Great Lakes Economic Consulting • April 2016

MICHIGAN’S GREAT DISINVESTMENT

HOW STATE POLICIES HAVE FORCED OUR COMMUNITIES INTO FISCAL CRISIS

Great Lakes Economic Consulting is a non-partisan firm that conducts fact-based analysis. They provide studies on public policy issues and strategic advice to local governments, school districts, trade associations, lobbying firms, non-profit associations and other organizations. With 60+ years of combined experience, the firm's principals bring the knowledge, resources, and contacts needed to acquire and analyze information on almost any public policy issue with a fiscal or economic component.

The data used in this report were provided by the U.S. Census Bureau, the Michigan Department of Treasury, and GLEC calculations.

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Introduction

This report examines the changes that have affected the finances of municipalities over the past 20 years and explores ideas for improving their overall fiscal stability.

While Michigan's economic downturn during the Great Recession worsened the fiscal hardship experienced by many municipalities, our study covers a much broader time frame, from the mid-1990s to 2014. This span shows the problems Michigan's municipalities face are structural and pervasive, not the result of short-term economic woes.

Further, we have included aggregate data for all cities and villages to help ensure an accurate, broad focus on the experiences of all Michigan municipalities.[1] To frame these results in their proper context, we also sought to capture the experiences of the 15 largest cities in the state, as well as eight smaller cities selected to provide geographical balance.

Here's what we found:

Michigan's cities have very few sources of revenue—and those sources are shrinking.

Local units of government rely primarily on property taxes and intergovernmental revenue to finance essential public activities. In recent years, however, these sources have failed to keep up with the current level of services, much less rising costs.

Michigan law contains structural provisions that limit cities' ability to collect taxes on existing properties.

This situation is made more challenging by state cuts in revenue sharing to local units of government. Only once since FY 1998 have lawmakers acted to fully fund statutory revenue sharing payments (in FY 2001). What's more, the cumulative amount of cuts to statutory revenue sharing for municipalities from FY 1998 to FY 2016 is estimated to be a staggering $5.538 billion. When counties are included, the cumulative cut to local government revenue sharing since 1998 exceeds $7.5 billion.

As a result, municipal revenues have fallen dramatically.

Over the last 15 years, Michigan cities have been hit harder than cities in any other state due to the restructuring of the auto industry, the 2008–2009 recession (which caused large drops in property values), and sharp cuts in state revenue sharing payments. While nearly all cities were affected, those located in Southeast Michigan—the center of the auto industry—were particularly squeezed.

Cities have responded by cutting public services, seeking out new government efficiencies, and boosting millage rates.

[1] While we chose to explore the experiences of both cities and villages, we concentrated on cities as villages account for a very small percentage of municipal expenditures.

The total General Fund revenue of cities declined 9.5 percent from 2008 to 2012, due largely to the impact of the Great Recession on property tax revenues and cuts in state revenue sharing. Revenues have continued to fall for all cities in the years since. Predictably, General Fund expenditures in all cities have fallen commensurately, as have fund balances.

Here's the rub: in Michigan, property tax revenues drop fast but grow slowly.

The collapse of the housing and financial sectors in 2008 resulted in the largest decline in Michigan property values since the 1930s. The taxable value of cities fell 18.1 percent from 2008 to 2012 and municipal property tax collections fell 9.1 percent.

Although housing values are recovering from the sharp decline, it will take most cities a number of years to recover their lost tax base. Why? Michigan places a constitutional cap on the annual increase in taxable value, which constrains cities' ability to return to financial health. For example, taxable value in Farmington Hills fell 30.2 percent from 2008 to 2012. Assuming an annual increase of 3 percent (an estimate that is optimistic given recent inflation trends), it will take 13 years for taxable value to return to the 2008 level. Adjusted for inflation, however, taxable value may never return to the 2008 level in Farmington Hills and many other Michigan cities.

Low revenues create a serious conundrum for Michigan cities.

Cities with low tax bases must levy high millage rates to provide a reasonable level of services. Those high tax rates encourage residents and businesses to move elsewhere.

If tax rates were kept low, however, the lack of local public services would encourage residents and businesses to move elsewhere. Thus, cities are caught in a vicious cycle that results in ongoing serious financial problems.

Low property values are the leading cause of municipal financial emergencies.

There are currently 11 cities, one township, one county and five school districts in which the state has determined there is a financial emergency. The most common characteristic shared by these local units? Very low taxable value per capita.

In the affected cities and township, the average taxable value per capita is $12,060—less than half the statewide average of about $32,000 per capita. Our best estimate is that a local unit of government will have a very difficult time providing a reasonable level of services if their per capita taxable value is less than $20,000, without having to levy tax rates that make them economically uncompetitive.

This suggests that appointing an emergency manager or signing a consent agreement with a local unit is unlikely to do much to fix their fiscal problems unless there is a case of mismanagement or corruption.

The Story Behind the Story: Michigan's Economic and Political Environment

To fully appreciate the situation in which Michigan cities and villages find themselves today, it is helpful to understand the economic and policy context that shaped their fiscal evolution.[2]

Michigan experienced strong economic growth during the 1990s, due largely to the robust growth of the national economy and the strength of the domestic motor vehicle industry. From 1990 to 2000, the Michigan economy added a whopping 748,000 wage and salary jobs. The state's unemployment and per capita income levels also were—for the first time in a long while—better than the U.S. averages.

The thriving U.S. auto industry helped propel these results, with sales reaching an all-time high of 17.4 million units by the end of the decade. Michigan motor vehicle employment increased significantly as well, with job growth of more than 18.8 percent between 1990 and 2000.

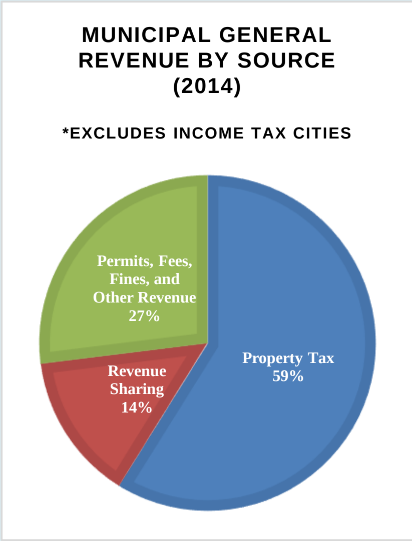
How Are Michigan's Municipalities Funded?

Local units of government rely primarily on:

- **Local property taxes:** These taxes are levied by local units of government against the taxable value of all real estate within their boundaries. The property tax rate is called a "millage" and varies by the governmental agency collecting the tax.

- **Intergovernmental revenue:** Michigan's local units can obtain dollars from other local units, as well as state and even federal sources. These dollars can take the shape of grants, shared taxes, or loans. ***Here in Michigan, state revenue sharing is the primary source of funding for cities and villages***.

  State revenue sharing consists of two parts: constitutional payments and what is commonly referred to as statutory revenue sharing payments. Both are based on sales tax collections.



As one might expect, there were few Michigan cities with fiscal problems as we entered the new century. In fact, municipalities were able to weather the transition to new property tax and revenue sharing structures during that decade.

Michigan's economic reality changed dramatically, however, as the 2000s got underway. The nation experienced two recessions and the domestic auto industry lost its competitive edge relative to foreign competitors. From peak employment in April 2000 to the trough in March 2010, Michigan lost 844,000 jobs, 220,000 of which were in the auto sector. Our state's personal income declined at an annual rate of 0.2 percent, while U.S real personal income increased at an annual rate of 1.3 percent.

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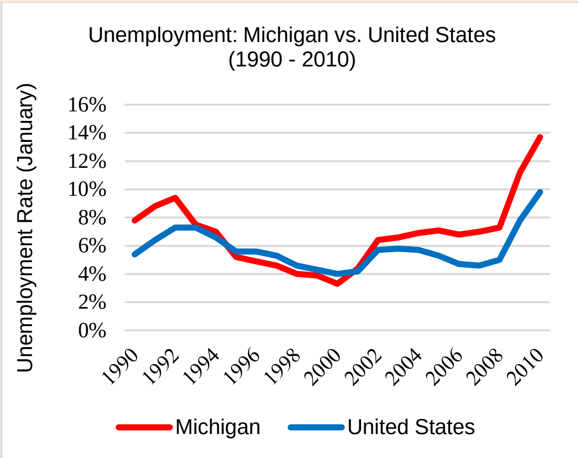
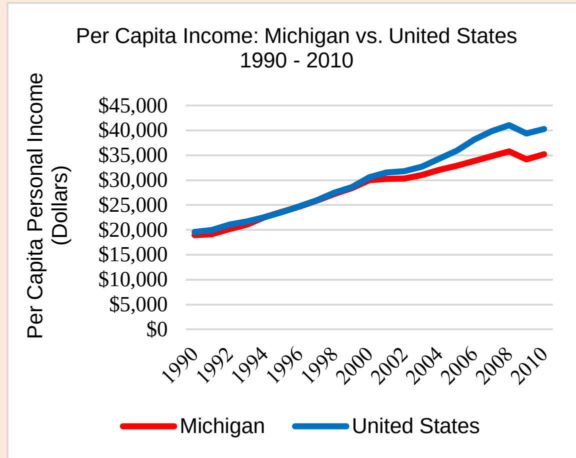
[2] Data used in this section are from the U.S. Bureau of Labor Statistics, the U.S. Bureau of Economic Analysis, the Senate Fiscal Agency, and the Michigan Department of Treasury.

Michigan Economic Growth and Decline, 1990–2010

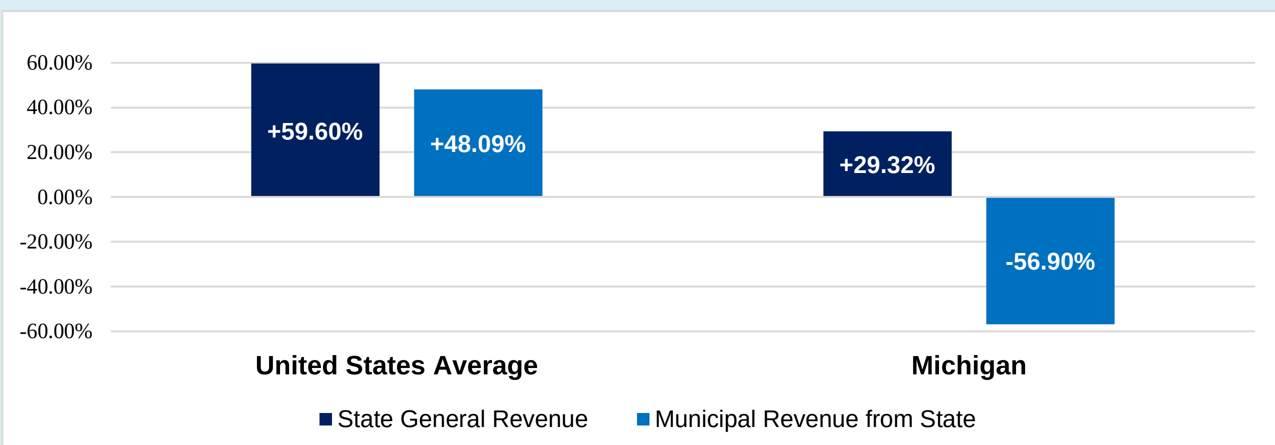




Cities and villages were particularly hard hit by Michigan's lost decade. Property values fell significantly for the first time since the 1930s, hurting local property tax revenues. Moreover, tight state budgets—coupled with a change in the political climate—resulted in sharp cuts to revenue sharing.

Since 2002, Michigan has led the nation in cuts to municipalities. The Census of Governments, published every five years by the U.S. Census Bureau, reported that from 2002 to 2012, municipal revenue from state sources increased in 45 states and the average increase was 48.1 percent. **In Michigan, municipal revenue from state sources *declined* 56.9 percent from 2002 to 2012. During this same period, total state revenue for Michigan *increased* by 29.3 percent.**

Change in State General Revenue and Municipal Revenue from State Sources (2002 – 2012)

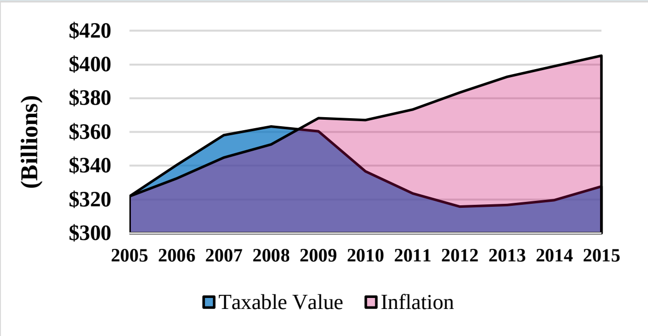


Property Taxes

Under Proposal A, Michigan changed the way it calculated real estate property values. Instead of just considering a property's State Equalized Value (or SEV), which totals 50 percent of its true cash value, policymakers and the public agreed to put a cap on how much property values could increase each year.

They created a new statutory term: taxable value. Each year, the taxable value of a property can only increase by the rate of inflation or 5 percent, whichever is less, unless there is a physical improvement or unless ownership changes hands (at which point the property value is "uncapped"). A property's value can decrease, however, which places taxing entities in a precarious position as the amount of money they can assess goes down.

Statewide Taxable Value (2005 – 2015)



Michigan taxable value increased at an annual rate of 5.7% from 1995 to 2000 and then slowed slightly from 2000 to 2008, up 5.3%. From 2008 to 2012, taxable value declined at an annual rate of 3.4%. Taxable value has recovered slowly in the last 3 years, increasing at an annual rate of 1.1%. **Figure (left) shows actual taxable value and the inflation adjusted equivalent of 2005 taxable value each year from 2005 to 2015.**

As shown above, it will be a long time before many cities recover the property values lost during the housing collapse. The inflation rate for 2016 is 0.3 percent—just a small fraction of the growth needed to right-size the property tax portion of Michigan's municipal budgets.

State Revenue Sharing

With property tax revenues declining, cities and villages knew they would be forced to rely more heavily on the funds they received through state revenue sharing in order to remain solvent.

State revenue sharing consists of two parts: (i) constitutional payments, and (ii) what is commonly referred to as statutory revenue sharing payments. Both are based on sales tax collections, which fell during the economic downturn of the 2000s.

