

City Revenue Snapshot

Revenue Trends of Michigan Cities 2002–2017

09.23.19





**PUBLIC SECTOR
CONSULTANTS**

Prepared by

Public Sector Consultants
Lansing, Michigan
www.publicsectorconsultants.com

Prepared for

Michigan Municipal League
Lansing, Michigan
www.mml.org

Table of Contents

- INTRODUCTION** 4
- KEY FINDINGS** 4
- REVENUE ANALYSIS** 5
 - Revenue Data 5
 - Revenue Trends 6
 - Overall Revenue Trends 6
 - Community Trends 7
- CONCLUSIONS** 8

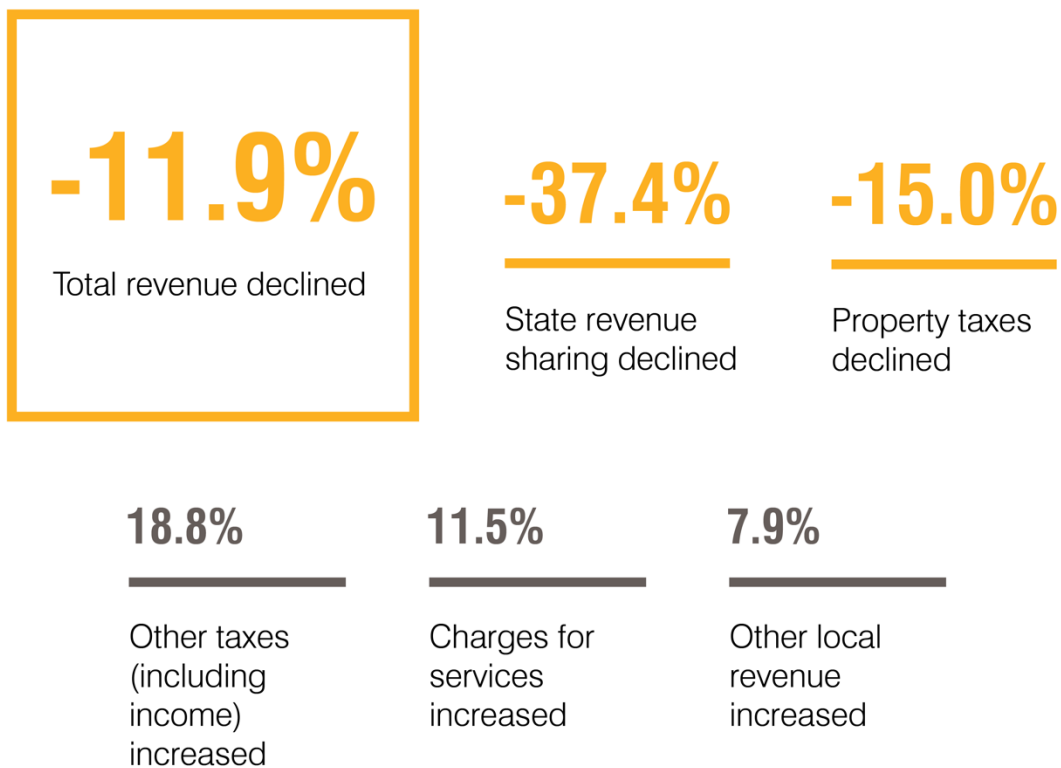
Introduction

The Great Recession of 2008 and 2009 took a toll on municipal revenues in Michigan, largely due to sharp declines in taxable value and reductions in state revenue sharing. Though Michigan's recession has long since ended, municipal revenues have not fully recovered. The implications of reduced revenue are significant. Municipalities continue to struggle with maintaining services, funding capital improvements and infrastructure, and addressing underfunded pensions and retiree healthcare plans.

This report provides a snapshot of municipal general fund revenue trends from 2002 to 2017 by analyzing data reported to the Michigan Department of Treasury for 225 cities, which were then analyzed and grouped into key revenue categories.

