income tax and utility-user tax revenues into their equivalent in property tax millage to result in cities such as Detroit being compensated for the equivalent of 67 mills.

Significant Source of Local Government Revenue

Over the years, the significance of state revenue sharing funds as a source of local government revenues has grown. However, the significance to individual local governments varies tremendously. It has also varied over time as funds have been added to the program and as the legislature has altered appropriations and formulas used to share some or all of the funds statutorily dedicated to the program.

The significance of state revenue sharing as a funding source for local governments grew tremendously when the Sales Tax Diversion Amendment was adopted in 1946. The number of townships levying no property tax jumped from 178 (about 14 percent of all townships) in 1946 (before the diversion went into effect) to 785 (62 percent of the 1,266 townships) in 1951[15]

It is evident that a number of Michigan's local units of government are unable to operate as independent entities in terms of funding services from their own tax revenues and delivering services with their own resources. These governments have survived in part because of Michigan's tradition of collecting tax revenues at the state level and sharing it with local governments. Even after cuts to state revenue sharing were imposed over the past dozen years, Michigan still has local units that receive more of their funding from state revenue sharing payments than from their own tax dollars.

> In the late 1990s, unrestricted revenue sharing payments to cities, villages, and townships equaled a little less than half of the total amount of resident local taxes collected by all cities, villages, and townships.

In the late 1990s, unrestricted revenue sharing payments to cities, villages, and townships equaled a lit-

Table 6
Units with Revenue Sharing Payments Exceeding Property, Resident City Income, and Utility Excise Tax Collections, 1997 and 2013

1997

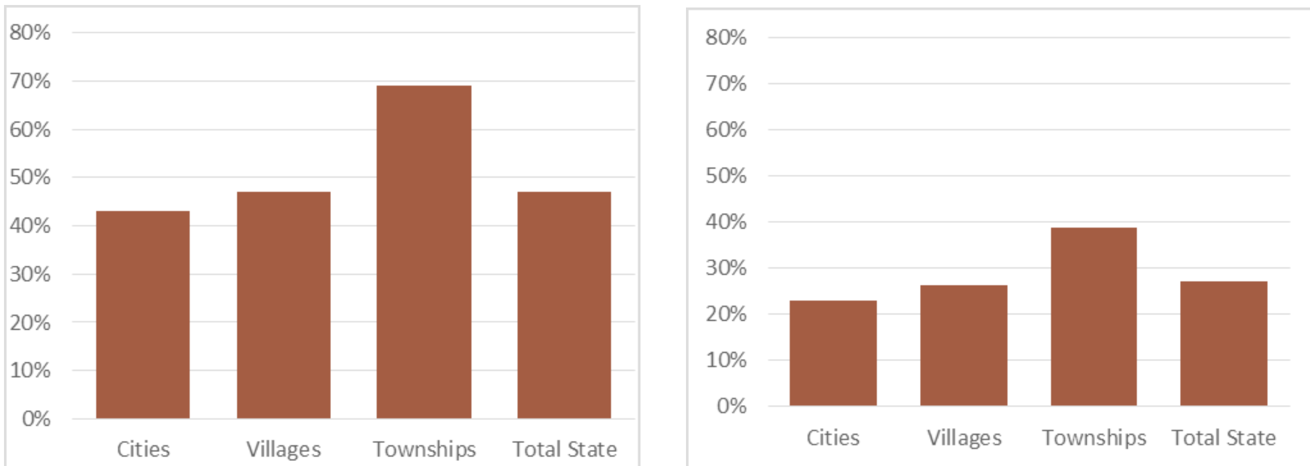
	Number of Units	Revenue Sharing Exceeds Resident Local Taxes	Percent of Total Units
Cities	284	10	3.5%
Villages	271	74	27.3%
Townships	1,242	800	64.4%
Total Units	1,797	884	49.2%

2013

	Number of Units	Revenue Sharing Exceeds Resident Local Taxes	Percent of Total Units
Cities	276	2	0.7%
Villages	253	21	8.3%
Townships	1215	385	31.6%
Total Units	1744	408	23.3%

Charts 7 and 8
Total Revenue Sharing Payments as Percent of Total Resident Local Tax Collections by Type of Local Government

1997 **2013**



tle less than half of the total amount of resident local taxes collected by all cities, villages, and townships. However, for many local units, especially townships, revenue sharing was the largest single source of general operating revenue. Collectively, slightly less than one-half of the cities, villages, and townships received more revenue sharing dollars than they collected in property taxes. However, nearly two-thirds of all townships had revenue sharing payments that exceeded their property tax collections, while comparable figures for villages and cities were 27 percent and 3.5 percent, respectively (see **Table 6**).

Although revenue sharing was smaller than property taxes in the aggregate for each category of a local unit, revenue sharing was more than two-thirds of the total property taxes for townships, but less than one-half of the resident tax total for cities and property tax total for villages.

In 1997, five of the 22 cities that levied a local-option income tax derived more revenue from the income tax on residents than from the property tax. In 2013, only Greenville and Hamtramck derived more revenues from state revenue sharing than they yielded from their income taxes.

In 1997, the relationship between revenue sharing and resident local tax collections varied by type of local unit. Although revenue sharing was smaller than property taxes in the aggregate for each category of a local unit, revenue sharing was more than two-thirds of the total property taxes for townships, but less than one-half of the resident tax total for cities and property tax total for villages (see **Charts 6 and 7**).

Following Michigan's prolonged downturn and ensuing revenue sharing reductions, very few municipalities receive more of their revenues from state revenue sharing than from property taxes. Those that still do are the smaller governments that provide very few services.

Data from the U.S. Census Bureau show that local governments (including schools) in Michigan derive a far greater percentage of their revenues from the state than do local governments in most other states.[d]

In 1997, before Michigan's prolonged single-state recession and the cuts in state appropriations that occurred as a result, Michigan local governments derived the second largest percent of their revenues (49 percent) from the state government among the 50 states (35 percent on average). Only local gov-

d This data includes all local governments (counties, cities, villages, townships, school districts, and special authorities) and revenue derived from the state government for all purposes (school aid, revenue sharing, highway aid, transit, courts, environmental grants, etc.).

ernments in New Mexico (51 percent) derived more revenues from their state government.[16]

In 2011, local governments nationwide derived about 33 percent of their revenues from state governments, while local governments in Michigan derived about 44 percent of their revenue from the state government in that year. Only the local governments in Vermont (64 percent), Arkansas (54 percent), Delaware (49 percent), and New Mexico (48 percent) derived more of their revenues from their state governments than did the local governments in Michigan.[17]

The Significance of State Revenue Sharing as a State Program

The significance of the state revenue sharing program in the overall picture of state government finances should not be understated. Totaling over $1 billion (constitutional and statutory) in Fiscal Year (FY)2013, revenue sharing was a larger share of the state budget than programs such as state police, resource protection (agriculture, environmental quality, and natural resources), the judiciary, and licensing and regulatory affairs. If the state would have fully funded state revenue sharing, it would have rivaled state spending on corrections.

The State of Michigan has a long history of providing a broad range of financial support to its local units of government – cities, villages, townships, counties, school districts, and community college districts (See **Appendix A**). In FY2000, three-fifths of all state-levied taxes, fees and other charges, almost $15 billion, were paid to local units of government. **Chart 9** summarizes the major categories of state distributions to local units.

The second largest category of state funding to local governments after School Aid was unrestricted state revenue shar-

Chart 8
Significant State Revenue Sharing Programs in FY2000

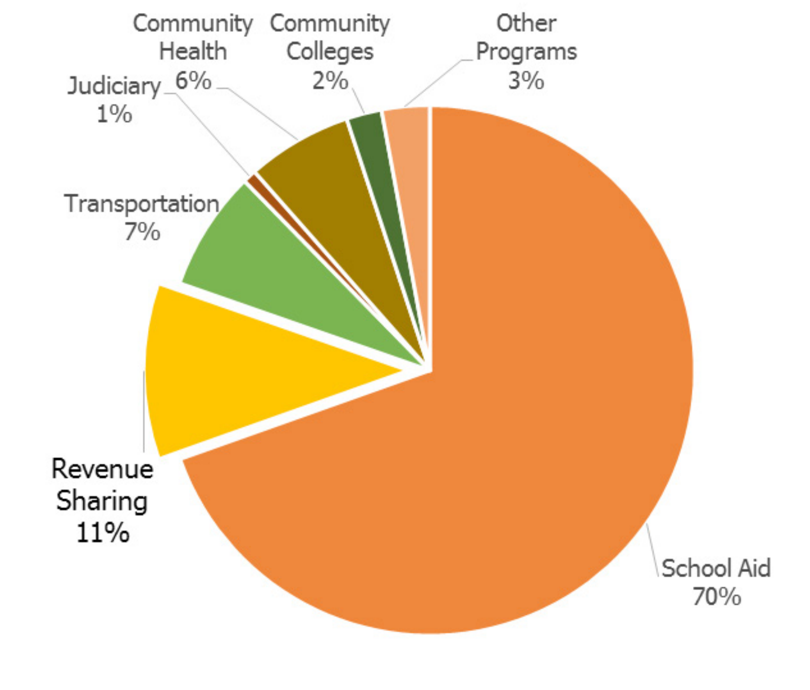
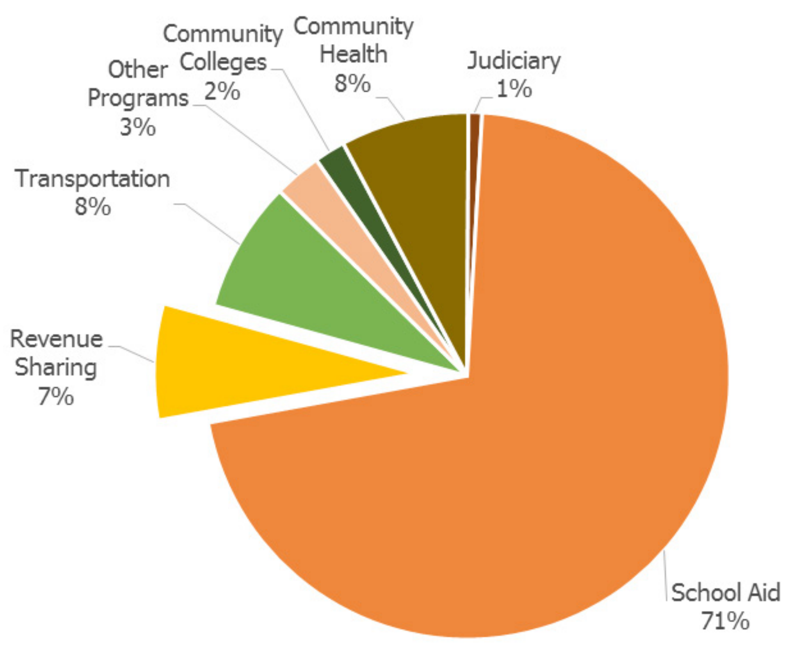