During the recession, the reasons for declining constitutional and statutory revenue sharing payments were more nuanced than they appear on the surface. While falling sales tax revenues impacted both—particularly on the constitutional side—the drop in statutory revenue sharing also resulted from state reductions in the proportion of sales tax revenue each municipality would receive. In other words, constitutional revenue sharing payments fell in direct correlation with economic changes only, while statutory declines reflected legislative policy decisions to redirect money away from municipalities in order to balance the state budget.

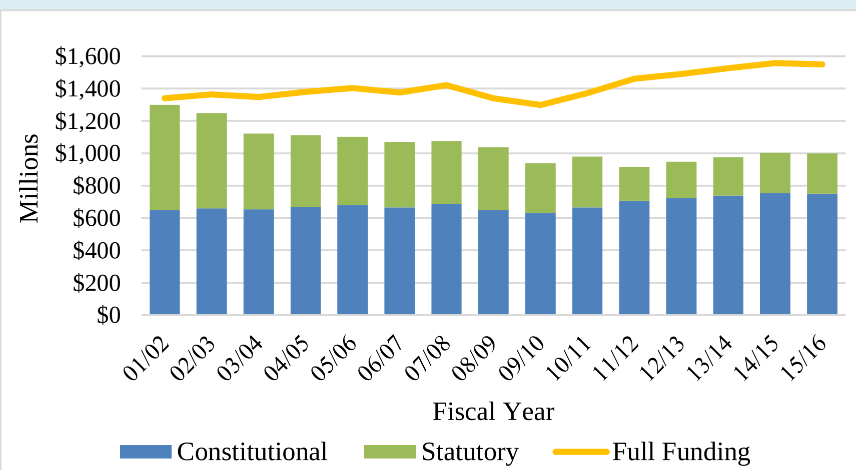
The impact of reductions to the sales tax base reduced constitutional revenue sharing payments to cities, villages, and townships by an estimated $27.3 million in FY 2014, and a cumulative $181.2 million since Proposal A in 1994.

In addition, statutory revenue sharing in FY 2016 is estimated to be $585 million below the full funding of the statutory dedication. Thus, since Proposal A in 1994, the cumulative amount of cuts to statutory revenue sharing for cities, villages, and townships alone is estimated to be more than $5.5 billion.

Why? Fewer state dollars have been available to bolster statutory revenue sharing, since Michigan's general fund/general purpose (GF/GP) budget declined about 20 percent from FY 2001 to FY 2010. Dollars that could have been directed to municipalities were retained by state leaders in response to ongoing budgetary pressures.

Future budgets are likely to continue to be tight as there are a number of spending pressures in the next few years including large business tax credits for the next decade. In addition, the recently enacted road funding plan will take money from the general fund and reduce the state income tax in future years.

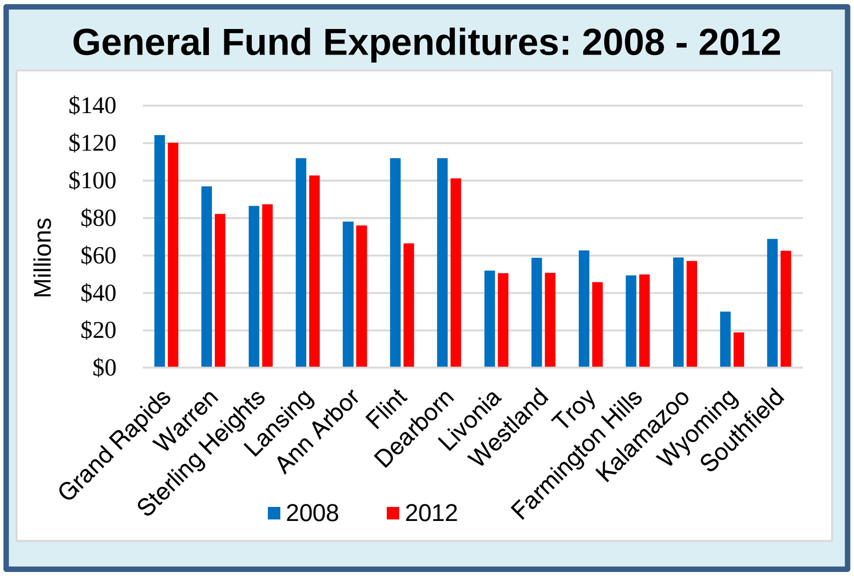
Total Revenue Sharing to Cities, Villages, and Townships



Statutory revenue sharing is estimated to be $585 million below the full funding of the statutory dedication. Since Proposal A in 1994, the cumulative amount of cuts to statutory revenue sharing for cities, villages, and townships is estimated to be **more than $5.5 billion.**

Restrictions on Local Governments' Revenue Raising Ability

Michigan cities were hit hard by the state's 10-year economic malaise, particularly from 2008 to 2012, when their collective general fund revenues fell 9.5 percent, despite an overall millage rate increase of 11 percent.



General fund expenditures declined 7.7 percent, general fund balances for the 15 largest cities fell 16 percent, and fund balances for the eight small cities included in this analysis fell 18 percent. Total employment of cities fell about 20 percent from 2002 to 2012 (only years for which we have data). Employment for the 15 largest cities fell 18 percent from 2008 to 2012.

A major factor contributing to the financial problems of many cities is the revenue inflexibility caused by constitutional and statutory limitations. As noted, municipalities rely primarily on property taxes and intergovernmental revenue to finance essential public services. In recent years these sources have failed to keep up with the current level of services, much less rising costs.

Indeed, a recent study by MSU Extension reports that Michigan imposes some of the most stringent limitations on local revenue of any state in the nation.

> "A few states, such as Michigan and California, place strict limits on local own-source revenues while at the same time providing only meager intergovernmental aid and imposing costly labor and service obligations. We contend that these states have structured local fiscal policymaking in a way that effectively incubates local financial distress. These state contexts are the most egregious in hampering the exercise of local fiscal power; yet the nature of the problem for cities may be much worse – state-imposed budgetary imbalances can engender recurring structural deficits and diminished local service capacity, particularly among the states' older, industrial urban areas."[3]

[3] Beyond State Takeovers: Reconsidering the Role of State Governments in Local Fiscal Distress, with Important Lessons for Michigan and its Embattled Cities, MSU Extension White Paper, August 31, 2015.

Three provisions found in Michigan law—a 1964 local tax limitation, the Headlee Amendment and Proposal A— have limited the collection of taxes on existing properties, causing untold fiscal hardship for Michigan cities and villages.

The 1964 Local Tax Limitation

Michigan has a strong "local control" tradition, which means local electors have a major voice in the level and purposes of taxation. According to the 1963 state constitution, cities and villages have the authority to levy a wide array of taxes on themselves, "subject to limitations and prohibitions provided by this constitution or by law."

Within one year of the constitution's ratification, however, the state legislature reversed this broad local control by providing that no city may levy a tax except as expressly permitted by law. Statutory language now provides, "Except as otherwise provided by law and notwithstanding any provision in this charter, a city or village shall not impose, levy or collect a tax, other than an ad valorem property tax, on any subject of taxation, unless the tax was being imposed by the city or village on January 1, 1964."

Thus, cities and villages faced the first in a long series of constraints on their ability to raise much-needed revenue.

The Headlee Amendment

The people of Michigan further eroded municipal budgets in 1978, when voters approved a constitutional amendment named after Michigan businessman Richard Headlee. While the Headlee Amendment gave local electors stronger control over the decision to incur additional taxes for debt, it simultaneously reduced municipal revenue by imposing a periodic recalculation of voter-approved millage to account for inflation. This legislation and later legislation took authority away from local officials and provided no way to make up for the lost revenue.

Here's what the Headlee Amendment does:

- Limits the growth of local government property tax revenues by providing millage rollbacks whenever revenue from existing property grows by more than the rate of inflation, unless voters act to override the rollback.
- Requires voter approval for any new local taxes or increase in a tax rate not authorized at the time the amendment was adopted.
- Ensures the state provides reimbursement for any additional costs resulting from new local requirements mandated by state law (i.e., "no unfunded mandates").

Proposal A

In 1994, Michigan voters approved another amendment to their constitution: Proposal A. The change reformed school finance by shifting support for K–12 schools away from local property taxes to state sales and other taxes. Such a change, however, could not occur without major implications for local units of government, which also are funded by property taxes.

Proposal A included a limitation on assessment increases for individual parcels of property, excluding new construction, to five percent or the rate of inflation, whichever is less (see page 26 for more details). Cities lost an estimated $300 million in 2014 as a result of this provision.

Caught in a Fiscal Trap

These three changes—the 1964 prohibition on local government tax levies, the Headlee Amendment, and Proposal A—now work together to prevent cities and villages from fixing their own fiscal problems.

- Local governments are now barred from levying any tax not authorized by law.
- Cities seeking to impose an income tax for the first time must receive voter approval.
- Initial implementing legislation for the Headlee Amendment permitted rolled back millages to be adjusted upward when property taxes increased by less than the rate of inflation. However, following the Passage of Proposal A in 1994, all upward millage rate adjustments are eliminated.

Worse yet, the "no unfunded mandates" provision of the Headlee amendment has proven to provide no protection for local governments. The amendment is worded to exclude "any activity or service … that is provided at the option of the local unit of government." Virtually all local government services are legally defined as "optional". Therefore, the state has continued to mandate costly regulations contrary to the intent of the Headlee Amendment, with no regard to the financial capability of local units.

Proposal A also eliminated Headlee protections requiring that state aid to local units could not be reduced from the percent of the budget going to local governments in FY 1978-79, which was about 41 percent. However, Proposal A shifted most school funding to the state and counted it as "aid to local governments," increasing the share of state spending to over 69 percent and making the prohibition moot.

The legislature also chose to include increases in property assessments due to Proposal A "uncapping" as part of the calculation of the Headlee millage rollback. The legislature could have chosen to treat the difference between the capped value (taxable value) and the uncapped value (state equalized value) as “exempt property”. Had the legislature done so, the increase due to removing the cap would have been excluded from the Headlee millage calculation, protecting local revenues. Instead, this intersection between Headlee and Proposal A has mandated millage rollback calculations that restrict property tax revenue growth to a rate considerably less than the rate of inflation. The statute has also accelerated Headlee millage rollback requirements, thereby reducing property tax capacity.

Tax Changes That Have Reduced Local Revenue

Changes to the sales tax base that have reduced constitutional revenue sharing payments to municipalities have been costly (see Exhibit 1). Cities, villages and townships lost $27.3 million in FY 2014 alone, and $181.2 million cumulatively since Proposal A in 1994

Exhibit 1:
Impact of Sales Tax Cuts on Michigan Cities, Villages & Townships
($ Millions)

		Initial impact	FY 2014 impact	Cumulative impact Through FY 2016
PA 34 of 1994	Commercial Aircraft and Parts	$12.5	$5.5	$138.2
PA 49 of 1994	Certain Mobile Food Vendors	$6.6	$9.3	$161.1
PA 127 of 1994	Portion of Price returned from Lemon Law	$0.2	$1.3	$21.5
PA 156/157 of 1994	Exemption for non-profit purchases	$2.0	$2.9	$50.1
PA 63 of 1995	Exempt vended baked goods	$0.2	$0.7	$12.1
PA 209 of 1995	Commercial advertising exemption	$2.9	$5.4	$91.0
PA 576 of 1996	Exempt vended juice drinks	$1.7	$3.6	$53.6
PA 365 of 1998	Industrial laundry sales	$1.8	$3.2	$38.0
PA 398 of 1998	Exempt grain dryers and fuel for grain dryers	$0.1	$0.4	$5.9
PA 451-52 of 1998	Hospital construction equipment	$0.4	$1.5	$19.7
PA 490-91 of 1998	Clarify correct multiplier on earlier exemptions	$0.8	$0.8	$12.9
PA 105 of 1999	Exempt gold bullion and investment coins	$0.1	$2.6	$17.4
PA 141 of 2000	Electric deregulation	$4.6	$8.5	$108.7
PA 204 of 2000	Airplane weight and parts	$3.2	$3.2	$43.4
PA 329 of 2000	Exempt employee meals	$7.0	$14.1	$142.5
PA 390 of 2000	Electric deregulation	$131.0	$137.6	$553.0
PA 412 of 2000	Vended soft drinks	$7.7	$13.7	$172.4
PA 457 of 2002	Eliminate sales tax license fee	$0.2	$0.2	$1.8
PA 17 of 2006	Aircraft exemptions	$0.2	$0.4	$3.5
PA 428 of 2006	Exempt aircraft, postage, delivery charges on direct mail	$1.0	$0.7	$6.7

PA 116 of 2010	Exempt sawmill equipment/ industrial processing	$2.0	$2.1	$10.4
PA 467 of 2012	Include rolling stock as qualified truck	$0.1	$0.1	$0.2
PA 160 of 2013	Sales tax on the difference phased in over 24 years. Eventual cost up to $450 million.	$24.6	$30.6	$85.8
PA 159 of 2013	Sales Tax on the difference for watercraft and RV's. Phased in through 2018. Eventual yearly cost $125 to $150 million.	$12.5	$25.0	$62.5
Total		$223.3	$273.3	$1,812.2

Source: Various fiscal agency fiscal notes; Tax Expenditure Appendix, MI Department of Treasury; Wrong Turns on the Road to Prosperity, D. Drake, April 2014; GLEC calculations.

Property Tax changes that have reduced the tax base of local governments are listed in Exhibit 2. On average, 42 percent of property tax collections fund local government operations. Of the 42 percent, about 18.2 percent funds municipalities. The estimated impact of property tax cuts on local governments in FY 2014 is $5.6 million, and the cumulative impact since FY 2002 is $37 million. The cost to municipalities in FY 2014 was about $2.4 million and the cumulative impact to municipalities was about $16 million.

Exhibit 2:
Total Statewide Impact of Various Property Tax Cuts
($ Millions)

		Initial impact	FY 2014 impact	Cumulative impact Through FY 2016
PA 744 of 2002	Revise assessment of utility property.	$2.5	$3.0	$33.5
PA 290 of 2011	Exempt machinery for instillation of soil and water conservation.	$0.8	$0.8	$1.6
PA 397-407 of 2012	PPT elimination. Cost rises to $61 million in FY 2017 and increases 5.5% per year through 2028 to $113 million per year.			$25.0
PA 161 of 2013	Disabled veteran's exemption.	$9.4	$9.4	$28.2
Total		$12.7	$13.2	$88.3

Source: Various fiscal agency fiscal notes; Tax Expenditure Appendix, MI Department of Treasury; Wrong Turns on the Road to Prosperity, D. Drake, April 2014; GLEC calculations.

