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# By the Numbers:

A Comparative Look at Michigan's Local  
Government Revenues and Expenditures

**SEMCOG**

Southeast Michigan Council of Governments

*Developing Regional Solutions*

## **SEMCOG** . . . Developing Regional Solutions

### Mission

SEMCOG, the Southeast Michigan Council of Governments, is the only organization in Southeast Michigan that brings together all governments to develop regional solutions for both now and in the future. SEMCOG:

- Promotes informed decision making to improve Southeast Michigan and its local governments by providing insightful data analysis and direct assistance to member governments;
- Promotes the efficient use of tax dollars for infrastructure investment and governmental effectiveness;
- Develops regional solutions that go beyond the boundaries of individual local governments; and
- Advocates on behalf of Southeast Michigan in Lansing and Washington

# By the Numbers:

## A Comparative Look at Michigan's Local Government Revenues and Expenditures

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### Abstract

Michigan's "One State Recession" followed by the nation's "Great Recession" have impacted our state's local governments, but to what extent? *By the Numbers* makes use of two different U.S. Census Reports to measure how well our state's local governments are faring compared to those in other states. The results are disconcerting. The impacts of the Great Recession on local governments are far ranging, Michigan's cities, over the course of a single decade, saw their revenues decline by nearly 10 percent while cities in the rest of the nation saw an average increase of 50 percent. Only a handful of states spend less on local government administrative costs than does Michigan. Police protection in our state has gone from 16<sup>th</sup> in the nation to 39<sup>th</sup> and support for K-12 Education has plummeted from eighth in the nation to 34<sup>th</sup>.

Any individual calculation in this report can draw debate as to what the results mean to our state. However, it is the collective picture that is formed by the total study that must be viewed with considerable alarm. Vibrant cities, strong schools, sound infrastructure, responsive emergency services are the foundation to our state's future. Our foundation has been undermined and our state's structure for financing local government offers little optimism for that to improve in the future.

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## Introduction

*By the Numbers* takes a critical look at Michigan local government financing as compared to what is happening in other states. The basis for each comparison is the reports generated by the U.S. Census Bureau detailing revenues and expenditures for State and Local Governments.

*By the Numbers* further elaborates, through national comparisons, on the finance challenges faced by Southeast Michigan communities initially presented in *Running on Empty*, a report resulting from SEMCOG's Local Government Revenue Task Force. That report identified challenges in Michigan's local government finance system and suggested improvements.

While *By the Numbers* focuses on local government operations, it must often take into account state activities. When thinking about the delivery of government services, most people would think that police protection and K-12 education are delivered at the local level. However, every state has a different structure on how these basic services are delivered. In Michigan, a police officer can be employed by a city, village, township, county, or even the state. In Hawaii, all schools are run by the state. In some states the schools are operated by the county, and in others the city council may be running the schools. For this reason, the Census data is reviewed from several different perspectives.

Asking whether Michigan cities spend more than another state's cities was not a legitimate comparison. How many people live in Michigan cities as compared to cities in other states? What specific services are the cities responsible for in each state? That is too complicated to answer. What is reasonable to answer is how much does Michigan spend on police or fire protection on a per capita basis as compared to the cost in other states. Is Michigan's relative position in the country for spending on a particular service remaining steady with the rest of the nation or is our ranking rising or falling? This can give important national perspective.

Of course, national ranking on expenditures also is open to interpretation. Being among the bottom states on expenditures for general administrative costs for government operations would likely be considered a positive attribute by most citizens; being last in the nation in road construction expenditures for the last 20 years would probably not elicit the same positive views from the typical motorist in this state.

The revenue sections of this report focus on changes in revenues over time. The growth in funding in Michigan for local government operations as compared to what is happening in other states gives one perspective. Matching that knowledge with spending patterns in Michigan compared to other states provides insights on what it means to the average citizen.

Admittedly, *By the Numbers* can be overwhelming with the many ways to look at the numbers. But in the end, the picture that it paints should be a concern to all who live in Michigan.