Chart 9
Significant State Revenue Sharing Programs in FY2013



Source: State of Michigan House Fiscal Agency Appropriations Summary and Analysis Report for 2013, published July 2012, pg. 13, adjusted for subsequent supplemental appropriations.

ing, distributed to cities, villages, townships, and counties based on formula calculations. In FY2000, over $1.4 billion was appropriated for distribution to cities, villages, townships, and counties.

Michigan municipalities were affected significantly by the drastic reductions in state revenue sharing caused by the state's diversion of those funds to other state purposes. From FY2001 to the present, the state diverted more than $5 billion away from statutory state revenue sharing to help the state appropriate funding for other purposes. This shifted the financial pain of the recession away from the state and down to local governments. It also spread the financial pain away from the geographic areas of the state where the economic declines were the most severe, and on to all cities, villages, and townships throughout the state.

By 2013, the significance of state revenue sharing as a state program had declined. Of all the state-levied taxes, fees and other charges paid to local governments, state revenue sharing has fallen to the fourth largest program. Its significance in total dollar amount is now surpassed by transportation and community health founding. **Chart 10** summarizes the major categories of state distributions to local governments in 2013.

Assessing Michigan's Structure of Fiscal Federalism

Advantages

Michigan's statutory state revenue sharing program has morphed significantly since its inception – the need-based formulas having been devised in the early 1970s. The RTE was an attempt to direct funding to local governments with higher levels of need. The 1998 formula attempted to address these needs in an alternative manner. The Economic Vitality Incentive Program did not attempt to alter the distribution formulas to address needs, but attempted to use state funding as an incentive to alter local government policies. As a result, it is unclear what purpose statutory state revenue sharing currently serves.

Nonetheless, many policy objectives have been identified as rationale supporting the development and implementation of state revenue sharing programs. Since they reflect a variety of values, some of them are incompatible with one another. The objectives can be clustered in three categories: 1) improving the overall state and local tax structure, 2) promoting economic development, and 3) maintaining acceptable levels of government service from community to community.

> The objectives of state revenue sharing programs can be clustered in three categories: 1) improving the overall state and local tax structure, 2) promoting economic development, and 3) maintaining acceptable levels of government service from community to community.

Tax Structure

Revenue sharing programs improve local governments' tax structures because they broaden the number of tax sources used to finance services, promote administrative efficiency in the collection of revenues, and reduce reliance on tax sources perceived to be over-utilized or flawed from the standpoint of criteria used to judge the attributes of taxes. Examples of benefits related to tax structure include:

- By introducing a tax not levied locally as a source of local revenue, the tax structure is, in effect, more diversified than it would be if local taxes alone funded local services. This could have the effect of improving the overall equity and stability of the tax base and revenue structure funding local services.
- A given tax may exhibit desirable attributes relative to factors such as equity and efficiency of collections that can best be preserved if the tax is levied statewide and distributed, in part, back to local units on a basis different from the origin of the collections. Examples include: the state sales tax, which is distributed very differently than the origin of collections. By sharing the revenues of the tax at the state level rather than relying on individual units to raise the revenues from their various tax sources, the overall equity and efficiency of the tax structure is enhanced.
- Shared revenues have been used to promote local property tax relief. By lessening pressure on local budgets, property tax rates are held down or even reduced.
- Collecting a tax at the state level rather than the local level improves administrative efficiency through economies of scale that can be achieved at the state level. Also, state-levied taxes may promote efficiency for both individual and business taxpayers by reducing the number of taxing units to whom they are liable.

Economic Development

Revenue sharing programs may enhance the achievement of economic development objectives. Examples of benefits related to tax structure include:

- To the extent that shared revenues at the state level help hold down local tax rates, the differences between various local units are lessened. By expanding revenue sharing programs, states may promote business and residential location in higher tax areas and improve the competitive tax climate of local units.
- Unrestricted shared revenues are likely to be used differently by various units of government.

One unit may choose to invest shared revenues in infrastructure in order to improve economic competitiveness. Another may use revenue sharing dollars to finance the cost of direct financial incentives to attract business location.

Service Maintenance

Revenue sharing programs have been justified as a means to pay for some of the cost of basic local services, to compensate for preempting local units from levying a tax directly, and to compensate local units for removing a portion of a local tax base from the revenue stream. Examples of benefits related to tax structure include:

- By levying a given tax, the state may preempt local units from using that source of revenue to fund their operations. In situations such as this, states will share the revenues in exchange for local unit support for implementing the tax.

- The state may exempt certain property such as inventories from the local property tax base. Shared revenues from another tax source are used to compensate local units for lost revenues.

- Revenue sharing programs may be used to insure a minimum level of revenues for local units to fund basic local service needs. The revenue-raising capacity of local units varies widely. Nevertheless, each has a responsibility to provide a certain basic level of public services. By employing revenue sharing, a state can help equalize the ability of local units to provide those services without imposing economically counterproductive high tax rates.

These factors have been advanced to support the formulation of revenue sharing programs as well as increases in the amount of funds flowing through established programs. Harnessing the superior revenue-raising capacity of the state, coupled with equalizing the distribution of revenues to support local programs, are the most often cited justifications for state revenue sharing programs.

> The loss of connection between the tax levy and the delivery of services that has resulted from the unrestricted revenue sharing program has threatened local government accountability to its residents.

Disadvantages

While the general effect of state revenue sharing has been to supplement local revenues and to subsidize certain programs that might be under-provided if local governments were left to their own resources, some negative consequences are related to state shared revenues. Primarily, the loss of connection between the tax levy and the delivery of services that has resulted from the unrestricted revenue sharing program has threatened local government accountability to its residents. Local government officials are faced with a plethora of demands for services. Politically, it is desirable for these elected officials to provide as many government services as their residents demand. However, the reality of providing government services is that someone has to fund them. Where providing government services is politically attractive, collecting taxes to fund government services is unpopular and individuals tend not to locate where taxes are high. The best means of maintaining the accountability of elected officials and of balancing the proper level of taxation with the proper level of spending is to have both tax imposition and service provision performed by the same unit of government. In separating these two actions, state revenue sharing hides the cost of specific programs from elected officials and taxpayers. Thus, whatever the merits claimed for state revenue sharing, at its core the program violates the fundamental and sound principle of good government, namely that responsibility for raising money should accompany the spending of it.

Furthermore, as was experienced during the last decade, revenue sharing programs hamstring state budget officials during difficult economic periods. This is an argument generally against the earmarking of state funds, more than any particular contention with state revenue sharing programs. In most cases, the use of earmarking runs contrary to another principle of good budgeting which suggests that the legislative and executive branches must have strong control over revenues and expenditures. They must have adequate flexibility to react to changing economic conditions. They must be able to use the budget to set policy. These principles are best met through a budgetary process where all expenditures are judged on their merits and funding is allocated accordingly. If any government function is important enough to warrant consideration for earmarking, it should easily pass the muster of the budgetary process. If not, perhaps it is not as essential as its advocates might contend.

Among the most serious objections is the one against the distribution made under the constitutional portion of the revenue sharing program. Specifically, (like most "distributions") it bears absolutely no relation to need but is simply a straight handout across the board. It can be granted that some localities are hard pressed, but clearly not all localities are equally hard pressed, thus not all require the same amount of revenue sharing dollars. Furthermore, this same concept reiterates the point that some localities need no state funding.

State revenue sharing may have allowed individual units of government to exist longer than they could if left to their own resources.