Revenue and Expenditure Trends

Over the last 15 years, Michigan cities have been hit harder than cities in any other state due to the restructuring of the auto industry, the 2008–2009 recession—which caused large drops in property values—and sharp cuts in state revenue sharing payments. Almost all cities were affected, particularly cities located in Southeast Michigan, the center of the auto industry. Cities have responded with cutbacks in public services, increased efficiencies, and increasing millage rates.

While the worst is over, budgets will remain tight, primarily because the cap on taxable value is limiting local increases in property tax revenue. While property values are increasing again—State Equalized Value (SEV) grew 6.1 percent in 2015— the increase in the taxable value of existing property is limited to 5 percent or the rate of inflation, whichever is less. Taxable value increased 2.1 percent in 2015, and the limit for 2016 is estimated at just 0.3 percent.

Exhibit 3: Revenues and Expenditures, Michigan Cities, 2012

Expenditures	All Cities	15 Largest Cities	8 Smaller Cities
General Government	19.90%	18.30%	17.1%
Public Safety	47.80%	51.40%	42.3%
Public Works	8.30%	7.10%	11.4%
Parks & Recreation	3.70%	2.80%	10.1%
Other Expenditures	20.20%	20.40%	22.2%
Total	100.00%	100.00%	100.0%
Revenues			
Property Taxes	43.10%	29.70%	56.3%
State Revenue Sharing	14.90%	14.40%	10.7%
Income Taxes	11.30%	16.00%	4.5%
Licenses & Permits	2.30%	1.40%	1.3%
Fees, Charges & Penalties	13.60%	14.20%	8.7%
Other Income	14.80%	24.30%	18.5%
Total		100.00%	100.0%

Source: Michigan Department of Treasury Data. Calculations by GLEC.

Distribution of Revenues and Expenditures

As shown in Exhibit 3, property taxes and revenue sharing account for 58 percent of revenue for all cities and 44.5 percent for the 15 largest cities, which rely less on property taxes and more on income taxes and other income.

General Fund expenditures for public safety account for about half the budget for all cities, including the 15 largest.

The data used in this analysis comes from several different sources. The revenue and expenditure data for the years 2008, 2012 and 2014 are from Treasury's F65 forms and were provided to the Michigan Municipal League. All other data came from the audit reports filed by cities with the Michigan Department of Treasury.

Municipal Revenues

<u>Pre-Recession</u>

From FY 1997 to FY 2008, state revenue sharing payments to cities dropped by nearly one-fourth. The 24 percent decline—from $904.7 million to $689.1 million—reflected the aforementioned state budget pressures and reductions to the sales tax base.

Fortunately, local revenue sharing losses were partially offset by increases in city property tax collections. Municipal property tax revenue increased at an annual rate of 4.4 percent from 1997 to 2008. This increase was due almost entirely to an increase in taxable value as the millage rate was almost unchanged (16.20 in 1997 and 16.29 in 2008).

Income tax collections also fell sharply, from $472.4 million in 1997 to $382.3 million in 2008. This 19.3 percent decline was attributable to economic and tax rate changes in Detroit.

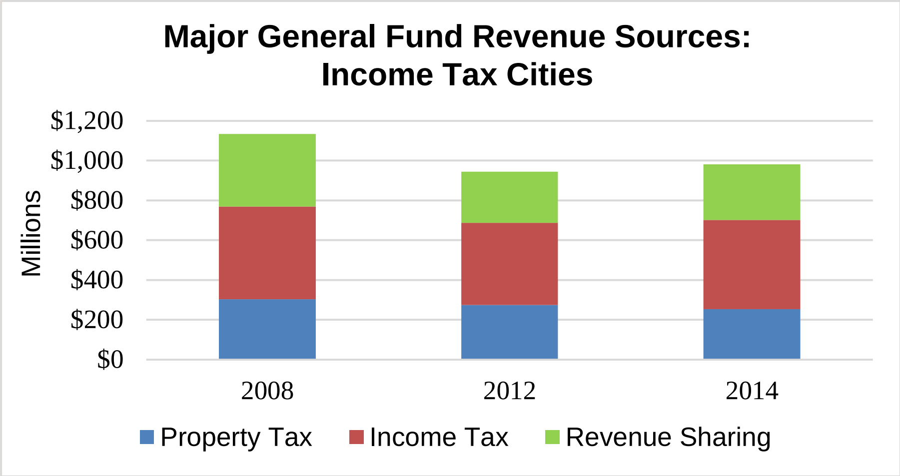
<u>2008 to 2012</u>

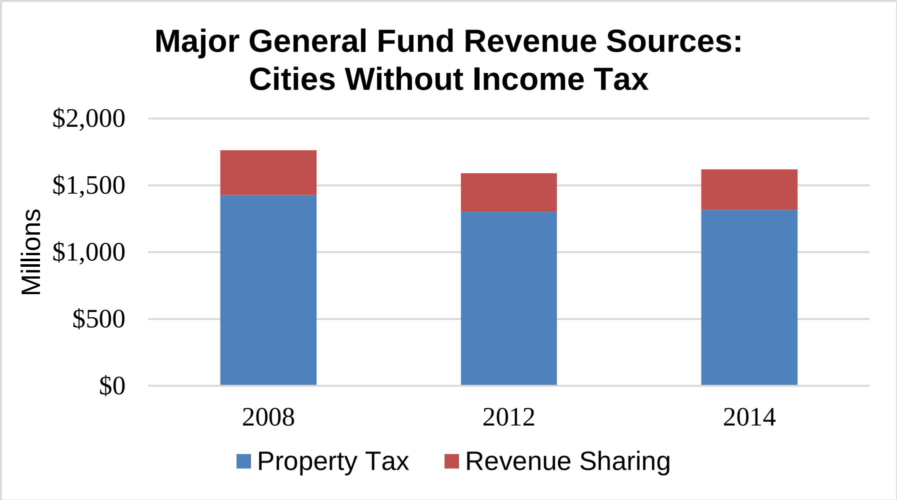
The Great Recession took a further toll on Michigan cities, whose total general fund revenue declined an additional 9.5 percent from 2008 to 2012. This drop was due largely to the impact of the Great Recession on property tax revenues and cuts in state revenue sharing.

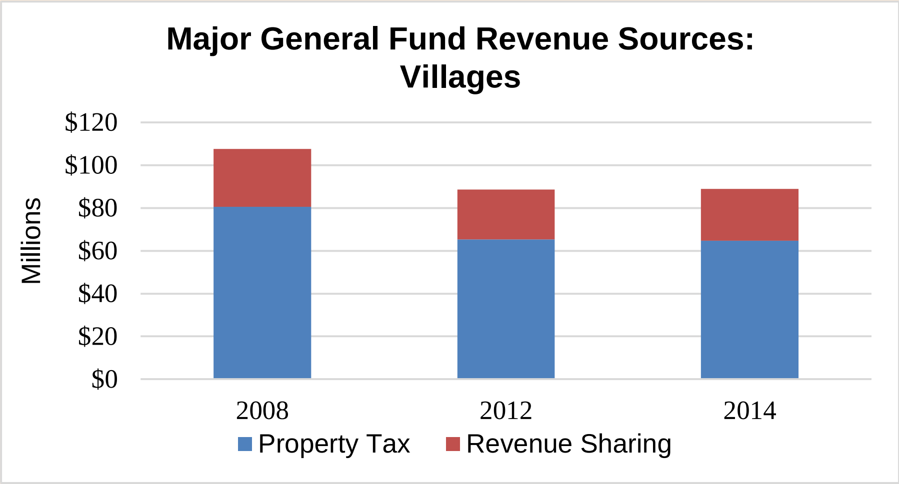
At this point, the economic challenges being experienced by the city of Detroit grew more pronounced. Indeed, it was during this period that many of the circumstances leading to the city's 2013 bankruptcy declaration reached their peak. For this reason, this report includes aggregated data views that both include and exclude Detroit, to ensure the city's experiences don't unduly shade the fiscal results achieved in all Michigan cities (see Exhibit 4, for example).

Cities Used for Analysis in this Report		
15 Largest Cities		**8 Smaller Cities**
Ann Arbor	Livonia	Alpena
Dearborn	Southfield	Marquette
Detroit	Sterling Heights	Midland
Farmington Hills	Troy	Niles
Flint	Warren	Petoskey
Grand Rapids	Westland	Port Huron
Kalamazoo	Wyoming	Traverse City
Lansing		Sault Ste. Marie

Major Sources of General Fund Revenue for Michigan Municipalities







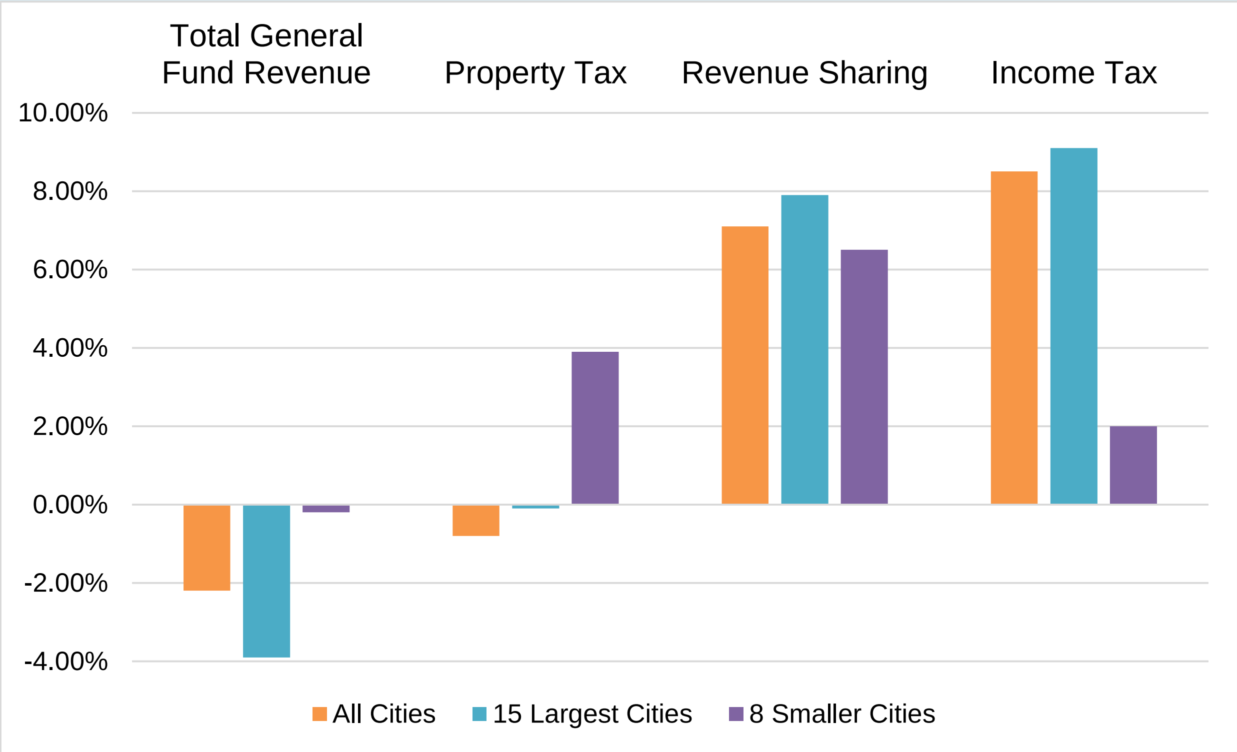
Revenues for Michigan's 15 largest cities declined 11.8 percent (or 8.1 percent, excluding Detroit). The revenues of the eight smaller cities included in this analysis declined 4.2 percent.

- Revenue sharing payments to cities declined by $145 million, or 21.1 percent, from 2008 to 2012.
- Property tax collections for all cities dropped by about $140 million, or 8.1 percent. The decline would have been $367 million (or 21.4 percent) if the average tax rate had not been increased by 1.79 mills.
- Of the 15 largest cities, only four levy an income tax. Income tax collections in these four cities fell by about $50 million, or 12.8 percent. Only one of the smaller cities, Port Huron, levies an income tax; collections declined by almost 29 percent.

<u>2012 to 2014</u>

A number of cities began to see revenue increases again by 2014, due to the improving economy and modest increases in taxable value in 2013 and 2014. There was also an increase in constitutional revenue sharing due to an increase in sales tax collections.

Change in General Fund Revenue Sources: 2012–2014



Expendítures

Pre-Recession[4]

Total municipal general expenditures increased at an annual rate of 3.2 percent from 1997 to 2008. Public safety expenditures increased at an annual rate of 3.7 percent and general government expenditures increased at a rate of 5.2 percent.

Adjusted for inflation, total general expenditures increased at an annual rate of only 0.7 percent.

2008–2012

From 2008 to 2012, General Fund expenditures for all cities were reduced by $335 million, or 7.7 percent. General government expenditures were reduced by almost 15 percent, public safety expenditures by 2.3 percent ($45 million), and all other expenditures by 10.3 percent ($149 million).

The 15 largest cities reduced their expenditures by $254 million, or 10.3 percent. General government expenditures were reduced by 23 percent ($121 million), public safety expenditures by 5.5 percent ($66 million), and other expenditures by 9.2 percent ($67 million).

The eight smaller cities reduced their expenditures by 14.1 percent (about $20 million). General government outlays were reduced by 8 percent, but public safety outlays actually increased by 7.7 percent due mainly to a large increase in Traverse City. All other outlays were cut by almost 31 percent.

2012–2014

From 2012 to 2014, expenditures for the 15 largest cities declined by five percent due entirely to a 10 percent decline in Detroit. Excluding Detroit, outlays increased 1.2 percent. General government expenditures excluding Detroit increased six percent (Detroit was up about 27 percent due to some accounting adjustments). Public safety outlays, excluding Detroit, increased 0.9 percent (Detroit outlays fell by about 27 percent or $156 million). All other outlays, excluding Detroit, increased 7.4 percent (Detroit outlays fell by about 10 percent).