Key Findings

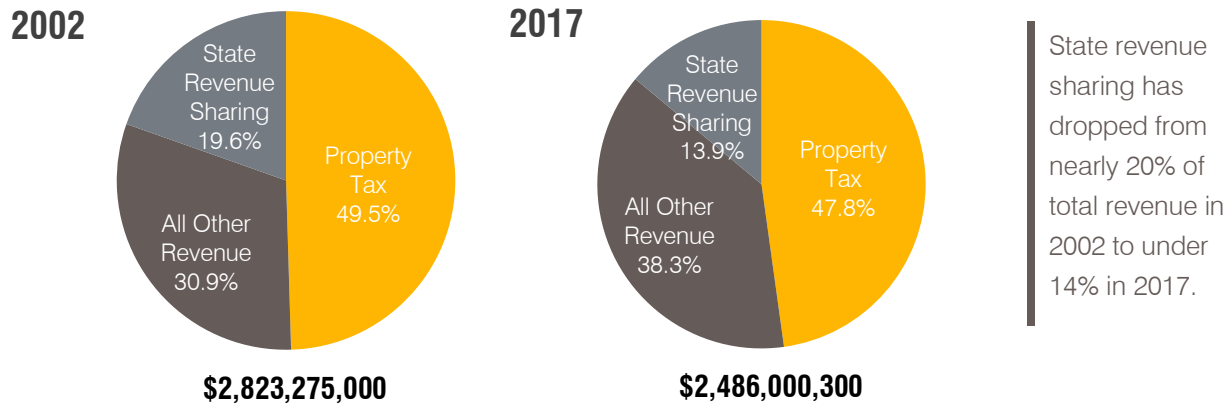
The challenges with municipal general fund revenue have been well documented by individual communities and state organizations in recent years. This analysis is consistent with those findings by confirming that municipal revenue, since the peak of state revenue sharing in 2002, continues to lag. The study found that general fund revenues for the 225 cities (excluding Detroit) from 2002 to 2017, on an inflation-adjusted basis, have experienced the following:



Across the state, cities lost both property tax revenue and revenue sharing, with many attempting to make up the decline with increases in other taxes, charges for services, and other local revenue sources. Even with these efforts to increase revenue, cities fell short and had 11.9 percent fewer general fund dollars in

2017 than they did in 2002. The loss represents \$337.3 million in less revenue in 2017 alone. Declines in property tax and revenue sharing were the primary reasons, down 15.0 and 37.4 percent respectively.

The percentage of total revenue has also shifted between 2002 and 2017:



While property tax has dropped as a percentage of total revenue from 49.5 percent to 47.8 percent, it remained the single largest source of local revenue. Revenue sharing declined much more significantly as a percentage of total income, dropping from 19.6 percent to 13.9 percent. All other revenue sources increased proportionately in an attempt to offset these declines by 2017.

Revenue Analysis

Revenue Data

Data for this snapshot were taken from the Michigan Department of Treasury’s Form F65—Annual Local Unit Fiscal Report. All primary units of government (cities, villages, townships, and counties) are required by the State to provide annual financial reporting via F65. The F65 form requires data on revenue, expenditures, capital outlay, liabilities, assets, fund balances, debt, and more. The data set for this study included only general fund revenue data for 225 cities. The city of Detroit is excluded due to its substantial size and impact on overall metrics. In 2017, a total of 280 cities reported data, but data reporting inconsistencies and changes in the number of cities necessitated dropping cities from the analysis.¹

General fund revenues were the focus of this analysis because they have the most impact on core city operations, such as police, fire, elections, zoning, and related activities. Non-general funds, such as enterprise funds and component units, were excluded. All figures and comparisons referred to in this report were based on inflation-adjusted 2002 data to 2017 dollars.

In order to provide a consistent comparison between 2002 and 2017, several revenue categories from 2002 were combined to match 2017 categories. Categories were also aggregated in both years to provide the categories analyzed in this report:

- Total revenue: All general fund revenue

¹ While certain cities were dropped from the report due to missing data fields or other issues, all other data were used as is in the F65 summary files. Any existing omissions or errors with the original F65 data were not identified or corrected in this analysis.