Increased Dependence

As local governments become more dependent on the state government for a share of their operating revenues, they also become more closely tied to the financial fortunes of the state. This is seen as a positive during periods of economic growth, when the amounts available for revenue sharing can grow – driven either by statutory formulas or the good will of state legislators in the budget making process. However, this quickly becomes a negative during periods of economic decline, such as the one experienced in Michigan from the state's FY2001 to FY2012. At times of fiscal hardship for state governments, general purpose intergovernmental aid, such as state revenue sharing, is often the easiest expenditure to cut.[18]

Lack of Accountability

As mentioned, state revenue sharing has blurred the lines of accountability for the condition of local finances. Local government officials blame the inadequacy of state sharing dollars for service cuts and for tax increases they present to the voters, whose support is required at the ballot box for enactment.[19]

On the other hand, state officials may use state revenue sharing as a fiscal tool for imposing more requirements and/or mandates on local governments, or as a way of sidestepping basic reforms in the structure and financing of local governments.[20] This in fact has played out in recent years as state appropriations for state revenue sharing has put in place conditions that local governments must meet to qualify for their share of revenue sharing funds through the Economic Vitality Incentive Program (See Box on p. 24).

Loss of Local Control

State officials may feel empowered to attach strings to the receipt of state revenue sharing dollars. When revenue sharing is created as a replacement for local property tax revenues, state officials may remain vigilant that the local government is not using those funds to pay for new services, higher salaries, increased pension benefits, or that they merely fail to live up to the tax cut expectations of the state legislature.[21]

Provisions that become attached to state dollars over such concerns imply that state policymakers see local units, as a group, as unable or unwilling to address concerns over local fiscal health. By tying key state resources to conditions that are designed to help local governments with these concerns, policymakers are hopeful that the local fiscal challenges will be addressed. However, this comes at the expense of local decision making and the ability of local governments to prioritize their own spending.

Other Corollary Impacts

State revenue sharing has meant that local units have not had to rely solely on local revenues to provide services. Thus state revenue sharing may have allowed individual units of government to exist longer than they could if left to their own resources. Absent state revenue sharing, many local governmental units would not have sufficient resources to adequately deliver the services demanded of them. Under these circumstances, local governmental units would be forced to annex newly populated areas and consolidate with neighboring units to create greater economies and to allow them to more efficiently utilize the resources available to them.

This is most significant for small local units. Prior to the cuts over the past decade, cities, villages, and townships with populations less than 10,000 received an average of over 36 percent of their total revenues (property and local income tax revenues plus unrestricted state revenue sharing) from unrestricted state revenue sharing. This ranged from almost half (47 percent) of total revenues for the average small township, to about a quarter (26 percent) of total revenues for the average city with a population below 10,000 people. When other state funding, such as transportation or court funding, is added in, these percentages increase.

For local governments to constructively use this funding for ongoing services, they have to know that the funding can be counted on from year to year in sufficient amounts to fulfill the programs for which they are

At the same time that state revenue sharing has grown in dollar amounts and significance to local governments the number of new incorporations and annexations has slowed to a crawl. Consolidations between multiple units to take advantage of any economies of scale have been nearly absent. State revenue sharing may have lessened the incentives for cities, village, and townships to consider more efficient ways to operate.

The history of the number of school districts provides an example of how these forces can affect consolidation and annexation. When the number of school children in each district was relatively low and districts were left to their own resources, the number of districts grew to 7,362 in 1912. As the state population continued to grow, and growth in the school age population during the baby boom caused crowded conditions, districts were forced to explore consolidations and annexations to achieve economies of scale and to best utilize their resources. By the early 1970s, the number of districts was reduced to about 600. Since that time, school district consolidation has slowed considerably.

General-purpose local governments have not been subject to similar pressures to improve the efficiency of their operations by combining their efforts with neighboring communities. State revenue sharing may have at least partially insulated them from such pressures.

Local Government's Expectations of a State Revenue Sharing Program

Local government officials have their own notions for the ways in which a state revenue sharing program can ensure their fiscal wellbeing. The criteria for a strong revenue sharing program differ slightly from the perspective of local government officials. For local governments to constructively use this funding for ongoing services, they have to know that the funding can be counted on from year to year in sufficient amounts to fulfill the programs for which they are allocated.

Revenue Adequacy

Revenue sharing programs must be sufficiently funded so that the potential benefits of such programs can be realized. Programs aimed at equalizing revenue raising abilities, providing property tax relief, or ensuring minimum levels of services, cannot achieve these objectives without sufficient funding to either close the gap in revenue raising abilities among units of local government, offset the need to raise funding locally, or to assist local governments in funding local government services. Once enacted, state revenue sharing programs should grow to protect against any erosion of purchasing power for the funds.

Stability and Predictability

The objectives that state officials might identify in establishing a state revenue sharing program can only really be achieved if local government officials can expect stable and predictable revenue streams from the state. Efforts to equalize revenue raising abilities accomplish little if that goal is achieved only occasionally. Local government officials must be able to rely on the revenues if they are to budget in ways that compare to the revenues of their property rich neighboring communities.

Taxation is always difficult, but can be especially so in a state with tax limitations that require voter approval for tax increases. Attempting to increase taxes only in periods of economic decline, when the state scales back on the total amounts available for distribution is a difficult environment in which to present tax increases to the voters for their approval. Likewise, levying taxes at higher rates in some years and lower rates in others, depending on the willingness of the state to share revenues, diminishes the stability and predictability of such taxes for the property taxpayers that ultimately fund local government.

Finally, if the objective is to ensure that a minimum level of governmental services is provided, local government officials must be able to expect the revenues to support those services over the long term. Most local governmental services are either capital intensive – requiring investments into buildings, water and sewer lines, fire engines, etc. – or technically intensive – requiring investments into individuals with technical skills (engineers, property appraisers, accountants, lawyers, etc.) that warrant higher wages in both the public and private sectors. Other public sector employees, such as policemen and firefighters, do not have private sector equivalents, but are compensated for the risks they assume as part of their jobs. For local government officials to commit resources to those services, they need some long-term assurance that the funding stream will support the associated costs.

Local government officials and the residents within those communities seek assurance that the formulas created to distribute funding aim to achieve the stated objectives equitably.

Equity

Local government officials and the residents within those communities seek assurance that the formulas created to distribute funding aim to achieve the stated objectives equitably. Local governments of roughly equal size and circumstance should be able to expect equal treatment in the formulas, and thus equal funding.

Accountability

The revenue sharing program's rules and formulas should be clearly and simply stated so that the objectives and proposed outcomes can be understood by state and local government officials and by the general public. Just as the Economic Vitality Incentive Program attempted to promote accountability among local government officials that state-collected resources are used prudently and efficiently, so state officials must be held accountable that the program is adequately funded and administered efficiently.

Intergovernmental Coordination

State revenue sharing programs may be adopted to capitalize on the taxation advantages of state governments relative to county or local governments. The wider geographic areas encompassed by a state reduces the opportunities to escape income or sales (general or excise) taxation by engaging in economic activity in other geographic areas with lower tax rates. The same coordination should be in place with the distribution of funds to local governments, with responsibility assigned, and funds distributed, to the level of government best suited to deliver certain services.

State revenue sharing should be part of an efficient, economic service delivery mechanism where accountability for raising revenues and delivering services is clearly delineated. It should not subsidize the provision of services by units of government ill equipped to do so.

Reforming Michigan's State Revenue Sharing Distribution

Any efforts to create a new distribution methodology for statutory state revenue sharing today would have an inherent advantage over the last efforts to do so in 1998. Those efforts were burdened by the ramifications of transitioning from the prior relative tax effort formula to anything new. There were bound to be local governments that gained and those that lost funding in a different formula. The 1998 formula, which itself was complicated, increased in complexity with the transition provisions that were built into the formula.

A revenue distribution methodology crafted today is essentially a fresh start. A majority of local governments no longer receive statutory state revenue sharing – including most townships and villages. Therefore, they do not stand to lose anything because of a new formula. The 1998 formula has long since been abandoned, so there is nothing to which a new formula could be compared.

Need-Based State Revenue Sharing

Part of the need for this report rests with the fact that the goals of statutory state revenue sharing have not been clearly delineated in the past. State policymakers may just see a pot of money being distributed to local governments without a common understanding of the goals behind it. The loss of institutional knowledge inherent in the system because of term limits for state officials further lessens connections to past policy decisions.

Thus, it is of fundamental importance that state policymakers define a goal for state revenue sharing. Michigan has had different goals that drove the distribution of state revenue sharing over the years, but none of those goals are applicable to the distributions in the current program, which have been revised and changed yet again over the years without a focus on the overarching goal of the program. Given the current scarcity of resources at the state level and the challenges confronting many of Michigan's local governments, that goal should be to send funding to those governments with the greatest needs.

It is of fundamental importance that state policymakers define a goal for state revenue sharing.

A necessary first step in defining need and setting goals for state revenue sharing is establishing a common understanding of the purpose of local government. For the Citizens Research Council of Michigan, the purpose of local government is to manage the interaction between people. People can exist in nature without government, but when people aggregate into communities, there begins to develop a demand for public services. People seek public safety to protect against injury to their person or property. They seek planning and zoning to protect against negative externalities such as noise or air pollution. They seek parks, recreation services and other quality of life amenities.

Those of different political persuasions may disagree about the extent to which local governments can or should engage in some activities. Furthermore, some may argue for economic development activities as a means of expanding local government tax bases; others may argue that market forces will guide economic location decisions and it is not up to the government to pick winners and losers. Some may support a minimalist approach to government, advocating public services only when there is market failure; others may promote a more active role for local governments, seeing the value that governments can play in creating a sense of place. In the end though, most can agree that more local government is needed where there are more people, and thus more interactions.