From 2012 to 2014, the smaller cities increased spending modestly as the economy rebounded. Total outlays increased two percent, with general government up 2.8 percent, public safety up 2.7 percent and other spending up 0.9 percent (see Exhibit 4).

[4] Only partial data is available for years before 2004.

Exhibit 4: Michigan Cities' General Fund Revenue and Expenditures

	% Change, 2008-2012					% Change, 2012-2014				
Revenue	All Cities	Less Detroit	15 Largest Cities	Less Detroit	8 Smaller Cities	All Cities	Less Detroit	15 Largest Cities	Less Detroit	8 Smaller Cities
Property Taxes	-8.1%	-8.5%	-8.4%	-9.5%	-1.0%	-0.8%	0.4%	-0.1%	3.8%	3.9%
Revenue Sharing	-21.1%	-15.9%	-26.1%	-41.9%	-25.3%	7.1%	6.0%	7.9%	5.7%	6.5%
Income Taxes	-11.6%	-5.6%	-12.8%	-5.0%	-28.8%	8.5%	8.0%	9.1%	9.6%	2.0%
Total	-9.5%	-7.3%	-11.8%	-8.1%	-4.2%	-2.2%	1.5%	-3.9%	4.7%	-0.2%
Expenditures										
General Govt.	-14.9%	-8.8%	-23.0%	-16.2%	-8.1%	6.8%	-4.7%	17.7%	-5.6%	2.8%
Public Safety	-2.3%	-0.6%	-5.5%	-4.9%	7.7%	-9.7%	-2.3%	-13.1%	1.4%	2.7%
All Other	-10.3%	-16.3%	-9.2%	-27.1%	-30.6%	-0.9%	4.1%	-5.0%	5.8%	0.9%
Total	-7.7%	-7.0%	-10.3%	-11.9%	-14.1%	-3.6%	-0.9%	-5.0%	1.1%	2.0%

Source: Michigan Department of Treasury – F65 Data

Fund Balances

During the pre-recessionary period (2005 to 2008), general fund balances for the 15 largest cities (excluding Detroit) were fairly stable, up 2.3 percent. From 2008 to 2012, however, fund balances fell by $35.2 million, or 15.6 percent. Fund balances have recovered quickly from 2012 to 2014, up $81 million or 42.6 percent.

Detroit is, of course, a special case. The city's fund balance fell from a negative of $33.6 million in 2005 to –$141.7 million in 2008 and –$269.5 million in 2012, which put Detroit in bankruptcy. Thanks to actions required by the bankruptcy process and outside assistance from the state and private foundations, Detroit no longer faces critical financial distress, at least temporarily. In 2014, Detroit's fund balance was reported as a positive $53.4 million.

Pre-recession, the general fund balances of the eight smaller cities fell $10.9 million, or 18 percent from 2005 to 2008. Balances dropped further—by $6.8 million, or 13.7 percent—from 2008 to 2012. Fund balances have recovered some of these losses from 2012 to 2014, increasing $4.2 million, or 9.7 percent. However, fund balances in these municipalities were still about 22 percent below the 2005 level.

Exhibit 5:
General Fund Balances, Michigan Cities, Selected Years

	1997	2000	2005	2008	2012	2014
Ann Arbor	$11,848	$15,380	$10,660	$19,780	$15,293	$22,579
Grand Rapids	NA	NA	$19,001	$19,173	$26,359	$35,530
Dearborn	NA	NA	$42,591	$29,995	$19,806	$23,623
Detroit	$200,612	$217,086	-$33,594	-$141,685	-$269,487	$53,406
Farmington Hills	$20,372	$13,197	$15,591	$18,676	$18,010	$24,797
Flint	NA	-$13,097	$6,099	-$6,869	-$19,184	-$8,961
Kalamazoo	NA	NA	$3,357	$4,218	$7,687	$7,718
Lansing	NA	NA	$7,192	$7,230	$5,372	$9,208
Livonia	NA	NA	$5,331	$6,169	$9,263	$11,351
Southfield	NA	NA	$14,737	$17,306	$13,113	$21,278
Sterling Heights	$13,138	$15,532	$14,001	$15,292	$5,248	$5,229
Troy	$11,454	$21,211	$23,807	$23,632	$33,911	$37,592
Warren	$19,394	$27,774	$47,228	$57,557	$32,301	$56,967
Westland	NA	NA	$5,794	$7,241	$10,990	$11,351
Wyoming	$4,399	$4,968	$4,835	$5,822	$11,900	$12,807
Total			$186,630	$83,537	-$79,418	$324,475
Total less Detroit			$220,224	$225,222	$190,069	$271,069
Alpena	$4,499	$3,572	$2,058	$2,169	$3,095	$2,984
Marquette	$3,001	$4,620	$4,140	$7,680	$10,803	$12,649
Midland	$7,752	$27,654	$40,388	$24,877	$8,739	$11,171
Niles	NA	NA	$1,934	$2,357	$2,038	$2,192
Petoskey	NA	NA	$2,558	$1,826	$3,663	$3,843
Sault Ste. Marie	NA	NA	$2,413	$2,427	$2,462	$2,398
Traverse City	NA	NA	$3,023	$3,819	$7,593	$7,153
Port Huron	NA	NA	$3,829	$4,253	$4,373	$4,478
Total			$60,343	$49,408	$42,766	$46,868

Source: Michigan Department of Treasury – F65 Data

Village Revenues and Expenditures

The financial view from Michigan villages is little different than it has been in cities. All municipalities were hard hit by the Great Recession and are subject to the same statutory and constitutional limitations that prevent rapid fiscal recovery.

<u>2008–2012</u>

Total general fund revenues in Michigan villages fell 10.6 percent from 2008 to 2012, slightly more than in cities. Property tax collections fell 17 percent, compared with an 8.1 percent drop for cities. Villages increased their average millage rate slightly, from 11.24 mills to 11.44 mills.

These lower property tax collections were offset by lesser declines in revenue sharing payments relative to Michigan cities. Revenue sharing payments fell 12 percent in villages during this time period, compared with a 21 percent decline for cities. Other revenue increased 5.2 percent.

General fund expenditures were cut by 5.3 percent in Michigan villages. General government expenditures declined 8.3 percent and public safety expenditures fell 13.2 percent.

<u>2012–2014</u>

Revenues and expenditures continued to decline from 2012 to 2014, but at a much slower rate.

Revenues fell only 0.1 percent in Michigan villages. Property tax collections declined 5.2 percent, a level that would have been larger but for an increase in the average millage rate from 11.44 mills to 11.83 mills.

Revenue sharing payments to Michigan villages declined 0.2 percent. Other revenues, however, jumped 9.5 percent.

General fund expenditures fell another five percent from 2012 to 2014, with general government outlays down 5.4 percent and public safety outlays down 7.2 percent.

Impact of Property Tax on Local Finances

As noted, municipal property taxes have declined sharply over the last decade. Currently, property taxes account for 43.1 percent of cities' general revenue.

There are 277 cities in Michigan with a total population of 4,804,000, which is about 48 percent of all state residents. However, cities account for only 39 percent of state taxable value, down from 48 percent in 1996. The reason for this change is simple: growth in suburban areas has been much faster than in cities.

Property taxes provided a steady, growing source of revenue for cities during the pre-recessionary period between 1996 and 2008. During that time, taxable value increased by 67 percent and property tax collections rose by 69.3 percent. The average city millage rate changed little, only rising from 16.07 mills in 1996 to 16.29 mills in 2008. Over the same period, state taxable value increased 89.5 percent as suburban areas grew faster than cities.

The collapse of the housing and financial sectors in 2008 resulted in the largest decline in Michigan property values since the 1930s. The taxable value of cities fell 18.1 percent between 2008 and 2012, and property tax collections fell 9.1 percent. The decline in taxable value was partially offset by an increase in the millage rate from 16.28 mills to 18.07 mills. Over the same period, state taxable value fell 13.1 percent.

Michigan's economy hit bottom in March 2010. While there has been a modest recovery in the housing market in the last few years, the taxable value of cities has continued to decline (albeit at a much slower rate). From 2012 to 2014, the taxable value of cities fell 1.6 percent, while statewide taxable value increased 1.2 percent.

Municipal property tax collections declined 0.1 percent between 2012 and 2014. The drop in taxable value was largely offset by an increase in the tax rate from 18.07 mills to 18.30 mills.

Taxable Value Analysis—All Cities

From 2008 to 2012, only 57 cities recorded increases in taxable values. Only three of these cities had a population of 20,000 or more: Midland, Mt. Pleasant, and Marquette. Four cities had an increase of 20 percent or more: Milan (39 percent), Hart (31.1 percent), Ithaca (28.5 percent), and Harbor Beach (23.1 percent). Of these cities, only Milan is located in Southeast Michigan.

Of the 57 cities, 21 are located in the Upper Peninsula. There are three possible reasons for the increases in the UP:

- There is little dependence on the auto sector
- Homes in the UP did not experience the pre-recessionary run-up in prices that many locations in the Lower Peninsula did
- Housing prices in the UP are much lower than housing prices in southeast Michigan.

There were 69 cities where taxable value declined by 20 percent or more. In five of these cities, the decline was 40 percent or more: Pontiac (46.3 percent), Hazel Park (44.4 percent), Harper Woods (42.1 percent), Eastpointe (40.6 percent), and Flint (40.6 percent). Of the 69 cities where taxable value declined by 20 percent or more, only two were located outside Southeast Michigan: Evart and Otsego. Assuming a 3 percent annual increase, it will take Pontiac 21 years to recover its taxable value losses.

<u>Taxable Value and Assessed Value</u>

One consequence of the decline in taxable value from 2008 to 2012 is that the ratio of taxable value to assessed value increased from 85.2 percent in 2008 to 90.4 percent in 2012.

The gap between assessed value (state SEV) and taxable value provided a cushion for cities during the downturn. Why? Lower assessments do not translate directly into taxable value reductions if taxable value is well below assessed value. From 2008 to 2012, the assessed value of cities fell 22.4 percent while taxable value declined 18.1 percent. Statewide, assessed value fell 23 percent while taxable value fell only 13.1 percent.

In 2008, 227 cities had a taxable to assessed value ratio below 90% and 62 of these cities were below 80%. In 2012, only 48 cities were below 90% and only six cities were below 80%.

The statewide average ratio of taxable value to assessed value increased from 81 percent in 2008 to 90.4 percent in 2012. The ratio in 2014 was 88.6 percent.

Analysis of 15 largest Cities

Michigan's largest cities were hit harder by the 2008–2009 recession than the state as a whole. The taxable value of the 15 largest cities fell 19.8 percent from 2008 to 2012. Most of the larger cities are located in Southeast Michigan, which was hit the hardest by the recession due to the heavy reliance on the auto sector (see Exhibit 6).

Exhibit 6:

Taxable Value and Millage Rates, Selected Michigan Cities, 2008, 2012, and 2014									
($ amounts in thousands)									
	2008			2012			2014		
	TV	Taxes	Rate	TV	Taxes	Rate	TV	Taxes	Rate
Detroit	$10,031,267	$315,628	31.46	$8,447,370	$274,638	32.51	$7,313,418	$232,730	31.82
Grand Rapids	$4,868,590	$43,271	8.89	$4,470,723	$41,955	9.38	$4,364,655	$45,454	10.41
Warren	$4,708,678	$77,848	16.53	$3,321,789	$91,247	27.47	$3,268,039	$90,550	27.71
Sterling Heights	$5,095,797	$54,962	10.79	$3,957,035	$50,191	12.68	$3,984,215	$60,488	15.18
Ann Arbor	$4,898,327	$91,609	18.7	$4,683,218	$84,869	18.12	$4,969,658	$81,771	16.45
Lansing	$2,496,989	$50,827	20.36	$2,028,452	$48,555	23.94	$1,975,388	$47,074	23.83
Flint	$1,643,424	$30,229	18.39	$942,226	$20,720	21.99	$754,826	$16,619	22.02
Dearborn	$4,349,520	$75,290	17.31	$3,195,697	$85,836	26.88	$3,209,416	$85,370	26.6
Livonia	$5,028,791	$57,504	11.44	$3,847,518	$53,434	13.89	$3,831,607	$54,752	14.29
Troy	$5,562,596	$54,903	9.87	$4,312,692	$47,741	11.07	$4,371,580	$50,273	11.5
Westland	$2,311,265	$30,935	13.36	$1,665,350	$23,216	13.94	$1,576,585	$29,731	18.86
Farmimngton Hills	$4,410,277	$53,770	12.19	$3,080,204	$44,706	14.51	$3,054,060	$45,669	14.95
Kalamazoo	$1,723,990	$44,799	25.99	$1,504,880	$37,458	24.89	$1,482,368	$37,800	25.5
Wyoming	$2,276,643	$28,662	12.66	$1,896,009	$26,880	14.18	$1,858,486	$27,240	14.66
Southfield	$2,752,556	$63,927	17.04	$2,520,912	$61,568	24.42	$2,391,992	$60,589	25.33
Total	$62,158,710	$1,074,164	16.33	$49,874,075	$993,014	19.33	$48,406,293	$966,110	19.94

Source: Michigan Department of Treasury – Comprehensive Annual Financial Reports

<u>2008–2012</u>

Property tax collections fell only 7.6 percent from 2008 to 2012 among Michigan's 15 largest cities, due mainly to large millage increases approved by voters in Dearborn and Warren. Dearborn increased its millage rate from 17.31 mills to 26.88 mills, which kept property tax collections almost flat despite a 26.5 percent decline in taxable value. Similarly, Warren realized nearly flat tax collections despite a 29.5 percent decline in taxable value by increasing its millage rate from 16.53 mills to 27.71 mills.

The average millage rate for Michigan's 15 largest cities increased from 16.33 mills in 2008 to 19.32 mills in 2012. Ann Arbor and Kalamazoo were the only cities that did not increase their millage rates during that time period. Ann Arbor experienced the smallest drop in taxable value and Kalamazoo the fourth smallest.

<u>2012–2014</u>

While the taxable value of all Michigan cities fell only 1.6 percent from 2012 to 2014, the taxable value of the 15 largest cities fell further, by 2.9 percent. Much of this decline was due to sharp drops in Detroit and Flint, two cities with long-term economic woes. Excluding Detroit and Flint, taxable value fell only 0.4 percent.