- Property tax: Property taxes, including penalties and interest
- State revenue sharing: Statutory and constitutional
- Other local revenue: Fines, forfeits, special assessments, interest income, etc.
- Charges for services: Licenses and permits; sales, use, and admission fees; etc.
- Other taxes: Income tax, payments in lieu of taxes, trailer taxes, etc.
- Other state revenue: Fire protection, other state grants, etc.
- Federal grants: All federal income

Revenue Trends

General fund revenue varies significantly in cities across Michigan. Total reported revenue ranges from less than \$164,000 in Harrisville to over \$1.3 billion in Detroit (part of the reason Detroit is excluded). In order to gauge the impact across the state and understand the variability amongst cities, Public Sector Consultants (PSC) looked at both the aggregate changes in key revenue sources and how cities either experienced increases or decreases in those same categories.

Overall Revenue Trends

Exhibit 1 analyzes the key revenue categories for the 225 cities. Total revenue on an inflation-adjusted basis has declined 11.9 percent from 2002 to 2017. This was a total decrease of \$337.3 million across the state. A drop in property tax revenue was the single largest decline, with a loss of \$209.7 million, a 15.0 percent decline from 2002. This was followed by state revenue sharing at \$206.7 million, a 37.4 percent decline. There were also significant percentage declines in other state revenue (8.0 percent) and federal grants (24.0 percent), but those represent a much smaller dollar decrease of \$11.2 million compared to the declines in property tax and state revenue sharing.

Declines in property taxes have been driven by the Great Recession and the limitations of Proposal A, which both continue to suppress property tax revenue due to taxable values being capped. In addition, some communities across the state have experienced little to no population growth, resulting in properties being removed from tax rolls.

EXHIBIT 1. Changes in Key Revenue Categories 2002–2017

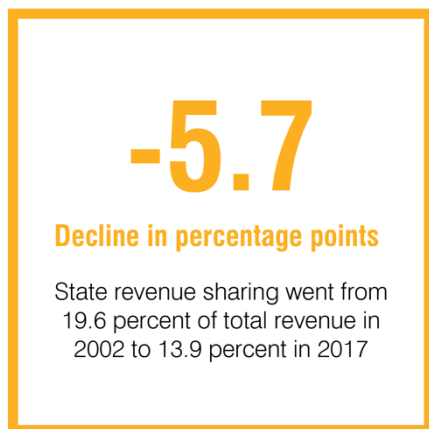
	2002 Revenue	2017 Revenue	2002–2017 Change	
	Dollars	Dollars	Dollars	Percent
Property tax	\$1,398,244,268	\$1,188,548,689	\$(209,695,579)	-15.0%
State revenue sharing	\$553,052,373	\$346,360,258	\$(206,692,115)	-37.4%
Other local revenue	\$310,400,131	\$334,972,666	\$24,572,535	7.9%
Charges for services	\$278,336,110	\$310,267,563	\$31,931,453	11.5%
Other taxes	\$180,359,689	\$214,215,103	\$33,855,414	18.8%
Other state revenue	\$83,892,195	\$77,205,987	\$(6,686,208)	-8.0%
Federal grants	\$18,990,244	\$14,430,055	\$(4,560,189)	-24.0%
Total Revenue	\$2,823,275,010	\$2,486,000,321	\$(337,274,689)	-11.9%

While significant revenue declines have occurred in property tax and state revenue sharing, communities have made up some of the revenue loss with increases in other local revenue, charges for services, and other taxes. Other taxes increased \$33.9 million, an 18.8 percent increase; charges for services increased 31.9 million, up 11.5 percent; and other local revenue increased \$24.6 million, up 7.9 percent.

Increases in other taxes, charges and services, and other local revenue sources have been a combination of natural increases and cities taking specific steps to increase revenue. Charges for services have been raised in many communities to keep pace with inflation and maintain services. Some of the existing sources of revenue, e.g., other taxes, and more specifically income taxes, have increased over time for some communities with growth in employment and wages.

Exhibit 2 looks at each revenue category to see how funding has shifted as a percentage of total funding. State revenue sharing dropped 5.7 percentage points from 2002 to 2017, while property tax dropped 1.7 percentage points. Increases in other local revenue, charges for services, and other taxes ranged from 2.2 to 2.6 percentage points. These percentages shifted due to the actual dollar changes. However, since overall revenue has declined significantly, the change in percentage of each category from 2002 to 2017 was not as dramatic as might otherwise be expected.