Having established the purpose of local government, a necessary next step is to establish the state's interest in local government. Revenue sharing systems between federal governments and their states and territories (both in the U.S. and in other countries) and between other states and their local governments take many forms. The common denominator for systems that attempt to recognize needs is an interest in equalizing the fiscal capacity of the local governments so that citizens are not deprived of basic governmental services simply because of the jurisdiction within which they live or work.

Fundamentally, need is defined either in terms of the capacity of a government to raise revenues or in terms of the demands placed on a government to provide services. Revenue sharing distribution programs that are designed to address fiscal capacity attempt to help local governments that are less capable of helping themselves.

Revenue sharing distribution programs that attempt to aid local governments burdened with higher demands for services attempt to help the governments provide those services. These programs recognize higher levels of services based on where people are located or they direct funding to places and services for which the state has a vested interest in a level of provision.

Fundamentally, need is defined either in terms of the capacity of a government to raise revenues or in terms of the demands placed on a government to provide services.

As is evident in Charts 8 and 9 (p. 27), Michigan distributes state revenues to local governments for a number of purposes – K-12 schools, community colleges, transportation (road construction and maintenance and mass transit), community health, courts, and other purposes.

The methods employed to send revenues to local governments through these programs employ various measures of fiscal capacity. Transportation, community health, and court funding are based on assessments of the services being provided – road miles, health services, cases processed, etc. Since 1994, school aid funds have been distributed to meet service needs – measured as the number of pupils in each district.

Conversely, the power equalizing formula used to distribute school aid funds prior to 1994 recognized the inability of some school districts to raise sufficient funding from local sources because of inequities in their tax bases. (See **Appendix A** for more information about these programs.)

Michigan's history of attempting to target funding to needs through its statutory state revenue sharing program has largely been targeted at efforts to equalize the capacity to raise revenues. The underlying goal, in such programs such as the relative tax effort formula created in 1972 or the taxable value

Other Important Considerations of Need-Based Revenue Sharing

Whether the characteristics of a local government, or the people and places within it, are used to address deficiencies in fiscal capacity or to help meet the demands for services, reliability of the data is paramount. Whatever the faults of using population as a basis for distributing funding, all can agree that the Census Bureau does not attempt to favor one Michigan community over another with its counting methods. Similarly, Michigan's property assessing methodology is designed to remove biases.

Furthermore, because Michigan has a plethora of local governments, some of them very small in geography or population, the factors used should be available at this micro level. Counting at this micro level is complicated for Michigan by the fact that villages overlap townships, so the township data has to be segregated into that which falls within the village boundaries and that which falls without. Villages sometimes straddle two or more townships. Villages and cities sometimes straddle two or more counties. Factors such as those used above to illustrate the varying levels of need may be attractive, but they are not always available at this micro level.

A final admonition is that the needs of some local governments are best met when the funding is directed exclusively to those governments. Programs designed to distribute funding to all local governments, with higher amounts going to the neediest governments, are inefficient. Such has been the case for many of the programs run by the State of Michigan to share state revenues with local governments. In doing so, a portion of the revenues have been sent to local governments without any demonstrated level of need. Additionally, this approach causes the available funds to get spread so thin across so many local governments that the state is unable to accomplish its goal for any local governmental entity. An alternative approach is to concentrate the funding among a few local governments with the greatest demonstrated levels of need so as to have the greatest impact. This especially holds true when the pot of funding available for distribution is relatively small, as with state revenue sharing over the past decade.

per capita and tax yield equalization formulas created in 1998, was to make it possible for all citizens to receive comparable public services regardless of their location within the state. These efforts recognize the inherent inability of some local governments to raise sufficient revenues from their own sources because of differences in tax bases. It is only the population weighting by unit type that was part of the 1998 reforms that introduced an element recognizing differences in expenditure demands for individual local governments.

Options for Reform

The options for reform that follow are divided into

- those that account for inequities in local government tax bases,
- those that are based on differences in service needs,
- those that recognize key places that contribute to the state's economy, and
- those that fund the local government services most valued by the state.

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Equalize Tax Bases

One of the ironies of the state cutting state revenue sharing funding when it did is that the failings of Michigan's municipal financing system are accentuating the differences in ability to raise revenues. Thus, state revenue sharing is needed as much now as any time in the history of the program. Municipalities throughout the state, but especially those in Southeast Michigan that were significantly affected by the foreclosure crisis and drastic declines in property values, find themselves in a position where even the strongest recovery in the economy will not translate to sufficient local tax revenues to enable the cities to provide the services to which their residents have become accustomed.

The City of Lincoln Park is the first municipality to enter Michigan's emergency manager program not because of poor financial management or a catastrophic event, but because Michigan's constitutional property tax limitations will not allow tax revenues to increase at the same pace at which they declined during the Great Recession. Like Lincoln Park, many other municipalities throughout the state would benefit from a state revenue sharing program that recognized the inability of some local governments to fund services at levels comparable to others. Such a recognition would be premised on the idea that the state has a fundamental interest in its local governments providing certain public services at adequate levels to guarantee the health and welfare of all residents of the state.

Programs of fiscal equalization are the most common way other countries share revenues with their states or provinces. These programs that measure local government needs recognize that some municipalities are less capable of raising sufficient revenues from their own tax bases than others. Whereas the programs that attempt to address expenditure demands may be tied to specific services, fiscal equalization programs provide greater latitude for the local governments to decide how best to use the funding.

Australia, Canada, Germany, Switzerland, and to lesser extents Sweden and Denmark, have revenue sharing programs designed to provide fiscal equity. Of these, Germany has circumstances perhaps the most like those in Michigan. Of the value added tax revenues sent to the German states, 75 percent is distributed on a per capita basis. Most of Michigan's revenue sharing dollars are distributed on a per capita basis. The remaining 25 percent is distributed to the German states deemed "poor" based on the difference between per capita tax revenues raised in each state compared to the national average. This resembles the yield equalization component of the 1998 revenue distribution formula that aimed to guarantee a minimum yield from each mill of tax levied.

Fiscal equivalency programs are less popular in state revenue sharing formulas. Minnesota and Wisconsin both initiated revenue sharing programs that accounted for deficiencies in tax raising abilities about the same time that Michigan adopted the relative tax effort formula. The formulas have evolved over the years to incorporate other measures of need as those states have attempted to support their weakest local governments. Florida law uses the local government's ability to raise sales tax revenues and to raise property tax revenues as factors for the distribution of state revenue sharing.

The downside of using measures that account for differences in tax base is that doing so assumes that all local governments are attempting to provide the same menu of services; sending revenue sharing to those with smaller tax bases better enables them to provide those services.

Because Michigan local governments are dependent on property taxation as the primary means of own-source revenue, fiscal equalization for Michigan local governments must be focused on the relative size of each local government's property tax base.

Taxable Value per Capita. Because Michigan local governments are dependent on property taxation as the primary means of own-source revenue, fiscal equalization for Michigan local governments must be focused on the relative size of each local government's property tax base. This component in the 1998 revenue sharing reforms was intended to provide greater state support to units with smaller per capita tax bases. This formula divides the state average taxable value per capita by each local government's taxable value per capita and the result is multiplied by the unit's population to obtain the unit's weighted population.

Wisconsin is another state that has implemented this measure. Prior to 2004, a per capita property wealth metric was calculated as part of a two factor method to determine local government entitlements.

Tax Yield Equalization. The 1998 reforms also created a measure of tax yield equalization. Like taxable value per capita, the measure attempted to compensate local governments with smaller tax bases. Rather than measuring the adequacy of each government's tax base on a per capita basis, this measure assessed the productivity of one mill of taxation in yielding revenues. Local governments for whom a mill of taxation did not generate revenues at the state average received funding. Those for whom one mill generated revenue in excess of the state average received nothing.

The state of Minnesota utilizes a similar measure as a factor in determining aid for its Local Government Aid program for cities. The measure of need is the gap between a calculated expenditure need, which takes into consideration several factors, and the ability to pay. The latter is defined by a city's capacity to raise revenue via property taxes by comparing the statewide average city tax to the city's tax base.[22] Furthermore, such a measure was utilized in Wisconsin as well (prior to 2004) as a second piece to a two factor method (mentioned above) which measures net local revenue effort in comparison to an equalized standard.[23]

Tax Exempt Properties. A third way of considering the capacity of local governments to generate revenues from their own sources and the state's interest in this capacity, is to consider the ways in which local governments are handicapped by the state exemption of certain properties from taxation. Many core cities and major population centers are host to various properties that are exempt from property taxation but still contribute to the cost of providing public services. State and federal government office buildings, universities, hospitals, churches, and other non-profit entities draw people and create traffic, but the local governments receive little compensation for performing public services to support those properties.

The state revenue sharing program could compensate local governments for hosting these types of properties as part of an effort to assist local governments less able to raise revenues from own-source revenues. These types of properties typically are not assessed for purposes of property taxation, so it would be difficult to compensate the local governments on the basis of the value exempted from taxation. Two options would be to fund each parcel of tax exempted property at flat amounts or fund each parcel of tax exempted property according to the amount of square footage or acreage encompassed by those properties.