## Methodology

The U. S. Census tracks the revenues and expenditures of state and local governments. Each year, they issue a report entitled, *State and Local Government Finances by Level of Government and by State*. The Census report details, for each state, the state and local government revenue and expenditures in over 100 different categories. For example, if you want to know how much Michigan governments spend on police protection or how much Wisconsin collects in income taxes, this information is included in the census report. Once every five years, the Census also releases a report that takes a closer look at local government revenues and expenditures. The report entitled, *Local Government Finances by Type of Government and State*, examines the revenues and expenditures of the local governments of each state broken down into five categories – counties, cities, townships, school districts, and special districts.

Both Census reports offer interesting insights into what it costs to run government, but both reports have limitations when trying to compare one state to another. The primary concern is that every state has a different structure of how government services are delivered. For example, Hawaii has no local K-12 schools, they are all run by the state. Massachusetts has virtually eliminated county governments from existence, whereas townships are generally only found in states in the northern part of the country.

*By the Numbers* uses the information from both of these Census reports in the way that is most relevant. The *Local Government Finances by Type of Government and State* report is best used to compare the revenue growth patterns of cities, counties, townships, and school districts in each state to see how well Michigan local government can meet their service responsibilities, as compared to other states. This report has only been released three times, covering fiscal years 2002, 2007, and 2012. These three time frames happen to match nicely with key points in Michigan's and the nation's economy – 2002 was when Michigan began its "one-state recession," 2007 matches the beginning of the nation's "Great Recession," and 2012 was generally when the recession bottomed out.

The second Census report, *State and Local Government Finances by Level of Government and by State*, is best used to evaluate the cost of providing government services. By taking each state's results and adjusting them to take into account the population served, we can then compare how much is being spent in each state on various government services on a per capita basis. While the Census data is released every year, *By the Numbers* looked at the data in five-year increments to evaluate long-term trends. For this report, the years 1992, 1997, 2002, 2007, and 2012 are examined. Calculations from the latest 2014 report have been included to provide the latest national ranking in select categories.

## Local Government Revenue

The 21st Century has not been kind to Michigan governments. The one-state recession followed by the national “Great Recession” hit all Michigan governments extremely hard. However, the national recession impacted everyone across the county. Was Michigan any different? *By the Numbers* looks at local government revenue from multiple perspectives. How did local governments in Michigan fare in generating revenues from their own sources of taxes and fees as compared to local governments in other states? How well did the state and federal governments support local government operations in Michigan as compared to other states? Maybe just as important, were the different types of governments impacted to different degrees since the turn of the century? Each of these issues offer insights into what is occurring in our state.

### Cities

#### General Revenue: Overview

According to the U.S. Census, from 2002 to 2012, Michigan municipalities saw a startling 8.5 percent **decline** in General Revenues. This compares to the national average **increase** of 48.9 percent for all cities in the nation. Michigan wasn’t just at the bottom of the list in the revenue growth for cities – it wasn’t even close to the rest of the nation. For perspective, Ohio cities were ranked 49<sup>th</sup> in the nation in revenue growth, and they still saw a 25 percent increase over the decade.

Table 1

Change in Municipal General Revenue, 2002-2012

	Michigan	Ohio	United States
Change 2002 to 2012	-8.5%	25.4%	48.9%
National Rank	50th	49th	

#### General Revenue

In the 2002 U.S. Census report, municipalities in Michigan (cities and villages) were shown having \$9.265 billion in General Revenue. In 2007, General Revenue had fallen to \$8.891 billion and, by 2012, revenues had further fallen to \$8.480 billion. From 2002-2007, Michigan was the only state in the nation where municipalities saw a real decline in General Revenue, that being 4.0 percent. The nation as a whole saw revenues flowing to its cities increase by 36.1 percent during that time. The growth rate of revenues for all municipalities across the nation slowed significantly from 2007-2012. While Michigan municipalities saw another 4.6 percent loss during this time period, nationally municipalities saw a modest 9.4 percent growth in revenue.