Property tax collections dropped 2.7 percent from 2012 to 2014, with large upturns in Sterling Heights and Westland (due to large millage increases) offsetting sharp declines in Detroit and Flint. Excluding Detroit and Flint, property tax collections increased 2.6%.

Included in Exhibit 7 is taxable value per capita, which ranges from $52,783 in Troy to $7,566 in Flint. The average of the 15 cities is $27,727 ($29,880 when Detroit and Flint are excluded). The average for all cities is $26,017 and the state average is $32,244.

Any city with a tax base much below $20,000 per capita will struggle financially and be forced to levy higher than average property tax rates or income taxes. Note that Troy—with a tax base of $52,783 per capita—levies only 11.5 mills. Kalamazoo, which has a tax base of $19,622, levies a millage rate of 25.5 mills. As shown in Exhibit 8, the lower the taxable value per capita, the higher the millage rate. This illustrates why revenue sharing is so important.

Exhibit 7:
Taxable Value and Millage Rates, 15 Largest Cities

City	TV Per Capita	% Change, TV	% Change, TV	% Change, Property Taxes	% Change, Property Taxes	Millage Rate		
	2014	2008-2012	2012-2014	2008-2012	2012-2014	2008	2012	2014
Detroit	$10,619	-15.8%	-13.4%	-13.0%	-15.3%	31.46	32.51	31.82
Grand Rapids	$22,698	-8.2%	-2.4%	-3.0%	8.3%	8.89	9.38	10.41
Warren	$24,230	-29.5%	-1.6%	17.2%	-0.8%	16.53	27.47	27.71
Sterling Heights	$30,362	-22.3%	0.7%	-8.7%	20.5%	10.79	12.68	15.18
Ann Arbor	$42,467	-4.4%	6.1%	-7.4%	-3.7%	18.7	18.12	16.45
Lansing	$17,332	-18.8%	-2.6%	-4.5%	-3.1%	20.36	23.94	23.83
Flint	$7,566	-42.7%	-19.9%	-31.5%	-19.8%	18.39	21.99	22.02
Dearborn	$33,472	-26.5%	0.4%	14.0%	-0.5%	17.31	26.88	26.6
Livonia	$40,245	-23.5%	-0.4%	-7.1%	2.5%	11.44	13.89	14.29
Troy	$52,783	-22.5%	1.4%	-13.0%	5.3%	9.87	11.07	11.5
Westland	$19,092	-27.9%	-5.3%	-25.0%	28.1%	13.36	13.94	18.86
Farmington Hills	$37,568	-30.2%	-0.8%	-16.9%	2.2%	12.19	14.51	14.95
Kalamazoo	$19,622	-12.7%	-1.5%	-16.4%	0.9%	25.99	24.89	25.5
Wyoming	$25,081	-16.7%	-2.0%	-6.2%	1.3%	12.66	14.18	14.66
Southfield	$32,764	-8.4%	-5.1%	-3.7%	-1.6%	17.04	24.42	25.33
Total	$27,727	-19.8%	-13.4%	-1.0%	-2.7%	16.33	19.32	19.94

Cities with low tax bases must levy high millage rates to provide a reasonable level of services. Unfortunately, these high tax rates encourage residents and businesses to move elsewhere. If tax rates were kept low, however, the lack of services would encourage residents and businesses to move elsewhere as well.

A strong revenue sharing program, as Michigan used to have, allows communities with low tax bases to maintain a reasonable level of services without needing to levy uncompetitive tax rates. Without revenue sharing, cities are caught in a vicious cycle that results in ongoing serious financial problems as demonstrated by the fact that Michigan has had more communities under emergency manager control than any other state.

Exhibit 8:
Taxable Value and Millage Rates by Quintile

		Millage
	TV Per Capita	**Rate**
Top Quintile	$73,324	15.14
Second Quintile	$32,376	17.8
Third Quintile	$24,365	17.79
Fourth Quintile	$19,254	19.2
Bottom Quintile	$13,714	20.53
Total (Average)	$26,102	17.98

Source: Michigan Department of Treasury. Calculations by GLEC.

Under the Proposal A cap there are two ways taxable value can exceed the inflation cap: new or improved property or the sale of existing property. However, Article IX, Section 31 of the state constitution (Headlee Amendment) reads as follows.

> "If the assessed valuation of property as finally equalized, excluding the value of new construction and improvements, increases by a larger percentage than the increase in the General Price Level from the previous year, the maximum authorized rate applied thereto in each unit of Local Government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the General Price Level, as could have been collected at the existing authorized rate on the prior assessed value."

This means, in effect, that the only increase allowed above the rate of inflation is new and improved property which is relatively small in most Michigan cities. This provision can be overridden with a vote of the people.

Although housing values are recovering from the sharp decline they experienced during the Great Recession, it will take most cities a number of years to recover their lost tax base due to the constitutional cap on the annual increase in taxable value. For example, taxable value in Farmington Hills fell 30.2 percent from 2008 to 2012. Assuming an optimistic annual increase of 3 percent, it will take 13 years for the city's taxable value to return to 2008 levels. At a lower inflation rate of 1.5 percent, the return to 2008 levels would take 30 years. Adjusted for inflation, however, taxable value may never return to the 2008 level in Farmington Hills and many other Michigan cities.

Such a sharp drop in property values was not anticipated when Proposal A was enacted in 1994, as Michigan had only experienced one year (1960) when property assessments had fallen, and the decline was only 1 percent.[5]

Other Selected Cities

In order to provide some geographical balance to the report, property tax data from eight smaller Michigan cities was analyzed (see Exhibit 9).

The declines in property values were not as large in cities outside southeast Michigan, particularly those cities on the Great Lakes. The taxable value of the eight cities outside southeast Michigan fell only 0.9 percent from 2008 to 2012. Taxable value actually increased in Marquette, Traverse City, Midland, and Sault Ste. Marie. Port Huron and Petoskey suffered the largest declines. Property tax collections increased by three percent in the eight cities, with only Midland and Ste. Sault Marie raising their millage rates by a significant amount.

Taxable value increased 4.1 percent from 2012 to 2014 compared with a 2.9 percent decline for the 15 largest cities. Tax collections rose 2.7 percent compared with a 2.7 percent decline for the 15 largest cities. Property tax collections increased 14 percent in Marquette due to a 14.7 percent increase in taxable value.

Taxable value per capita averaged $38,549 compared with $27,727 in the 15 largest cities. The average is inflated by Petoskey, where the taxable value per capita is $91,612, one of the highest in the state. The average for the other seven cities is $30,968.

[5] Due to the exemption of inventories from the property tax base in 1976, property assessments fell in that year.

Exhibit 9: Taxable Value and Millage Rates, Eight Smaller Cities								
	TV Per Capita 2014	% Change, TV 2008-2012	% Change, TV 2012-2014	% Change, Property Taxes 2008-2012	% Change, Property Taxes 2012-2014	Millage Rate		
						2008	2012	2014
Midland	$49,594	5.3%	6.0%	17.7%	2.7%	12.91	14.45	14
Port Huron	$27,077	-21.2%	-6.4%	-21.2%	-6.5%	16.94	16.94	16.93
Marquette	$26,129	11.2%	14.7%	12.3%	14.0%	17.4	17.56	17.47
Traverse City	$49,748	8.2%	5.2%	9.8%	5.0%	13.72	13.91	13.89
Sault Ste. Marie	$19,836	3.1%	-2.5%	7.7%	-0.8%	21.44	22.39	22.79
Niles	$18,674	-7.5%	-0.9%	-7.5%	-0.9%	16.12	16.12	16.12
Alpena	$25,757	-9.1%	-0.5%	-16.2%	-0.8%	18.12	16.71	16.65
Petoskey	$91,612	-16.1%	2.5%	-14.7%	2.5%	14.08	14.3	14.3
Total		-0.9%	4.1%	3.0%	2.7%	130.73	132.38	132.15
Average						16.34	16.55	16.52

Source: Michigan Department of Treasury. Calculations by GLEC.

Villages

There are 257 villages in Michigan with a total population of 270,000, for an average population of 1,050. Only three villages have a population of 5,000 or more: Beverley Hills, Milford, and Holly. The taxable value of all villages is only 2.3 percent of the state total.

From 2008 to 2012, the taxable value of villages fell 18 percent and tax collections declined 16.5 percent. The average millage rate increased from 11.24 mills to 11.44 mills. From 2012 to 2014, taxable value increased 0.1 percent and property tax collections were up 2.6 percent due to an increase in the property tax rate from 11.44 mills to 11.83 mills.

Underfunding of Revenue Sharing

State revenue sharing began in the 1930s, when Michigan began taxing enterprises that held licenses for alcoholic beverages. At that time, the state returned 85 percent of liquor license tax collections to the municipalities of origin. As time passed, however, Michigan's revenue sharing base changed. In 1946, the state constitution was amended to provide a constitutional revenue sharing payment based upon a percentage of sales tax collections, to be distributed to municipalities on a per capita basis.

There have been numerous changes to the statutory revenue sharing base since the 1930s, including dedications of revenue from the intangibles tax (repealed), the income tax, the sales tax, and the single business tax (repealed). However, statutory revenue sharing always was fully funded until the state temporarily reduced statutory revenue sharing during the recessions of 1980–1983.

Cuts to statutory revenue sharing began again in FY 1991 and—with the exception of FY 1998 when the base was revised, and FY 2001 when statutory revenue sharing was fully funded—actual statutory revenue sharing payments have been below full funding each year since.

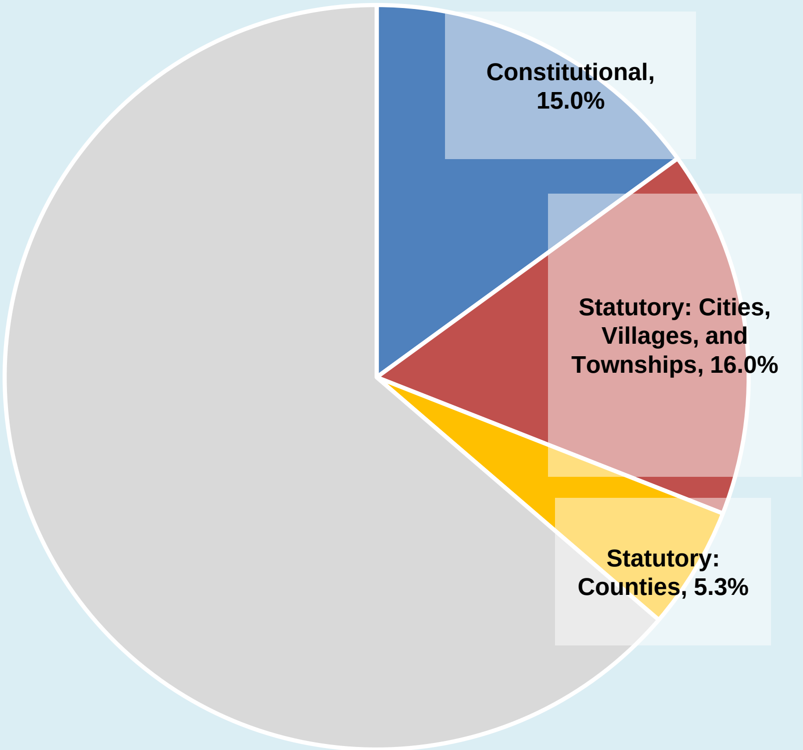
Exhibit 10:
Statutory Revenue Sharing Cuts Prior to 1998
In Millions

FY 81	**FY 82**	**FY 83**	
$43.5	**$40.0**	**$11.9**	
FY 91	**FY 92**	**FY 93**	**FY 94**
$10.7	**$112.2**	**$45.5**	**$54.5**
FY 95	**FY 96**	**FY 97**	
$67.0	**$81.3**	**$140.4**	

Source: Michigan Senate Fiscal Agency.

In 1998, state policymakers amended the law to provide that statutory revenue sharing would be based upon a percentage of sales tax collections. The statutory revenue sharing base was specified to be 21.3 percent of the sales tax collections at a rate of four percent. For municipalities, the base was specified as an amount equal to 74.94 percent of 21.3 percent of the sales tax collections at a rate of four percent.

Percent of Sales Tax Revenue Dedicated to Revenue Sharing in Constitution and Statute (4% Rate)



Under current law, state revenue sharing consists of two parts: constitutional payments and what is commonly referred to as statutory revenue sharing payments. Constitutional revenue sharing payments are based upon a percentage of actual sales tax collections.

But only once since FY 1998 have lawmakers acted to fully fund statutory revenue sharing payments (in FY 2001). Statutory revenue sharing in FY 2016 is estimated to be $585 million below the full funding of the state's statutory dedication for cities, villages, and townships. What's more, the cumulative amount of cuts to statutory revenue sharing for municipalities from FY 1998 to FY 2016 is estimated to be a staggering $5.538 billion.

Exhibit 11: Statutory Revenue Sharing Cuts to CVT's Since FY 1998 ($ Millions)					
	FY 99	FY 00	FY 01	FY 02	FY 03
Full Funding	$1,197.9	$1,297.2	$1,326.7	$1,340.3	$1,363.0
Actual	$1,180.2	$1,247.9	$1,326.7	$1,299.8	$1,248.8
Cut	$17.7	$49.3	$0.0	$40.5	$114.2
	FY 04	FY 05	FY 06	FY 07	FY 08
Full Funding	$1,348.2	$1,380.3	$1,403.9	$1,374.7	$1,420.6
Actual	$1,122.6	$1,112.1	$1,102.5	$1,070.9	$1,076.2
Cut	$225.6	$268.2	$301.4	$303.8	$344.4
	FY 09	FY 10	FY 11	FY 12	FY 13
Full Funding	$1,339.8	$1,298.7	$1,372.0	$1,460.4	$1,490.6
Actual	$1,037.1	$938.9	$944.6	$917.2	$946.9
Cut	$302.7	$359.8	$427.4	$543.2	$543.7
Full Funding	FY 14	FY 15	FY 16	TOTAL CUTS	
Actual	$1,525.5	$1,569.1	$1,618.0	SINCE FY 98	
	$974.8	$1,009.0	$1,032.7		
Cut	$550.7	$560.1	$585.3	$5,538.0	

Source: Michigan House Fiscal Agency.