Evaluation of Tax Base Factors. The primary difference between taxable value per capita and tax yield equalization is that the first measure is more heavily predicated on the idea that local government services are provided to people, while the second measure is indifferent to whether the services are provided to people or properties. Certainly, much of the services provided to local governments are provided to people, but things like garbage collection, fire protection, planning and zoning, and others are less dependent on the number of people in the community.

The outmigration from cities like Detroit, Flint, Saginaw, Benton Harbor, and other core cities and inner ring suburbs illustrate the significance of this distinction. While populations have declined drastically in some places, the number of parcels, the land area, and sometimes the number of buildings protected have not changed. Vacant lots and urban blight are associated with some of these core cities, but the distinction matters in the inner ring suburbs as well. Many of the houses that once were occupied by a wedded couple bringing up two or three children are now occupied only by a widower. While the value of the property to be protected from fires is not diminished and the garbage trucks still have to stop in front of every house, there are fewer residents served.

The future of state funding to declining cities would be negatively affected by outmigration and "empty nesters" in the taxable value per capita formula. The aggregate value of property is spread over a smaller number of residents, arithmetically making the ratio larger. They appear relatively richer because of population loss. The tax yield equalization formula is indifferent to population changes, but would recognize changes under the above scenarios if the outmigration resulted in declining property values.

Demand for Services

Alternative methods of revenue distribution are based on assessments of the services provided. These assessments are best if they are based on measures of units served – people or properties – or measures of services provided – crimes responded to, fires put out, park acreage, etc. They should not be based on the cost of serving people or property, or the cost of providing specific services. To do so, creates perverse incentives for local governments to inflate costs to enhance payments from the state.

Assessments of the services provided are best if they are based on measures of units served – people or properties – or measures of services provided – crimes responded to, fires put out, park acreage, etc.

On a macro level, there are no services universally provided by all cities, villages, and townships throughout Michigan. Many functions – property assessing, tax collection, accounting, planning and zoning, etc. – are nearly universally performed by cities and townships. These are fundamental responsibilities of local governments, crucial to these local governments' existence. Not all cities, villages, and townships in Michigan provide for police and/or fire protection, provide parks and recreation, collect refuse, or engage in other activities commonly associated with local governments.

Because of the difficulty in weighing one unit of local government's needs against another's and because of the lack of uniformity in services provided, governments tend to use "pseudo" measures that are commonly accepted as indicators of heightened demand for services.

Nighttime Populations. Michigan, and most other states, have historically used this measure for the distribution of constitutional revenue sharing. Generally they have done so by using the decennial census data compiled by the U.S. Department of Commerce's Census Bureau. This readily available, credible source of data prepared by a disinterested third party makes this an ideal measure upon which to distribute funding. Programs distributing funding on a per capita basis benefit from the political reality that simple transfer programs are easily understood and have an element of equity that is universally valued.

Per capita distributions are widely used. The revenue sharing programs in Australia and Germany have elements that distribute funding to the states. Similarly, per capita revenue distribution programs sending funding to local governments are used in

American Community Survey

Besides the criticisms of population as a measure of need addressed in the body of this report, per capita distributions have often been criticized because population is only formally measured only once every ten years. Population for such purposes is typically based on the decennial census performed by the U.S. Department of Commerce's Census Bureau. While the decennial census provides an unbiased measure performed by a neutral third party, the ten year intervals between each enumeration means that the data can be dated and somewhat obsolete some eight, nine, ten years down the road before new census counts are available.

Recent developments with the Census Bureau create new possibilities of using more current, up-to-date data. The American Community Survey (ACS) is a nationwide survey of people, households, and communities performed on an ongoing basis. The confidence of estimates for each community depend on the size of that community and the likelihood that residents possibly included in the survey reflect the overall demographics of the local government.

The population estimates provided by the ACS can be used as part of any statutory revenue sharing formulas – such as a formula that creates weights to adjust population – to reflect changes and newly created needs between each enumeration of population.

(or have been used in) 35 states including: Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Idaho, Illinois, Indiana, Kansas, Louisiana, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Rhode Island, South Carolina, South Dakota, Tennessee, Washington, Wisconsin, and Wyoming.

However, this approach for state revenue sharing (beyond the per capita constitutional revenue sharing distributions) has several shortcomings. Since the census counts people in their residence, it is essentially only counting the nighttime population of each community. This is not without some merit, considering many fundamental local government services are provided to residences, including zoning, fire protection, garbage collection, police protection, and parks. However, people have less interaction with others in the nighttime.

Additionally, simple measures of population do not account for differences in the ability to fund governmental services or in the demand for governmental services. Two governments with equal populations can have their residents dispersed over different geographic areas. To illustrate, the city of Novi and the city of Dearborn Heights have populations of 57,761 and 55,319 respectively. However their population densities differ widely, from slightly above 4,000 people per square mile in the city of Dearborn to approximately a mere 1,800 people per square mile in the city of Novi. These differing levels of densities have significant implications on service delivery regardless of the ostensible similarities in terms of overall population. The population as reported by the U.S. Bureau of Census is therefore the crudest, but most reliable basis on which to distribute state funds.

Simple measures of population do not account for differences in the ability to fund governmental services or in the demand for governmental services.

Daytime Populations. A revenue distribution methodology based on a measure of daytime populations would better reflect where interaction between people occurs. Many local governments have daytime or seasonal populations that are remarkably different than their census, or nighttime, populations. Communities that host office buildings, commercial centers of commerce, and industry tend to have larger daytime populations than their census populations would indicate. Conversely, Michigan's bedroom communities tend to empty out during daylight hours when residents commute to places of employment or commerce.

Similarly, communities on the west side of Michigan and in northern parts of the state host a number of second homes and resort communities that draw visitors for only parts of the year. Their summer populations can be drastically larger than those during their winter months.

While the daytime and seasonal populations are preferable to census or nighttime populations as pseudo measures of need, this measure is still less than desirable for several reasons. Most significantly, like the nighttime population, this measure does not account for differences in density.

The greatest obstacle to using daytime populations as a factor in distribution calculations is the lack of reliable data. The problem is that there is not a third party that counts the number of people that come to these places. Each tourist attraction, shopping mall, etc. can have incentives to overestimate their popularity, and there are no means to audit or validate the populations that they may report.

Since the population density of different communities is highly correlated with the number and intensity of services that the communities provide, it tends to reflect the demand for governmental services.

Even if reported daytime populations could be agreed to as accurate, the types of activities occurring may dictate different support by the local governments. For instance, shopping malls and other centers of commercial activity may necessitate a greater police presence than office buildings.

No other state or county uses daytime populations as a means of distributing state revenue sharing.

Population Density. Population density is an alternative to the use of the census population. This is simply a measure of the average number of people living within each square mile of land area in a community. Since the population density of different communities is highly correlated with the number and intensity of services that the communities provide, this measure better reflects the demand for governmental services. The state of Minnesota utilizes population density figures among several factors that are employed in determining revenue sharing funds for their Local Government Aid program.[24] The state of Massachusetts during the 1980's also utilized population density as one of several factors to determine municipal need in administering assistance to municipalities.

Building Counts and Building Density. In addition to services provided to people, local governments provide a number of services to properties. Fire protection, refuse collection, storm sewers, and snow removal are examples of services for which the intensity and cost of services depends to a greater extent on the number of buildings than the number of people being served.

A distribution of revenue sharing dollars based on a measure of building density would reflect the higher cost for some communities because of a demand for governmental services linked to properties. A measure of building density would recognize that the governmental services provided to properties tend to increase in intensity when buildings are located in close proximity to one another. In administering funding to local governments, Minnesota considers several housing statistics in order to determine need. Amongst these are percentage of pre-1940's housing units, percentage of housing units built from 1940 to 1970, and total housing units within a municipality.[25]

Unit Type. Historically, residents of a community have chosen a level of incorporation – city, village, or township – for their local government to reflect the level of services they expect from that unit. Townships historically provided a very rudimentary level of services, including assessing property as a basis of county and school taxes; collecting taxes for the counties and schools; and conducting county, state, and national elections. As parts of a township grew in population and population density, the residents in that area might look to their local government to expand services to better meet their needs. The purpose in organizing a village was to furnish local services to residents of a built-up area in the township which the township government, due to its limitations, could not provide.

A community that continued to grow and had increased demands on the local government might eventually opt to incorporate as a city. Cities were historically authorized to provide a broader menu of services than townships or villages and had greater taxing authority to fund those services. At one time Michigan had different classes of cities that reflected varying levels of authorization for the provision of services and the funding of those services. That has all but been abandoned, with only a few of Michigan's cities incorporated as home rule cities.

Since enactment of the Charter Township Act in 1947, townships have increased their authority to provide services and meet the needs of their residents and businesses. Charter township status has been adopted by many townships, especially in the state's urban areas. At this point in Michigan's history and with the current authorizing laws in place, it is not necessary to incorporate as a village or city to provide a wide range of local government services. Michigan does not have any cities that could be characterized as rural in nature with low population densities, but it does have a number of townships and villages that are very urban in nature and that have populations rivaling their neighboring cities.

The 1998 reforms to the state revenue sharing distribution formula included a measure of the unit type that was based on the contention that service delivery costs are a function of the type of unit and population size within a given unit type. Cities were regarded as the most complex unit type, followed by villages and townships. This accounted for the expansion of authorization to provide some services by larger townships by treating those entities as cities, if they met certain circumstances.