EXHIBIT 2. Change in Revenue as Percentage of Overall Revenue 2002–2017

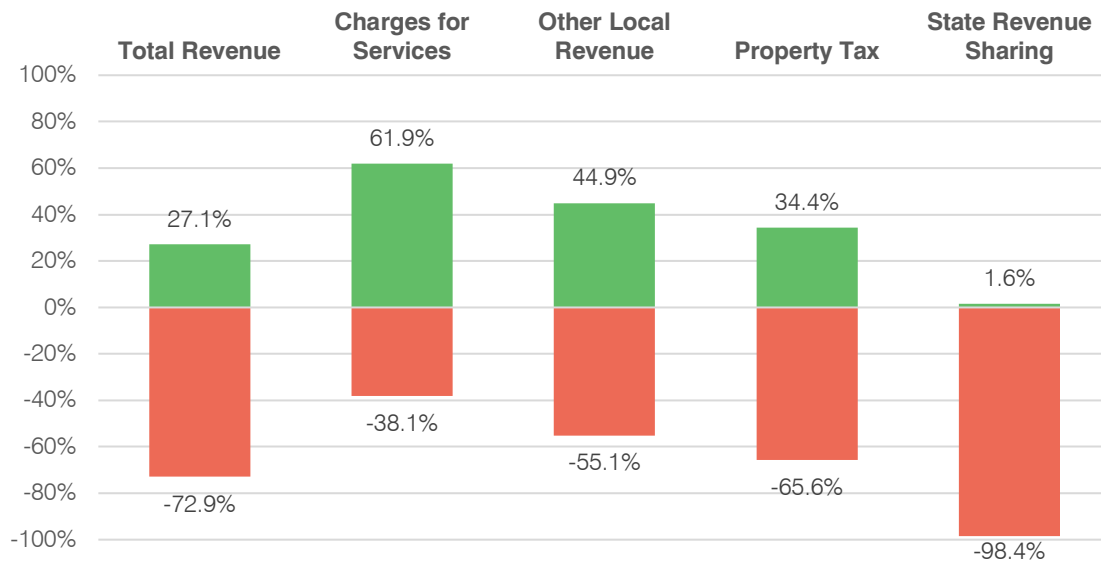


	2002	2017	Percentage Points Change
Property tax	49.5%	47.8%	-1.7
State revenue sharing	19.6%	13.9%	-5.7
Other local revenue	11.0%	13.5%	+2.5
Charges for services	9.9%	12.5%	+2.6
Other taxes	6.4%	8.6%	+2.2
Other state revenue	3.0%	3.1%	+0.1
Federal grants	0.7%	0.6%	-0.1
Total Revenue	100%	100%	

Community Trends

Exhibit 3 breaks down the percent change in select revenue categories to better understand the variability in revenue changes across Michigan cities. To determine what percentage of communities experienced increases and decreases, PSC analyzed total revenue and the four categories with the greatest change in dollar amounts. While the overall inflation-adjusted revenue trends are clear, the differences between individual communities are more nuanced.

EXHIBIT 3. Communities Experiencing Revenue Growth and Decline



Nearly 73 percent of cities experienced overall revenue declines, while 27.1 percent have experienced increases. All but a few (1.6 percent) cities have seen reductions in state revenue sharing, while 65.6 percent of cities have seen a decline in property taxes. While other local revenue increased in total, only 44.9 percent of cities experienced increases. Increases in charges for services were more common, with 61.9 percent of cities seeing increases. The variation among cities in these individual revenue categories points to a more nuanced picture, but state revenue sharing stands out as the clear factor consistent across the state.

Conclusions

The overall decline and change in city revenue sources have been significant since 2002. Declines in total revenues, property tax, and state revenue sharing are particularly dramatic when adjusting for inflationary increases. Revenue has simply not kept pace with inflation. While increases in other revenue sources, such as charges for services and other tax revenue, have helped in closing the funding gap created by declines in property tax and state revenue sharing, they have not been enough to offset the declines elsewhere. This analysis reaffirms what individual communities have identified as a primary challenge following the Great Recession—trying to grow revenue to keep pace with inflation and address the multitude of short- and long-term financial needs.



**PUBLIC SECTOR
CONSULTANTS**

230 N. Washington Square
Suite 300
Lansing, MI 48933