Even though the percentage of actual collections dedicated to constitutional revenue sharing payments has not changed, as previously discussed, constitutional payments have also been effectively reduced due to tax changes that reduce the sales tax base.

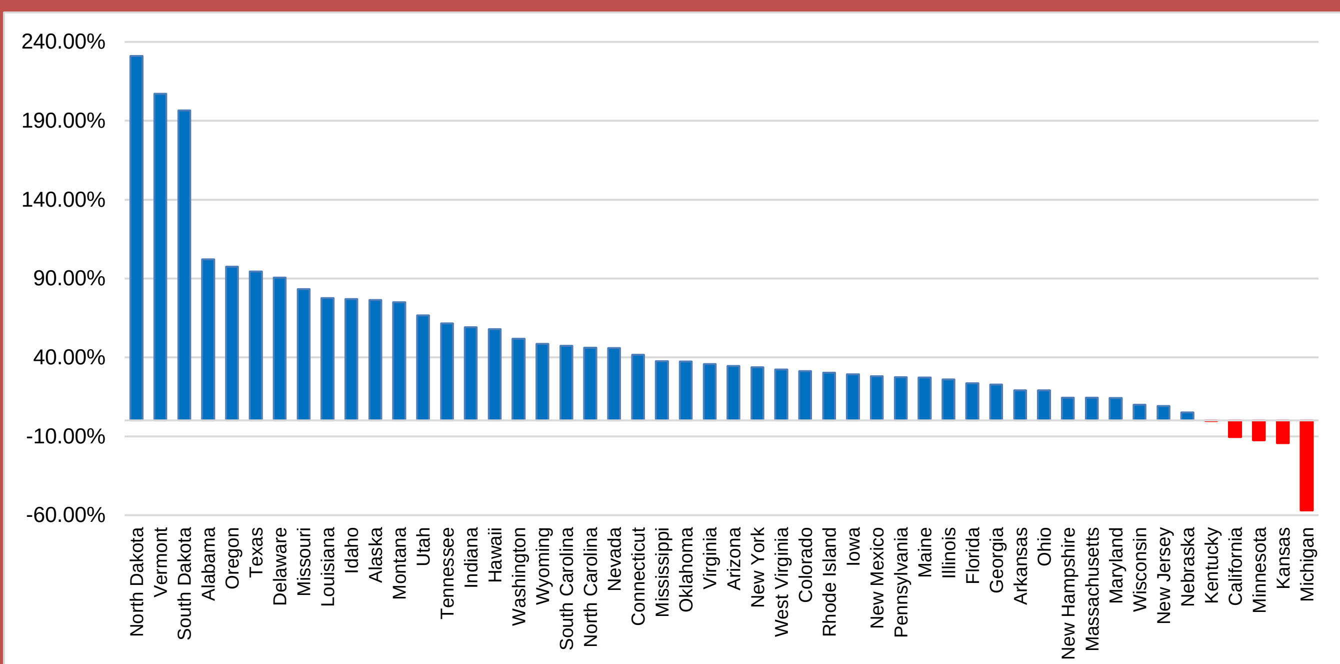
In addition to the reductions to statutory revenue sharing payments listed above, the impact of reductions to the sales tax base have reduced constitutional revenue sharing payments an estimated $27.3 million in FY 2014, and a cumulative $181.2 million since Proposal A was adopted in 1994.

Cuts in state revenue sharing have been a major contributor to the fiscal problems of Michigan's cities. A recent MSU study (Beyond State Takeovers, August 31, 2015) concluded:

> "The importance of a well-designed state aid system is hard to overstate. It allows local officials greater flexibility in responding to economic pressures and the service needs of residents. This flexibility is particularly valuable during periods of economic downturn. Because local governments vary widely in their tax bases and in their ability to raise critical own-source revenues, influential research illustrates the equalizing potential of state aid, particularly in helping to smooth out revenue gaps between wealthier and poorer local jurisdictions. In the past few decades, very few states target aid to local governments as a function of local need. The level of state aid that is available can make it possible for certain jurisdictions – for instance, older, industrial cities experiencing significant job loss coupled with a much reduced tax base – to at least afford minimum levels of services and possibly respond to growing service demands on the heels of a crippling state or national recession."

Since 2002, Michigan has led the nation in cuts to municipalities (see Exhibit 12). The Census of Governments published every five years by the U.S. Census Bureau reported that from 2002 to 2012, municipal revenue from state sources increased in forty-five states and the average increase was 48.1 percent. In Michigan, municipal revenue from state sources declined 56.9 percent from 2002 to 2012.

Exhibit 12:
Growth in Municipal Revenue from State Sources (2002 - 2012)



California, Minnesota, Kansas, and Kentucky reduced state sources to municipalities by an average of 9.41 percent. Kansas was the next largest decline at 14.3 percent – compared to a 56.9 percent decline in Michigan.

Six states increased revenues to municipalities by 90 percent to over 200 percent; and another 14 states increased municipal revenue between 40 percent and 90 percent. In total, 46 states increased municipal revenues during the period at an average rate of 48.1 percent.

We only have numbers for Michigan through the current budget year so we cannot do a multi-state comparison past 2012, but from 2002 to 2016 as enacted, Michigan's statutory revenue sharing has declined 61 percent. As other states are increasing municipal revenues, Michigan continues to reduce funding for municipalities and a comparison of all 50 states from 2002 to 2016 would likely show an even greater relative decline for Michigan.

Municipal Economic and Employment Trends

The most recent municipal employment data available comes from the U.S. Census Bureau and is for 2002. The total number of full-time equivalent (FTE) employees working for municipal government in Michigan was 80,212, representing 52.4 percent of general government employment (municipalities, counties, townships and special districts). In 2012, general government employment was 122,600. Assuming municipalities maintained the same share, municipal employment is estimated at about 64,000, about 20 percent below the 2002 level.

In 2012 (latest data), Michigan cities and villages paid $2.42 billion in wages and salaries and spent $11.93 billion on public safety, transportation, housing, sewerage and waste management, and other services.

The total payroll for municipalities increased 20 percent from 1997 to 2002, and then declined 8.4 percent from 2007 to 2012. Payroll as a share of total expenditures fell from 27.2 percent in 1997 to 22.4 percent in 2002 and 20.3 percent in 2012.

Total employment (FTEs) for the 15 largest cities fell 14 percent from 1995 to 2008, with only five cities recording increases. From 2008 to 2012, employment fell 17.8 percent with only Ann Arbor (2.9 percent) increasing employment (see Exhibit 13).

We only have partial employment data for the eight smaller cities included in this analysis. We have 1995 data for all of the cities except Alpena, and 2012 data for all eight cities. Employment declined 6.1 percent from 1995 to 2012 for the seven cities for which we have data for both years.

The direct and indirect economic impact of payroll and spending can be calculated, but local government offers intangible benefits upon which it is impossible to place a dollar value.

Exhibit 13:
Employment (FTEs), Selected Michigan Cities

	FTES			% Change	% Change
	1995	2008	2012	1995-2008	2008-2012
City					
Ann Arbor	1,303	985	1,014	-24.4%	2.9%
Dearborn	976	1,392	923	42.6%	-33.7%
Detroit	17,193	13,640	10,525	-20.7%	-22.8%
Farmington Hills	394	498	445	26.4%	-10.6%
Flint	3,815	3,503	3,484	-8.2%	-0.5%
Grand Rapids	1,967	1,803	1,502	-8.3%	-16.7%
Kalamazoo	990	804	737	-18.8%	-8.3%
Lansing	1,317	1,126	888	-14.5%	-21.1%
Livonia	755	854	675	13.1%	-21.0%
Southfield	918	762	690	-17.0%	-9.4%
Sterling Heights	648	689	579	6.3%	-16.0%
Troy	506	583	515	15.2%	-11.7%
Warren	997	468	409	-53.1%	-12.6%
Westland	385	455	341	18.2%	-25.1%
Wyoming	406	438	303	7.9%	-30.8%
Total	32,570	28,000	23,030	-14.0%	-17.8%
Alpena	NA	95	86	NM	-9.5%
Marquette	303	283	277	-6.6%	-2.1%
Midland	440	438	384	-0.5%	-12.3%
Niles	154	143	125	-7.1%	-12.6%
Petoskey	78	79	84	1.3%	6.3%
Port Huron	423	314	265	-25.8%	-15.6%
Traverse City	200	217	211	8.5%	-2.8%
Sault Ste. Marie	NA	159	150	NM	-5.7%
Total	1,598	1,728	1,582	NM	-8.4%

Source: U.S. Census Bureau. Calculations by GLEC.

Impact of Funding Cuts on Local Services

Although there are many factors that determine the economic health of a region or state, quality of life factors play a major role in attracting "new economy" businesses and workers (Florida, 2000). Research shows quality of life factors that attract a highly educated and competent workforce are integral to taking advantage of the current economic climate.

Quality of life factors are partially determined by local government service provision in items such as transportation systems, health care and food safety, parks and recreational opportunities and public safety. Businesses' and residents' bottom lines are affected by the delivery of public services, as well as by tax rates.

Local communities and governments must strike a balance between providing a reasonable portfolio of services while maintaining reasonable tax levels. An imbalance in either direction will be potentially damaging.

A review of the relevant economic research published by Ronald Fisher, Professor of Economics at Michigan State University, demonstrates a link between the provision of public services such as public safety and transportation and economic development. Research also shows that this link exists even after factoring in tax rates. Therefore, local communities and governments must strike a balance between providing a reasonable portfolio of services while maintaining reasonable tax levels. An imbalance in either direction will be potentially damaging.

Local Service Reduction

Michigan cities (excluding Detroit[6]), reduced their general fund expenditures by 7.4 percent between 2008 and 2012.

As is shown in Exhibit 14**, every category of spending except health and human services—which is very small—and other public safety declined**. As might be expected, the smallest declines were for police and fire services.

The largest declines were generally those services that are considered nonessential or can be deferred such as transfers out and parks and recreation.

The decline in local government revenues bottomed out for most cities in 2012. Expenditures continued to decline from 2012 to 2014, but at a much slower rate—1.1 percent. Most expenditure categories declined at slower rates or increased, with the

[6] We are separating the analysis of Detroit from all other cities as their expenditures are 30 percent of the total for all cities and given their special circumstances their inclusion would distort the analysis. Also we do not have data for Detroit that is strictly comparable to the other cities.

notable exception of police and fire services, which declined 3.5 percent from 2012 to 2014, compared with a decline of 1.1 percent from 2008 to 2012.

Exhibit 14:

Expenditures by Michigan Cities, 2008, 2012 and 2014 (Excludes Detroit)	2008	2012	2014	% Change 2008-2012	% Change 2012-2014
General Government	$640,575,293	$584,440,311	$556,760,973	-8.8%	-4.7%
Police/Sheriff	$800,492,684	$791,894,054	$770,602,656	-1.1%	-2.7%
Fire	$421,472,593	$416,951,761	$401,282,899	-1.1%	-3.8%
Other Public Safety	$192,198,610	$194,165,124	$205,279,609	1.0%	5.7%
Parks & Recreation	$157,916,325	$130,696,145	$127,438,925	-17.2%	-2.5%
Public Works	$277,617,063	$263,314,249	$268,474,215	-5.2%	2.0%
Health & Human Services	$7,702,342	$8,614,938	$7,896,591	11.8%	-8.3%
Redevlopment, Planning & Housing	$52,570,245	$48,526,535	$52,064,051	-7.7%	7.3%
Cultural	$32,392,495	$28,727,494	$22,100,963	-11.3%	-23.1%
Capital Outlay	$33,811,359	$31,112,380	$36,736,770	-8.0%	18.1%
Debt Service	$23,123,172	$21,973,319	$16,957,449	-5.0%	-22.8%
Fringe Benefits	$143,273,752	$92,891,895	$87,101,521	-35.2%	-6.2%
Transfers Out	$209,528,959	$166,740,281	$193,858,561	-20.4%	16.3%
Other Expenditures	$15,321,600	$5,416,281	$9,608,135	-64.6%	77.4%
Total Expenditures	$3,007,996,492	$2,785,464,765	$2,756,163,317	-7.4%	-1.1%

Source: Michigan Department of Treasury. Calculations by GLEC.

The impact of the funding cuts on services is difficult to quantify. One obvious impact is on employment. We do not have good data on employment, but we estimate that municipal employment fell about 20 percent from 2002 to 2012 (see discussion on page 34).

We do have data for the 15 largest cities. Their employment fell by 4,570 from 1995 to 2008, or 14 percent from 1995 to 2008, and by another 4,970 from 2008 to 2012, or 17.8 percent. A large share of this decline was in Detroit. Excluding Detroit,

A Look at Detroit

Detroit reduced its general fund expenditures by $185 million, or 15.7 percent from 2008 to 2012. Public safety, which accounts for over 60 percent of the budget, actually increased 1.7 percent. General government was reduced by about $122 million, or 40.8 percent.

From 2012 to 2014, Detroit reduced its expenditures another 5.3 percent, or about $53 million. Public safety expenditures were reduced by one-third, ($204 million) while general government spending increased 68 percent, or $120 million. Most of the increase was in the category of non-departmental expenditures. Obviously, there were changes in the classification of expenditures.

employment fell 13.1 percent from 1995 to 2008 and 6.6 percent from 2008 to 2012.

The only complete data we have for the eight smaller cities analyzed in this report is for 2008 and 2012. These cities reduced their employment by 146, or 8.4 percent.

Lansing is a typical example. As property values and state revenue sharing dropped, it had no choice but to slash payroll and cut costs where it could.

News & Analysis from The Center for Michigan

From 2006 to 2013, the city cut its work force by 30 percent, from 1,220 to 852. It negotiated increases in employee health care premiums and pension contributions. It closed three fire stations and reduced minimum staffing requirements for firefighters. It closed two municipal golf courses.

Roads suffered. From 2004 to 2013, the percentage of federally funded roads in that city that were in poor condition soared from 4 percent to 40 percent.

In November 2011, voters approved a 5-year, 4-mill tax increase to fund the police and fire departments – avoiding threatened cuts of 120 employees in the police and fire departments. They turned down the same request six months earlier.