Evaluation of Service Demand Factors. Population density, building density, and/or unit type could be used, individually or in combination, to reflect the greater service demands on some local governments as opposed to others. They could be used to create weights that would be applied to the local government's population, as measured by the decennial census or the American Community Survey.

Funding Certain Key Places

Part of the state's exercise in defining its relationship with local governments and the goals it hopes to achieve through a revenue sharing program might include an assessment of whether some places are of extra significance to the state. Of course, the state has an interest in all local governments operating at their respective peak, but it has a stronger interest in some local governments. This strategy would direct state resources to those places for which the state has the strongest interest to the exclusion of other places or public services.

> Of course, the state has an interest in all local governments operating at their respective peak, but it has a stronger interest in some local governments.

Agricultural communities, while important to the state economy, do not require a great deal of local government services. Forestry is a very important part of the state economy as well, but again it requires little by way of local government services. The idea here is that Michigan's core cities, commerce centers, manufacturing hubs, and tourist destinations, require a higher level of intensity in local government service delivery. Therefore since such places contribute significantly to the state economy and are important to outsiders' perceptions of the state, servicing these locations ought to be a priority.

Central Cities. Although elements of such a program have been sprinkled throughout state policies over the years, Michigan has long lacked an urban policy agenda. By recognizing the state's urban centers as key elements of the state's economic engine, the statutory state revenue sharing program could be part of a strategy to revitalize and strengthen the cities that are key to the state's economic outlook. It would strive to keep the cost of living and working in these communities competitive with surrounding communities and aim to head off the urban sprawl that has contributed to the demise of these cities.

Other Key Places. Besides recognition of Michigan's cities as key elements in the state's economic engine, the state revenue sharing program could direct funding to support other key economic drivers. This strategy could recognize suburban communities that host office centers and manufacturing facilities. It could focus on other key economic activities, such as medical tourism that attracts people from other states to use the medical facilities that have developed in Michigan. This strategy could recognize the need for strong local governments in tourist destinations such as Mackinac Island, Frankenmuth, port cities along the Great Lakes, and other key places.

This strategy would not necessarily direct funds to the communities that host tourist, medical, or other key places. It could spread the funding to the surrounding communities that provide the transportation infrastructure to access these locations. It could recognize that surrounding communities provide hotel and restaurant options for people attracted to these points of interest. It could direct funds to out-state advertising or other means of attracting people to these destinations.

State policymakers could also drop the pretense of providing this funding for unrestricted use by local governments.

Directly Fund Key Services

State policymakers could also drop the pretense of providing this funding for unrestricted use by local governments. Funding would be restricted to specific public services related to the health and safety of residents – police protection, fire protection, emergency medical services (EMS), courts, county health programs, and water and sewer quality services. While the state is interested in these communities providing attractive and welcoming environments that make people want to live and work in the state, ultimately the state's interest is in providing for the health and safety of its residents. This would bend the rules for state revenue sharing in many ways.

Such a program would have to meld the revenue sharing programs that direct funding to cities, villages and townships with that which provides funding to counties. It is common for cities, villages, and larger townships to have their own police departments, but large geographic areas of the state are provided police protection by county sheriffs. Likewise, municipal fire departments are common in urban areas of the state, but many areas of the state receive fire protection through interlocal agreements that often involve multiple jurisdictions. This approach would direct funding to the services without regard to the entity responsible for providing that service in different areas of the state.

The state has taken such an approach with other public services it values and for which it hopes to ensure a minimum level of services. Road quality between jurisdictions is valued enough that the state funds local governments through the Public Act 51 restricted revenue sharing program. The equal application of justice is promoted with court funding provided through a restricted revenue sharing program. Equal and quality education is of such significance that it has shifted to a restricted revenue sharing program, through which almost all of the operating funding is provided by the state.

Pros and cons are associated with such an approach. By tying the funding to specific programs, it might make it harder for future legislatures to redirect funding for state purposes as has often occurred throughout the history of state revenue sharing.

Alternatively, funding is fungible. The addition of funds for a specific service may simply free up existing local funds dedicated to that service to be redirected for other services. While on its face this might appear as a move away from unrestricted state revenue sharing, in the end it may provide the same freedom of spending as the current program.

Such a program would require assembly of multiple measures of services provided by the state's public safety entities. A police measure could use data reported to the state and the Federal Bureau of Investigation of crimes reported and cases cleared. A fire measure could be comprised of the number of fires and emergencies occurring within each department or authority's geography. Similar measures could be assembled for emergency medical services.

Recommendations and Alternatives

There are no clear answers to the matter of reforming Michigan's statutory state revenue sharing program. Accordingly, recommendations are focused on decision points for state policymakers. The alternatives offered below offer distribution methods that would get funding to Michigan's communities most in need in terms of their abilities to raise revenues or their service delivery demands.

Recommendations

The first recommendation is for state policymakers to decide if the statutory state revenue sharing program is a priority. If it is, its importance must be emphasized by a return to funding at the levels designated in statutory law. FY2014 funding levels equate to roughly a 75 percent cut in funding from the statutory base. After funding is sent to Detroit, which is arguably inadequate to meet the city's needs, there is not sufficient funds available to meet the needs of other local governments. If it is not the priority it once was, they should end the illusion and direct the funding to meet other needs.

> The first recommendation is for state policymakers to decide if the statutory state revenue sharing program is a priority. If it is, it's importance must be emphasized by a return to funding at the levels designated in statutory law.

If revenue sharing is a priority, then the second recommendation is for state policymakers to examine the purpose of local government and the role they see statutory state revenue sharing helping to serve that purpose. This analysis was done based on the idea that local governments exists to manage the interaction between people. This need not be the only role local governments are deemed to fill.

Based on CRC's understanding of this purpose, it therefore makes sense that the role of statutory state revenue sharing is to ensure that all local governments are equipped to perform this purpose at a minimum level. This can be done by directing funding to affect differences in fiscal capacity or by directing funding to the places or services that the state values.

Alternatives

CRC suggests the consideration of either of the following two approaches to achieving this aim:

1. A formula that considers both the capacity of a government to raise revenues and the demands placed on a government to provide services.
2. A program that moves away from the unrestricted nature of state revenue sharing to fund public safety programs.

A New Formula to Address Fiscal Capacity

A new formula to address fiscal capacity should recognize both that some local governments do not have the sufficient tax base to productively raise funding to support their own operations with local taxation, and that some local governments are called upon to provide services at higher levels. Keeping in mind the need to keep a new formula simple and understandable, a new formula should be broken into parts based on different factors that recognize that the needs of Michigan's local governments are not easily defined by one measure of need.

Insufficient Revenue Raising Capacity

Given Michigan's heavy reliance on property taxes as the primary source of local taxation for cities, villages, and townships, the options that could be used to assess revenue raising capacity are few. The distribution of funding to equalize tax yields or on a tax base per capita basis both achieve the same goal. However as described above, wherein tax yield equalization operates independent of population, making it better suited to meeting the needs of Michigan's urban places at this time.

Heavier Service Demands

The second part of a fiscal capacity formula should recognize the heavier demands for services placed on some local governments. Because local government services are provided both to people and to properties, service demands should be measured as population density and building density. These measures recognize that the closer people are to one another, and by extension the closer their residences are to one another, the more they'll interact. This will result in a greater demand for public safety services, a greater demand for services such as garbage collection or planning and zoning, and increased interest in quality of life services such as parks, libraries, and recreation facilities and programs.

Rather than using the pseudo measures of need, as is necessary in the unrestricted state revenue sharing distribution formulas, a restricted revenue sharing program for public safety should be based on actual measures of activities that drive the staffing and cost of public safety agencies.

Transition to Restricted State Revenue Sharing

The present scenario, with state policymakers considering policy actions to rebuild the statutory state revenue sharing program and many local governments presently receiving no funding from this program, offers an opportunity to rethink the unrestricted nature of the funding that flows to local governments. Rather than distributing the funds to local governments with the understanding that public safety is the function that consumes the most local dollars, such a change would direct state funding directly for these purposes – police, fire, and emergency medical services.

Rather than using the pseudo measures of need, as is necessary in the unrestricted state revenue sharing distribution formulas, a restricted revenue sharing program for public safety should be based on actual measures of activities that drive the staffing and cost of public safety agencies.

Conclusion

An economic, efficient use of taxpayer dollars suggests that the government responsible for providing services should also be the government responsible for collecting the taxes. Despite this bedrock principle of good government, reasons to continue and reconstitute statutory state revenue sharing are plentiful. On top of the fact that Michigan's history of sharing revenues has created a dependence from which local governments will not easily be weaned, state revenue sharing also serves to diversify the revenue structure of local governments; to facilitate economic development by diminishing the need for local taxes to be levied at exorbitant and non-uniform rates; and to ensure that a minimal level of services are provided across all jurisdictions.

The circumstances of the past decade have left Michigan with a state revenue sharing program that bears little resemblance to its prior self. There is little rhyme or reason to the methodologies used to distribute statutory state revenue sharing to local governments, nor to the amounts that they receive.

The factors used in the 1998 formula had a lot of merit and might have served the state well had the program been funded and the formula allowed to operate as it was intended. The primary weakness was that it focused heavily on the revenue raising capacity of local governments, to the exclusion of any elements that recognized the heavier burdens placed on some governments.

This report identifies opportunities for addressing that weakness, either in a continued unrestricted state revenue sharing formula or as a new restricted revenue sharing program for public safety. The effective use of public resources in such a program depends not only on a sound formula for getting funding to the governments with the greatest needs, but also on a level of funding sufficient to make a difference.

Appendix A
Michigan's Long History of Sharing State Revenues

School Aid Funding

Michigan's history of collecting revenue at the state level for distribution to local school districts dates back to the years under the 1850 state Constitution. As local governments benefited from the windfall of new revenues with adoption of the 1946 Sales Tax Diversion Amendment, school districts experienced an influx of new revenue from the dedication of sales tax revenues for this function. The methods used for distributing state funding to local school districts have changed over the years from foundation grants to power equalizing programs and more recently, back to foundation grants.

In 1994, a constitutional amendment and a package of accompanying statutory reforms shifted the burden of school funding squarely to the state. Local property taxes for school operations were reduced and revenues from the state sales, use, tobacco, real estate transfer, and other taxes were dedicated to making up the state's obligation. The school funding reforms returned the state to a foundation grant for distributing funds to local districts.

In its simplest form, the foundation grant sets a target level of resources per unit (teacher, classroom, or pupil) and a required local property tax rate. In this sense, foundation programs effectively set a funding floor for each school district, which represents the basic or minimum education program to be offered. State school aid is then distributed to local districts to fund the difference between the state-determined foundation and the locally-generated property tax. As a result, state school aid amounts vary from district to district based on each district's target level and the property wealth of the individual community. In this sense, state school aid "equalizes" funding because it is both sensitive to the educational needs of individual districts (specific target level) and to variations in property wealth.

Michigan's foundation grants are based on historical spending amounts per pupil by each school district at the time the school funding reforms were implemented. Over the years, the distribution formulas have attempted to create greater equity by providing more funding per pupil to the lower spending districts than was provided to the higher spending districts.

In FY2013, $10.9 billion flowed to local school districts through this system.[26]

Highway Funding

Michigan revenue sharing with local governments dates as far back as 1905, when state revenues were made available to townships for local highway construction. As use of the automobile grew more popular, and demand for infrastructure to connect the population center increased, the amounts of state funding appropriated for local road needs was increased.

In these early years, state highway funding was meant to supplement property tax revenues that were the primary funding source for city, village, and township roads. The advent of the Great Depression in the 1930s ultimately led to declines in property values greater in scale than what has recently been the experience of Michigan's local governments because of the 2007 stock market collapse and the housing bubble burst. The policy responses to the potential default on road bonds was two-fold. First, the McNitt Act of 1931 merged township road systems with county road systems to allow local highway agencies to capitalize on the remaining tax base. Second, the Horton Act of 1932 affected financial support at all levels of government by changing the allocation of motor-vehicle weight and motor-fuel tax proceeds. As a result, township and county property taxes for road improvement, maintenance, or debt service were practically eliminated. State-levied, highway-user taxes became the chief bases of rural highway finance in Michigan.[27]

Public Act 51 of 1951 now governs highway governance and finance. It provides a formulaic method for dividing Michigan's motor fuel and vehicle registration taxes that are collected at the state level among the counties, cities, and villages for care of the highway infrastructure. Its enactment was a reaction to the shortcomings of the Horton Act. PA 51 allocates funding to specific transportation needs, such as transit providers and economic development, and divides available funding among the Michigan Department of Transportation (MDoT), the county road agencies, and cities and villages.

In FY2013, $1.2 billion flowed to local governments through this system.[28]

Liquor Enforcement Funding

The enforcement of the state's liquor laws and rules is a joint effort between the state Liquor Control Commission and local and state law enforcement officers. Retail establishments that sell liquor – restaurants, bars, packaged liquor stores, etc. – must pay license fees. The Liquor Control Commission then sends 55 percent of retail licensing fees back to local units of government primarily for enforcement of the state's liquor laws in proportion to the amount of license fees paid by establishments within their jurisdictions.

In FY2013, $6.5 million flowed to local governments through this system.

Court Funding

Adoption of the 1963 Michigan Constitution created "one court of justice" within which district, circuit, probate, and appeals courts all operate below the state Supreme Court. Prior to adoption of the 1963 Constitution, Michigan was served by a myriad of municipal, traffic and ordinance, justices of peace, and common pleas courts.

While streamlining the court system to create "one court of justice," neither the constitutional convention nor the legislation implementing the constitutional provisions addressed the need for a unified system of court finance. The county governments, alone or in tandem, are the funding units responsible for funding the circuit and probate courts. Funding responsibilities for the district courts vary among counties and cities. As funding units, the counties and municipalities must perform careful balancing acts with the trial courts to provide needed funding without intruding into the affairs of the courts.

Over time, there has been some recognition by the state legislature that the state should bear the responsibility for funding the "one court of justice." The first movement in this direction was necessitated by the financial difficulties of the City of Detroit and Wayne County in the early 1980s. In 1981, the state assumed funding responsibility for the Third Circuit Court in Wayne County, Detroit's Recorder's Court, and Detroit's 36th District Court. Pursuant to PA 438 of 1980, this state action was to be the first phase of a state reorganization that would ultimately result in full state funding for the trial courts. Act 438 laid out a six-year timetable for the state to fund trial court operational expenses on a statewide basis. While the state met its funding obligations for the Detroit and Wayne County courts, sufficient funds were never provided to fund court operations statewide.

Public Act 189 of 1993 created new revenues for court operations by restructuring and increasing certain court fees. Funds from those fees were earmarked to a newly created State Court Fund, which allocated funding to trial courts pursuant to a formula based on the state's paying a percentage of trial court costs. Some court funding units benefited from this allocation, others did not. Again, the state was not able to provide sufficient resources to fund court operations statewide.

The legislature again attempted to restructure the court system and provide equitable state funding of trial courts in 1996. Detroit's Recorder's Court was folded into Wayne County's Third Circuit Court. The Third Circuit Court and the 36th District Court no longer received special funding. New funds were established to provide operational funding to trial courts statewide.

In FY2013, the state sent $127.8 million to local governments to fund courts.[29]

Appendix B
Indicators of Need in Michigan Local Governments

Lowest Levels of High School Completion Rates in Michigan Local Governments (Ranked from Lowest in State)

Local Government	County	Population	High School Completion Rates	Child Poverty Rates	Adult Poverty Rates	Taxable Value Per Capita
Crystal Twp.	Oceana	828	**60.9**	65.6	39.1	$22,455.62
Covert Twp.	Van Buren	2,846	**61.4**	38.8	31.5	$212,151.51
Hamtramck	Wayne	22,101	**64.2**	62.9	44.6	$8,827.51
Imlay City	Lapeer	3,587	**67.9**	20.5	20.7	$29,368.47
Carsonville Vil.	Sanilac	518	**69.4**	44.3	33.6	$12,492.31
Baraga Vil.	Baraga	2,027	**69.5**	33.2	25	$6,431.23
Benton Harbor	Berrien	10,040	**69.7**	62.6	48.5	$11,667.37
Hulbert	Chippewa	170	**70**	50	21.7	$51,765.02
Posen	Presque Isle	230	**70.2**	41.3	29.8	$20,598.94
Peacock Twp.	Lake	490	**70.4**	64.7	16.8	$62,293.79
Hubbardston Vil.	Clinton, Ionia	397	**70.9**	41.8	27.8	$11,036.78
Harrietta Vil.	Wexford	143	**70.9**	72.7	38.5	$18,476.52
Keeler Twp.	Van Buren	2,169	**71.4**	17.4	22.5	$58,574.37
California Twp.	Branch	1,035	**71.5**	56	37.4	$18,959.34
Elmer Twp.	Oscoda	1,130	**71.8**	1.1	11.2	$36,479.44
Wellington Twp.	Alpena	303	**71.9**	28.3	17.5	$49,567.31
Cherry Valley Twp.	Lake	393	**72**	49.4	40.2	$34,470.33
Camden Twp.	Hillsdale	2,027	**72.1**	58	38.4	$23,896.34
Columbia Twp.	Van Buren	2,549	**72.6**	25.3	25.3	$33,167.63
Colfax Twp.	Oceana	456	**72.6**	36.7	21.2	$79,509.43
Yates Twp.	Lake	757	**72.7**	47.2	21.8	$35,914.83
Elbridge Twp.	Oceana	963	**72.9**	45.2	30.2	$25,334.80
Kinde Vil.	Huron	440	**73**	24.8	24	$18,077.36
Vandalia Vil.	Cass	297	**73.2**	43.6	21.2	$10,994.03
Shelby Vil.	Oceana	2,045	**73.5**	37.6	24.5	$13,852.77
STATE AVG.		**5,723**	**88.7**	**22.4**	**16.3**	**$31,870.69**
STATE MEDIAN		**1,880**	**88.9**	**17.5**	**13.1**	**$30,958.16**

Highest Levels of Child Poverty Rates in Michigan Local Governments (Ranked from Highest in State)