Saginaw, on the high side of fiscal stress, has managed to avoid emergency management. But the city is barely recognizable from what it was decades ago.

According to the Municipal League, it lost more than $30 million in projected revenue sharing from 2003 to 2014. A 2013 report by Michigan State University on municipal legacy debt found that Saginaw's unfunded retiree health care debt in 2011 was about $200 million. It had more than $100 million in unfunded pension debt and spent more than $8 million – a fourth of the general fund budget – on retiree health care in 2013, leaving much less to pay for basic services for residents.

That includes police and fire, normally the last services a municipality cuts. The city has slashed its police force to 55, a quarter of its staffing level in 1975 – and a cut twice as steep as the drop in population during that time. Its fire department is staffed at 50, half what it was in 1995.

Its streets have steadily deteriorated, with 57 percent of its federal aid roads in poor condition in 2013.

The same year, city officials decided to stop cutting weeds in the hundreds of vacant parcels scattered around town – a measure to save $200,000 a year. The resulting weed-choked lots left many residents complaining the city no longer cared about their neighborhoods. The Saginaw Land Bank in 2014 agreed to pay the city $45,000 to cut some of the lots while the city mulls a long-term solution.

Source: Bridge Magazine, "City Blues: MSU study finds state tax policies cripple cities". November 2015.

Causes and Effects of Fiscal Distress

There are currently 11 cities, one township, one county and five school districts in which the state has determined that there is a financial emergency.

In the cities and township, the average taxable value is $12,060. If Detroit is excluded, the average taxable value is $13,115. The state average is about $32,000 per capita.

Our best estimate is that a local unit of government will have a very difficult time providing a reasonable level of services if their per capita taxable value is less than $20,000 without having to levy tax rates that make them economically uncompetitive. The average property tax rate in the cities and township, under state supervision is 29.3 mills compared to the average for all cities of 18.3 mills. Royal Oak Township levies 15.11 mills compared to the average for all townships of 4.71 mills. Only one of the cities, Pontiac, levies less than 22 mills. Detroit, Flint, Highland Park, Hamtramck, and Pontiac also levy an income tax.

This suggests that appointing an emergency manager or signing a consent agreement with a local unit is unlikely to do much to fix its fiscal problems. There may be cases of mismanagement or corruption where an emergency manager is required, but unless the state is willing to address the underlying economic problems the intervention is likely to be unsuccessful. This has been proven time and again in Michigan.

A recent study by MSU reached a similar conclusion.

> "In light of the clustering of distressed localities within Michigan's borders, it comes as little surprise that Michigan lawmakers would value a policy that allows state officials to help struggling local governments meet conditions of chronic fiscal stress. However, as we discuss below, what is quite striking is the relationship between the policy's goals and design – which favors state takeover of local government– and the nature and underlying causes of the problem of acute fiscal distress. The financial consequences of deep-rooted economic and social forces are unlikely to be fully alleviated via temporary suspension of local self-government. Neither are the often overlooked but critically important state-imposed causes analyzed above." *(MSU, Beyond State Takeovers, August 31, 2015)*

Issues for Further Exploration

Michigan's Revenue Sharing Formula

Until the state fully funds statutory revenue sharing to cities, villages and townships, many municipalities will continue to have fiscal problems—even in a growing state economy. For FY 2015–16, the total amount of underfunding is estimated to be $585 million.

Our best estimate is that a local unit of government will have a very difficult time providing a reasonable level of services if their per capita taxable value is less than $20,000 without having to levy tax rates that make them economically uncompetitive. The average property tax rate in the cities and township under state supervision is 29.3 mills, compared to the average of 18.3 mills for all cities. There are 90 cities in Michigan that have taxable value per capita of less than $20,000.

This issue could be addressed through a new statutory revenue sharing formula which takes into account factors such as population, per capita income, per capita property tax base, and cost of essential services.

In addition, local units have little or no say about changes to the state tax base yet bear some of the burden of tax cuts. The state should consider effective ways to hold local units harmless to the negative impact of sales tax base/rate reductions and property tax base/rate reductions.

Artificial Reductions in Property Tax Revenues

Under Proposal A and its subsequent implementing legislation, the uncapped value of property upon its transfer is treated as growth in the existing value of the property. In combination with the Headlee Amendment, the effect has been to artificially reduce property tax revenues since 1994. This interaction disproportionately affects aging communities that can no longer support new growth and rely on the increase in property value from the uncapping.

Although initial implementing legislation for the Headlee Amendment permitted rolled back millages to be adjusted upward when property tax value increased by less than the rate of inflation, the Legislature eliminated any millage rate recovery for this situation following the passage of Proposal A.

A 2002 Michigan Supreme Court decision (WPW Acquisition v. City of Troy) barred complete implementation of 1994 Proposal A legislation regarding property taxation on commercial rental property. That legislation provided that, in calculating the cap for determining the taxable value of commercial rental property, both increases and decreases in occupancy would be treated differently from market value changes affecting other types of property.

The Michigan Supreme court ruled that an increase in value due to an increase in a commercial rental property's occupancy could not be used to increase the property's taxable value beyond the constitutional assessment cap established by Proposal A. As a result of this court decision, commercial rental property taxes are based on occupancy decreases and are not adjusted upward if the property's occupancy rate increases.

The following changes could help address this problem:

- When property is transferred, treat the increases from the previously untaxed value, as exempt property.
- Allow local units of government to roll up their millage rates in years when property tax values on existing property increase by less than the rate of inflation.
- Remove certain commercial rental property from the General Property Tax Act and create a new specific tax for that property.

Explore alternative revenue sources.

Municipalities need access to revenue sources in addition to the property tax. Sales taxes, fuel taxes, vehicle registration fees, alcohol taxes, tobacco taxes, public utility sales taxes, real estate transfer taxes, and other sources should be considered. Indeed, Ohio, Indiana and Illinois allow several of these.

Permit broader service sharing for public safety.

Public safety expenditures account for almost half of the general fund budgets of Michigan municipalities. Crime does not stop at a city's border. It would be more appropriate—and could help relieve pressure on larger cities' budgets—if the costs of providing public safety were spread across the county or shared on a regional basis.

Determine how to better address unfunded mandates.

One of the intents of the Headlee Amendment was to prevent the state from imposing unreimbursed mandates on local governments. However, the amendment has been ineffective in preventing such mandates from being imposed.

Local units of government have been forced to pick up the tab for numerous services that are deemed "optional" by the state, but which truly are not optional for taxpayers (e.g., 9-1-1 certification requirements, smoking ban enforcement, tattoo parlor inspections).

Worse still, the courts have been slow to act on Headlee enforcement (17 years, in the *Durant* case). Local governments end up covering the costs of various mandates while litigation slowly moves through the court system. And further, Michigan courts seem unwilling to tell the Legislature to appropriate necessary funds, based on the separation of powers. These have left Headlee essentially moot when it comes to unfunded mandates. A better method must be developed to address this issue.

Data Appendix

Revenues and Expenditures, Selected Michigan Cities, 2014

	Ann Arbor	Dearborn	Detroit	Farmington Hills	Flint	Grand Rapids
Expenditures						
General Government	$11,659,610	$15,028,031	$296,530,041	$9,479,476	$13,294,648	$22,924,381
Public Safety	$38,761,781	$52,144,105	$426,103,004	$17,498,574	$34,991,883	$70,333,167
Public Works	$13,862,594	$12,045,751	$59,575,884	$6,430,421	$415	$4,849,519
Parks & Recreation	$6,741,131	$9,926,253	$15,979,864	$6,703,160	$1,235,568	$0
Other Expenditures	$10,561,143	$9,880,845	$314,721,000	$9,717,827	$1,151,940	$18,289,547
Total	$81,586,259	$99,024,985	$1,112,839,573	$49,829,458	$50,674,454	$116,396,614
Revenues						
Property Taxes	$50,671,753	$71,863,633	$129,143,195	$27,852,944	$5,122,740	$12,883,112
State Revenue Sharing	$10,153,056	$8,860,349	$189,756,901	$6,317,081	$14,140,573	$14,496,658
Income Taxes	$0	$0	$253,769,874	$0	$13,038,276	$64,612,270
Licenses & Permits	$1,767,040	$1,607,365	$8,685,443	$1,357,184	$1,194,402	$490,207
Fees, Charges & Penalties	$12,720,777	$11,269,985	$173,324,085	$11,773,998	$11,935,783	$14,817,089
Other Income	$9,981,046	$9,848,830	$230,909,570	$4,149,513	$9,152,338	$12,032,695
Total	$85,293,672	$103,450,162	$985,589,068	$51,450,720	$54,584,112	$119,332,031

Revenues and Expenditures, Selected Michigan Cities, 2014

	Kalamazoo	Lansing	Livonia	Southfield	Sterling Heights	Troy
Expenditures						
General Government	$10,020,544	$18,149,864	$8,100,021	$15,563,803	$12,170,535	$6,583,538
Public Safety	$30,975,369	$66,701,402	$32,284,721	$38,539,418	$48,577,037	$25,849,679
Public Works	$4,362,897	$10,095,380	$2,737,881	$3,487,573	$12,487,492	$5,675,847
Parks & Recreation	$1,833,212	$7,741,209	$366,745	$0	$1,666,722	$5,879,055
Other Expenditures	$5,718,212	$14,024,217	$7,650,357	$4,968,733	$6,840,598	$8,773,564
Total	$52,910,234	$116,712,072	$51,139,725	$62,559,527	$81,742,384	$52,761,683
Revenues						
Property Taxes	$29,993,668	$36,924,955	$30,746,396	$44,846,301	$50,107,694	$29,591,708
State Revenue Sharing	$8,249,754	$13,630,527	$8,044,682	$6,304,301	$10,541,415	$6,502,877
Income Taxes	$0	$31,450,913	$0	$0	$0	$0
Licenses & Permits	$2,058,568	$1,508,133	$1,983,859	$2,445,398	$1,735,413	$2,429,459
Fees, Charges & Penalties	$7,576,868	$10,662,156	$8,313,339	$7,679,467	$13,717,835	$8,625,986
Other Income	$2,826,403	$23,048,376	$3,547,147	$6,072,775	$5,620,939	$6,444,321
Total	$50,705,261	$117,225,060	$52,635,423	$67,348,242	$81,723,296	$53,594,351

Revenues and Expenditures, Selected Michigan Cities, 2014

	Warren	Westland	Wyoming	Total
Expenditures				
General Government	$17,946,135	$13,434,892	$4,790,744	$475,676,263
Public Safety	$56,468,660	$30,742,406	$14,147,669	$984,118,875
Public Works	$7,123,952	$7,341,612	$971,406	$151,048,624
Parks & Recreation	$0	$1,538,287	$0	$59,611,206
Other Expenditures	$4,748,294	$6,237,156	$700,203	$423,983,636
Total	$86,287,041	$59,294,353	$20,610,022	$2,094,368,384
Revenues				
Property Taxes	$66,479,677	$21,286,912	$9,479,724	$616,994,412
State Revenue Sharing	$12,687,778	$7,670,418	$6,019,005	$323,375,375
Income Taxes	$0	$0	$0	$362,871,333
Licenses & Permits	$2,700,351	$1,268,316	$1,109,032	$32,340,170
Fees, Charges & Penalties	$6,895,761	$7,098,825	$2,212,283	$308,624,237
Other Income	$9,530,543	$18,851,464	$1,699,941	$353,715,901
Total	$98,294,110	$56,175,935	$20,519,985	$1,997,921,428

Revenues and Expenditures, Selected Michigan Cities, 2014

	Alpena	Marquette	Midland	Niles	Petoskey
Expenditures					
General Government	$2,349,147	$3,127,542	$5,812,138	$1,558,370	$1,531,204
Public Safety	$3,430,172	$6,779,514	$14,740,646	$3,772,217	$2,748,537
Public Works	$658,396	$3,936,500	$5,867,712	$966,407	$596,935
Parks & Recreation	$725,430	$425,087	$4,625,415	$98,002	$1,855,406
Other Expenditures	$1,797,309	$3,710,091	$7,124,643	$306,182	$1,251,907
Total	$8,960,454	$17,978,734	$38,188,554	$6,701,178	$7,983,989
Revenues					
Property Taxes	$3,834,498	$13,442,528	$30,780,923	$2,910,128	$3,218,867
State Revenue Sharing	$1,126,128	$2,582,215	$3,323,642	$1,206,489	$508,435
Income Taxes	$0	$0	$0	$0	$0
Licenses & Permits	$171,795	$35,462	$514,354	$43,402	$15,265
Fees, Charges & Penalties	$919,489	$2,141,410	$2,427,661	$0	$1,299,444
Other Income	$3,162,218	$14,988,809	$3,327,904	$2,193,456	$2,423,314
Total	$9,178,128	$19,700,424	$40,374,484	$6,353,475	$7,465,325

Revenues and Expenditures, Selected Michigan Cities, 2014

	Port Huron	Sault Ste. Marie	Traverse City	Total
Expenditures				
General Government	$2,998,897	$2,089,447	$2,384,278	$21,851,023
Public Safety	$12,646,923	$4,090,602	$5,891,957	$54,100,568
Public Works	$1,531,993	$954,319	$1,329,368	$15,841,630
Parks & Recreation	$2,485,950	$1,273,330	$1,704,842	$13,193,462
Other Expenditures	$1,427,307	$3,513,647	$2,805,852	$21,936,938
Total	$21,091,070	$11,921,345	$14,116,297	$126,941,621
Revenues				
Property Taxes	$6,715,401	$7,220,537	$8,109,109	$76,231,991
State Revenue Sharing	$3,314,544	$1,464,462	$1,317,895	$14,843,810
Income Taxes	$5,934,153	$0	$0	$5,934,153
Licenses & Permits	$601,331	$30,170	$288,269	$1,700,048
Fees, Charges & Penalties	$614,293	$2,478,583	$383,023	$10,263,903
Other Income	$1,003,446	$1,093,197	$3,620,205	$31,812,549
Total	$21,183,168	$12,123,949	$13,718,501	$130,097,454