Local Government	County	Population	High School Completion Rates	Child Poverty Rates	Adult Poverty Rates	Taxable Value Per Capita
Logan Twp.	Mason	312	75.8	**87**	24.1	$73,388.94
Beulah Vil.	Benzie	341	95.4	**78.3**	22.4	$81,445.70
Lincoln Vil.	Alcona	328	84.4	**75.6**	40.1	$58,627.07
Onota Twp.	Alger	348	97.9	**74.2**	19	$102,708.53
Redding Twp.	Clare	523	73.8	**73.4**	33.3	$36,193.40
Harrietta Vil.	Wexford	143	70.9	**72.7**	38.5	$18,476.52
Wolverine Vil.	Cheboygan	241	84.5	**72.6**	55.6	$18,459.61
Barryton Vil.	Mecosta	361	87.7	**71.4**	45.8	$16,193.43
Mentor Twp.	Oscoda	1,138	79.1	**71.3**	33.6	$37,730.70
Wright Twp.	Hillsdale	1,639	76.7	**70.8**	40.2	$28,589.63
Bergland Twp.	Ontonagon	441	96.1	**70**	18.6	$67,798.94
Webber Twp.	Lake	1,707	75.5	**68.6**	29	$62,207.82
Marenisco Twp.	Gogebic	1,721	87.8	**68.6**	13.8	$27,852.83
Mesick Vil.	Wexford	393	82.2	**68**	42.7	$16,128.32
Muskegon Heights	Muskegon	10,789	78.7	**66.7**	47.9	$11,354.50
Crystal Twp.	Oceana	828	60.9	**65.6**	39.1	$22,455.62
Twining Vil.	Arenac	177	76.4	**64.9**	36.1	$22,033.78
Roscommon Vil.	Roscommon	1,062	82.4	**64.9**	47.3	$22,106.01
Peacock Twp.	Lake	490	70.4	**64.7**	16.8	$62,293.79
Breedsville Vil.	Van Buren	197	79.1	**64.1**	35.9	$13,057.39
Paw Paw Vil.	Van Buren	3,485	80.2	**63.6**	44.8	$24,213.91
Applegate Vil.	Sanilac	244	83.3	**63.4**	38	$10,082.36
Rose City	Ogemaw	647	77	**63**	50.2	$20,507.56
Mueller Twp.	Schoolcraft	230	81.6	**63**	30.9	$167,607.45
Hamtramck	Wayne	22,101	64.2	**62.9**	44.6	$8,827.51
STATE AVG.		**5,723**	**88.7**	**22.4**	**16.3**	**$31,870.69**
STATE MEDIAN		**1,880**	**88.9**	**17.5**	**13.1**	**$30,958.16**

No Child Poverty data provided for Bois Blanc Township in Mackinac County and Pointe Aux Barques Township in Huron County.

Highest Levels of Adult Poverty Rates in Michigan Local Governments (Ranked from Highest in State)

Local Government	County	Population	High School Completion Rates	Child Poverty Rates	Adult Poverty Rates	Taxable Value Per Capita
Turner Vil.	Arenac	112	75	50	**59.5**	$13,857.42
Wolverine Vil.	Cheboygan	241	84.5	72.6	**55.6**	$18,459.61
Rose City	Ogemaw	647	77	63	**50.2**	$20,507.56
Benton Harbor	Berrien	10,040	69.7	62.6	**48.5**	$11,667.37
Muskegon Heights	Muskegon	10,789	78.7	66.7	**47.9**	$11,354.50
Union Twp.	Isabella	12,950	91.5	19.8	**47.7**	$24,958.50
Roscommon Vil.	Roscommon	1,062	82.4	64.9	**47.3**	$22,106.01
Big Rapids	Mecosta	10,702	88.5	49.6	**47**	$15,229.83
Highland Park	Wayne	11,629	77.6	62.1	**46.7**	$12,716.09
Mount Pleasant	Isabella	26,183	92.7	32.1	**46.3**	$16,418.79
Whittemore	Iosco	377	77.8	60.2	**46.2**	$14,110.58
Barryton Vil.	Mecosta	361	87.7	71.4	**45.8**	$16,193.43
Houghton	Houghton	7,705	94.1	23.8	**45.7**	$15,952.88
Paw Paw Vil.	Van Buren	3,485	80.2	63.6	**44.8**	$24,213.91
Hamtramck	Wayne	22,101	64.2	62.9	**44.6**	$8,827.51
Luther Vil.	Lake	317	78.6	48.6	**44.3**	$12,372.15
Mecosta Vil.	Mecosta	460	80.6	51	**43.9**	$10,498.88
Mesick Vil.	Wexford	393	82.2	68	**42.7**	$16,128.32
East Lansing	Clinton, Ingham	48,518	97.6	9.8	**40.6**	$18,774.52
Wright	Hillsdale	1,639	76.7	70.8	**40.2**	$28,589.63
Cherry Valley Twp.	Lake	393	72	49.4	**40.2**	$34,470.33
Lincoln Vil.	Alcona	328	84.4	75.6	**40.1**	$58,627.07
Flint	Genesee	100,515	82	58.2	**39.7**	$9,373.99
Woodbridge Twp.	Hillsdale	1,311	76.3	60.9	**39.4**	$22,237.96
Crystal Twp.	Oceana	828	60.9	65.6	**39.1**	$22,455.62
STATE AVG.		**5,723**	**88.7**	**22.4**	**16.3**	**$31,870.69**
STATE MEAN		**1,880**	**88.9**	**17.5**	**13.1**	**$30,958.16**

Lowest Levels of Median Family Incomes in Michigan Counties (Ranked from Lowest in State)

County	Population	Population Density	County Taxable Value Per Capita	Median Family Income
Lake	11,498	20.3	$48,779.59	$37,500
Oscoda	8,592	15.3	$43,749.00	$40,417
Clare	30,753	54.8	$33,203.76	$40,848
Roscommon	24,106	47.1	$51,866.31	$42,334
Ogemaw	21,437	38.5	$37,602.76	$43,027
Montmorency	9,476	17.9	$52,143.53	$44,087
Alcona	10,635	16.2	$71,151.67	$44,375
Arenac	15,477	43.8	$35,648.30	$45,000
Cheboygan	25,835	36.6	$50,826.00	$45,209
Iosco	25,357	47.1	$44,202.55	$45,351
STATE AVG.	**119,077**	**174.8**	**$31,949.83**	**$48,471.00**
STATE MEDIAN	**38,917**	**59.59**	**$34,828.19**	**$52,007.00**

Endnotes

1 See The Oxford Handbook of State and Local Government Finance, pages 232-233, 2012.

2 This information was derived from 2010 U.S. Census data

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4 Mehmet S. Tosun and Mark L. Skidmore (2007) "Cross-Border Shopping and the Sales Tax: An Examination of Food Purchases in West Virginia, "The B.E. Journal of Economic Analysis & Policy: Vol. 7 Iss. 1 (Topics) Article 63

5 See; CRC Report 295, Local Property Tax Limitations in Michigan, September 1989, www.crcmich.org/PUBLICAT/1980s/1989/rpt295.pdf, CRC Council Comments No. 985, Local Property Tax Limitations in Michigan, October 1989, www.crcmich.org/PUBLICAT/1980s/1989/cc0985.pdf, CRC Council Comments No. 1013, The Fifty Mill Limitation: An Update, November 1992, www.crcmich.org/PUBLICAT/1990s/1992/cc1013.pdf, CRC Council Comments No. 920, Wayne County and Detroit School Millage Proposals, October 1, 1980, www.crcmich.org/PUBLICAT/1980s/1980/cc0920.pdf.

6 See CRC Council Comments No. 1020, Unrestricted State Revenue Sharing in Michigan, October 1993, www.crcmich.org/PUBLICAT/1990s/1993/cc1020.pdf.

7 See CRC publication, Outline of the Michigan Tax System, April 2014, www.crcmich.org/TaxOutline/TaxOutline.pdf.

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9 See CRC Report 312, Analysis of Statewide Ballot Proposal A: Elementary-Secondary School Finance, February 1994, www.crcmich.org/PUBLICAT/1990s/1994/rpt312.pdf.

10 See CRC Memorandum 1128, Statewide Ballot Issues: Proposal 2014-1 – Voter Approval of a New Statewide Local Tax to Reimburse Local Governments for Personal Property Tax Reforms, July 2014, www.crcmich.org/PUBLICAT/2010s/2014/memo1128.html.

11 See the following site for a list provided Michigan Department of Treasury www.michigan.gov/taxes/0,4676,7-238-43715-153955--F,00.html.

12 See U.S. Census Bureau, Proposed Urban Area Criteria for the 2010 Census, August 24, 2010, https://www.census.gov/geo/reference/pdfs/fedreg/fedregv75n163.pdf.

13 Population density figures are all based on 2010 Census Bureau information. High school completion rates, child poverty rates, and adult poverty rates are all based on 2012 U.S. Census American Community Survey. Taxable values per capita were calculated using 2012 data from the Michigan Department of Treasury. These sources are consistent across the tables in **Appendix B**.

14 For more information see CRC Memo 1128, Statewide Ballot Issues: Proposal 2014-1: Voter Approval of a New Statewide Local Tax to Reimburse Local Governments for Personal Property Tax Reforms, July 2014, www.crcmich.org/PUBLICAT/2010s/2014/memo1128.html.

15 See Michigan's Sales Tax Diversion Amendment, CRC's Council Comments No. 604, February 12, 1953.

16 Census Bureau, U.S. Department of Commerce, State and Local Government Finances, 1997, www2.census.gov/govs/local/97censusviewtabss.xls.

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27 Michigan Highway Finance, Robert S. Ford and Marvin A. Bacon, Bureau of Government, University of Michigan, 1943.

28 House Fiscal Agency, State of Michigan Fiscal Year 2012-13 Appropriations Summary and Analysis.

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