Revenues and Expenditures, Selected Michigan Cities, 2012

	Ann Arbor	Dearborn	Detroit	Farmington Hills	Flint
Expenditures					
General Government	$12,834,042	$11,722,656	$214,180,790	$10,380,197	$16,081,579
Public Safety	$39,454,457	$51,229,100	$582,003,880	$21,111,697	$34,917,050
Public Works	$12,687,232	$9,728,616	$71,131,633	$6,725,743	$2,738,279
Parks & Recreation	$5,123,587	$8,396,021	$16,967,327	$7,433,857	$3,792,290
Other Expenditures	$5,830,303	$20,033,850	$348,666,961	$4,108,972	$8,891,499
Total	$75,929,621	$101,110,243	$1,232,950,591	$49,760,466	$66,420,697
Revenues					
Property Taxes	$48,856,539	$62,375,793	$147,790,000	$29,937,954	$6,952,418
State Revenue Sharing	$9,748,477	$8,391,595	$173,292,222	$6,024,718	$13,103,186
Income Taxes	$0	$0	$233,035,540	$0	$14,839,999
Licenses & Permits	$1,270,419	$2,164,269	$7,406,093	$828,944	$1,325,459
Fees, Charges & Penalties	$13,139,876	$9,805,183	$163,699,593	$12,032,012	$11,622,289
Other Income	$4,491,556	$16,611,211	$386,063,983	$4,237,985	$6,668,635
Total	$77,506,867	$99,348,051	$1,111,287,431	$53,061,523	$54,511,986

Revenues and Expenditures, Selected Michigan Cities, 2012

	Grand Rapids	Kalamazoo	Lansing	Livonia	Southfield
Expenditures					
General Government	$23,842,467	$10,675,655	$22,439,973	$8,683,695	$16,842,415
Public Safety	$71,193,879	$32,974,994	$58,696,097	$32,531,956	$37,687,006
Public Works	$5,525,318	$5,121,793	$6,225,177	$2,998,708	$3,705,999
Parks & Recreation	$0	$2,372,033	$6,996,074	$394,571	$0
Other Expenditures	$19,509,180	$5,911,847	$8,284,943	$5,948,207	$4,310,509
Total	$120,070,884	$57,056,332	$102,642,264	$50,557,137	$62,545,929
Revenues					
Property Taxes	$13,294,640	$33,550,607	$32,261,651	$32,624,955	$44,974,595
State Revenue Sharing	$13,854,586	$8,063,444	$12,710,114	$7,802,553	$5,973,225
Income Taxes	$56,757,578	$0	$27,943,070	$0	$0
Licenses & Permits	$489,182	$1,895,004	$1,538,325	$1,970,353	$2,132,043
Fees, Charges & Penalties	$13,293,260	$8,761,398	$12,231,932	$7,629,239	$7,651,151
Other Income	$17,043,701	$9,738,443	$15,998,787	$3,524,020	$5,937,923
Total	$114,732,947	$62,008,896	$102,683,976	$53,551,120	$66,668,937

Revenues and Expenditures, Selected Michigan Cities, 2012

	Sterling Heights	Troy	Warren	Westland	Wyoming
Expenditures					
General Government	$15,372,116	$6,662,743	$16,686,698	$12,911,234	$4,670,482
Public Safety	$51,944,911	$25,313,540	$53,518,894	$26,948,888	$12,541,176
Public Works	$11,950,296	$5,840,492	$6,025,283	$5,817,581	$1,091,136
Parks & Recreation	$1,927,659	$5,850,905	$0	$2,625,353	$0
Other Expenditures	$6,041,557	$2,094,226	$5,994,874	$2,333,563	$652,030
Total	$87,236,539	$45,761,906	$82,225,749	$50,636,619	$18,954,824
Revenues					
Property Taxes	$51,654,412	$30,424,031	$49,422,658	$23,784,101	$9,958,345
State Revenue Sharing	$9,615,531	$6,202,317	$11,918,173	$7,276,022	$5,721,122
Income Taxes	$0	$0	$5	$0	$0
Licenses & Permits	$2,271,967	$1,686,633	$2,368,083	$1,203,536	$1,042,766
Fees, Charges & Penalties	$13,247,116	$8,094,685	$5,875,540	$5,279,325	$2,018,786
Other Income	$4,704,777	$5,794,408	$7,317,810	$14,338,016	$1,899,070
Total	$81,493,803	$52,202,074	$76,902,269	$51,881,000	$20,640,089

Revenues and Expenditures, Selected Michigan Cities, 2012

	Alpena	Marquette	Midland	Niles	Petoskey
Expenditures					
General Government	$1,933,590	$2,687,271	$6,068,308	$1,260,757	$1,646,863
Public Safety	$3,526,560	$6,379,872	$13,943,545	$3,734,732	$2,569,227
Public Works	$580,662	$3,425,611	$5,239,605	$1,075,230	$606,421
Parks & Recreation	$623,847	$389,644	$4,753,469	$117,704	$1,732,536
Other Expenditures	$1,660,188	$3,367,758	$8,819,463	$873,954	$2,659,815
Total	$8,324,658	$16,250,156	$36,958,588	$7,062,377	$9,214,862
Revenues					
Property Taxes	$4,087,635	$12,005,150	$29,386,385	$3,105,915	$3,309,570
State Revenue Sharing	$1,153,459	$1,969,333	$3,104,647	$1,303,270	$461,664
Income Taxes	$0	$0	$0	$0	$0
Licenses & Permits	$163,870	$35,076	$505,260	$37,367	$8,955
Fees, Charges & Penalties	$910,589	$2,584,477	$2,527,038	$940,958	$1,145,232
Other Income	$2,629,878	$1,865,532	$2,883,821	$1,334,906	$5,171,930
Total	$8,945,431	$18,459,568	$38,407,151	$6,722,416	$10,097,351

Revenues and Expenditures, Selected Michigan Cities, 2012

	Port Huron	Sault Ste. Marie	Traverse City	Total
Expenditures				
General Government	$3,318,936	$2,131,744	$2,210,370	$21,257,839
Public Safety	$12,693,947	$4,092,983	$5,735,950	$52,676,816
Public Works	$1,452,687	$718,694	$1,118,839	$14,217,749
Parks & Recreation	$2,063,530	$1,176,136	$1,680,362	$12,537,228
Other Expenditures	$1,359,502	$4,298,868	$4,654,365	$27,693,913
Total	$20,888,602	$12,418,425	$13,356,415	$124,474,083
Revenues				
Property Taxes	$7,344,599	$6,336,901	$7,814,118	$73,390,273
State Revenue Sharing	$3,379,551	$1,374,648	$1,192,663	$13,939,235
Income Taxes	$5,818,786	$0	$0	$5,818,786
Licenses & Permits	$667,464	$63,173	$254,302	$1,735,467
Fees, Charges & Penalties	$522,360	$2,353,093	$369,171	$11,352,918
Other Income	$3,337,328	$2,043,471	$4,882,911	$24,149,777
Total	$21,070,088	$12,171,286	$14,513,165	$130,386,456

Revenues and Expenditures, Selected Michigan Cities, 2008

	Ann Arbor	Dearborn	Flint	Farmington Hills	Grand Rapids
Expenditures					
General Government	$13,240,407	$19,176,682	$19,128,177	$11,315,090	$28,125,172
Public Safety	$39,628,111	$45,270,166	$51,047,048	$22,480,837	$70,222,608
Public Works	$9,574,677	$13,933,670	$2,696,461	$6,374,051	$5,413,118
Parks & Recreation	$6,841,863	$8,407,600	$3,362,358	$6,996,260	$6,707,579
Other Expenditures	$8,756,793	$25,151,301	$35,705,375	$2,184,295	$13,659,854
Total	$78,041,851	$111,939,419	$111,939,419	$49,350,533	$124,148,331
Revenues					
Property Taxes	$51,151,231	$72,479,894	$12,861,659	$31,539,600	$13,962,103
State Revenue Sharing	$11,116,813	$9,533,493	$18,959,082	$6,683,814	$22,780,195
Income Taxes	$0	$0	$16,516,416	$0	$57,116,488
Licenses & Permits	$1,284,685	$2,103,672	$1,154,444	$933,024	$293,500
Fees, Charges & Penalties	$2,469,309	$13,775,814	$13,241,885	$10,186,521	$16,000,775
Other Income	$15,404,121	$8,327,216	$4,125,261	$3,388,380	$9,946,584
Total	$81,426,159	$106,220,089	$66,858,747	$52,731,339	$120,099,645

Revenues and Expenditures, Selected Michigan Cities, 2008

	Kalamazoo	Livonia	Lansing	Southfield	Sterling Heights
Expenditures					
General Government	$9,673,785	$8,843,364	$26,794,259	$15,836,641	$17,160,292
Public Safety	$31,862,397	$31,576,105	$61,577,212	$41,367,400	$44,235,490
Public Works	$509,114	$3,698,461	$5,581,912	$6,865,903	$12,751,660
Parks & Recreation	$2,329,358	$527,592	$7,980,546	$0	$2,554,032
Other Expenditures	$14,498,827	$7,304,665	$9,921,590	$4,838,432	$9,814,666
Total	$58,873,481	$51,950,187	$111,855,519	$68,908,376	$86,516,140
Revenues					
Property Taxes	$33,572,221	$29,552,531	$35,815,537	$43,438,386	$56,266,066
State Revenue Sharing	$9,681,563	$8,857,907	$16,453,361	$7,444,899	$10,683,045
Income Taxes	$0	$0	$31,168,012	$0	$0
Licenses & Permits	$2,074,479	$2,110,827	$1,429,075	$2,234,008	$1,352,594
Fees, Charges & Penalties	$4,978,843	$5,985,863	$13,717,275	$7,240,602	$12,414,978
Other Income	$8,889,559	$5,745,630	$13,618,561	$9,671,144	$5,374,472
Total	$59,196,665	$52,252,758	$112,201,821	$70,029,039	$86,091,155

Revenues and Expenditures, Selected Michigan Cities, 2008

	Troy	Westland	Warren	Wyoming	Detroit
Expenditures					
General Government	$7,317,785	$15,148,847	$25,741,709	$9,050,182	$298,231,422
Public Safety	$28,642,914	$29,680,080	$61,388,282	$19,611,134	$619,516,107
Public Works	$8,277,592	$7,264,166	$3,865,502	$772,333	$94,722,523
Parks & Recreation	$9,599,834	$3,154,985	$42,252	$225,406	$21,265,879
Other Expenditures	$8,817,159	$3,478,190	$5,878,899	$386,943	$322,638,582
Total	$62,655,284	$58,726,268	$96,916,644	$30,045,998	$1,356,374,513
Revenues					
Property Taxes	$36,667,821	$28,225,573	$63,763,388	$10,203,939	$155,155,928
State Revenue Sharing	$6,704,100	$8,455,362	$14,105,387	$6,126,491	$248,225,389
Income Taxes	$0	$0	$0	$0	$276,485,035
Licenses & Permits	$1,393,635	$1,129,428	$1,691,127	$697,990	$8,959,356
Fees, Charges & Penalties	$8,478,531	$11,288,923	$5,899,705	$5,316,429	$210,892,753
Other Income	$8,178,372	$9,626,469	$13,649,201	$3,873,933	$403,711,237
Total	$61,422,459	$58,725,755	$99,018,808	$26,218,782	$1,303,429,698

Revenues and Expenditures, Selected Michigan Cities, 2008

	Total
Expenditures	
General Government	$524,783,814
Public Safety	$1,198,105,891
Public Works	$182,301,143
Parks & Recreation	$79,995,544
Other Expenditures	$473,035,571
Total	$2,458,241,963
Revenues	
Property Taxes	$674,655,877
State Revenue Sharing	$405,810,901
Income Taxes	$381,285,951
Licenses & Permits	$28,841,844
Fees, Charges & Penalties	$341,888,206
Other Income	$523,530,140
Total	$2,355,922,919

Revenues and Expenditures, Selected Michigan Cities, 2008

	Alpena	Marquette	Midland	Niles	Petoskey
Expenditures					
General Government	$2,097,260	$2,646,676	$4,666,683	$4,145,592	$1,402,135
Public Safety	$4,023,042	$5,215,887	$11,557,186	$2,506,876	$2,686,203
Public Works	$696,934	$4,752,871	$4,890,091	$611,359	$655,848
Parks & Recreation	$469,936	$359,116	$3,471,155	$125,475	$1,584,296
Other Expenditures	$1,016,008	$5,963,288	$22,273,000	$3,884,018	$1,182,105
Total	$8,843,180	$18,937,838	$46,858,854	$11,273,320	$7,510,587
Revenues					
Property Taxes	$4,269,122	$10,847,684	$28,573,425	$3,797,784	$3,712,892
State Revenue Sharing	$1,339,730	$2,611,507	$3,498,861	$1,439,959	$549,690
Income Taxes	$0	$0	$0	$0	$0
Licenses & Permits	$176,914	$33,354	$534,831	$24,983	$11,099
Fees, Charges & Penalties	$1,499,625	$3,715,744	$2,123,572	$1,276,216	$915,020
Other Income	$1,550,069	$2,835,270	$3,447,270	$1,986,816	$2,139,818
Total	$8,835,460	$20,043,559	$38,177,959	$8,525,758	$7,328,519

Revenues and Expenditures, Selected Michigan Cities, 2008

	Port Huron	Sault Ste. Marie	Traverse City	Total
Expenditures				
General Government	$3,567,228	$2,332,296	$2,267,428	$23,125,298
Public Safety	$12,755,901	$3,064,916	$7,115,999	$48,926,010
Public Works	$1,206,457	$844,518	$787,969	$14,446,047
Parks & Recreation	$2,457,152	$1,256,582	$1,662,899	$11,386,611
Other Expenditures	$5,104,806	$4,353,092	$2,658,481	$46,434,798
Total	$25,091,544	$11,851,404	$14,492,776	$144,859,503
Revenues				
Property Taxes	$8,611,085	$5,472,964	$8,869,302	$74,154,258
State Revenue Sharing	$3,944,617	$3,944,617	$1,328,895	$18,657,876
Income Taxes	$8,172,561	$0	$0	$8,172,561
Licenses & Permits	$632,314	$42,402	$216,745	$1,672,642
Fees, Charges & Penalties	$523,358	$2,580,127	$387,966	$13,021,628
Other Income	$3,361,883	$323,246	$5,416,028	$21,060,400
Total	$25,245,542	$11,716,864	$16,218,936	$136,092,597

SOURCE: MI Department of Treasury – F65 Data