Table 2  
General Revenue: Michigan Municipalities

	2002	2007	2012
General Revenue (millions)	\$9,265	\$8,891	\$8,480
	2002-2007	2007-2012	2002-2012
Change MI	-4.0%	-4.6%	-8.5%
Change US	36.1%	9.4%	48.9%
National Rank	50	48	50

### Own Source Revenue

The U.S. Census tracks revenues by three general categories: Federal, State, and Own Source. Of the three revenue categories, revenue generated by local governments through their own sources is the most critical for cities. In 2002, Michigan cities generated \$5.564 billion in revenue. By 2007, these self-generated revenues had increased to \$6.693 billion, but then dropped to \$6.288 billion by 2012.

The true perspective of the financial health of Michigan's cities and villages is best observed over the combined 2002-2012 time period. Nationally, local revenue from taxes and fees for cities and villages increased by 62.3 percent. However, Michigan's cities and villages only saw a growth rate of 15 percent, a quarter of the national average. Michigan ranked dead last in the nation in its tax and fee growth from 2002-2012.

Table 3  
Own Source Revenue: Michigan Municipalities

	2002	2007	2012
Own Source Revenue (millions)	\$5,564	\$6,693	\$6,288
	2002-2007	2007-2012	2002-2012
Change MI	22.5%	-6.0%	15.1%
Change US	38.6%	17.1%	62.3%
National Rank	44	48	50

Nationally, the impact of the Great Recession is very noticeable when comparing Own Source revenue growth between 2002-2007 and 2007-2012. Across the nation, municipalities saw an increase of just over 17 percent between 2007 and 2012 in tax and fee collections. That is less than half of the 38.6 percent increase seen in the prior five-year period. Michigan fared poorly in both time periods. Michigan's

revenue growth was only 22.5 percent during the “good times” from 2002-2007; over the next five years, it had a six percent loss.

**Federal Revenue**

Federal revenue is the smallest component of the three categories of revenue for Michigan municipalities, comprising less than 10 percent of total. Census records indicate that Michigan cities received \$608 million in federal funding in 2002, then saw a significant decrease to \$479 million in 2007, followed by a large increase to \$670 million in 2012. When looking at the overall picture from 2002-2012, Michigan fares poorly, ranking 46<sup>th</sup> in the nation, with an overall change of 10.2 percent. This is less than one-fifth of the national growth rate of 55.4 percent during the 10-year time period.

Table 4  
Federal Revenue: Michigan Municipalities

	<b>2002</b>	<b>2007</b>	<b>2012</b>
<b>Federal Revenue (millions)</b>	\$608	\$479	\$670
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
<b>Change MI</b>	-21.3%	40.0%	10.2%
<b>Change US</b>	34.7%	15.3%	55.4%
<b>National Rank</b>	44	18	46

## State Revenue

State financial assistance is an extremely important component of Michigan's municipal finances. During the overall period of the study, Michigan once again ranked last in the nation in changes in state support for municipal operations. Nationally, revenues transferred from state governments to their cities increased by 23.8 percent from 2002-2012. In Michigan, cities experienced a 57 percent decline over the course of this 10-year period.

Table 5  
State Revenue: Michigan Municipalities

	2002	2007	2012
State Revenue (millions)	\$3,098	\$1,563	\$1,333
	2002-2007	2007-2012	2002-2012
Change MI	-49.6%	-14.7%	-57.0%
Change US	16.1%	6.6%	23.8%
National Rank	50	43	50

From 2002-2007, Michigan was last in the nation in revenue growth from state sources. While there was a modest 16.1 percent growth in state revenues flowing to municipalities nationally, Michigan cities were dealing with a 49.6 percent decline. The Census numbers highlight the national impact of the Great Recession on state funding for local municipalities across the nation from 2007-2012. Michigan saw the amount of state revenues flowing to cities decline by 14.7 percent, reduced from \$1.563 billion to \$1.333 billion over the course of those five years. Nationally, seven other states saw even larger declines. Nationally, transfers from state governments to municipalities only grew by 6.6 percent as governments struggled to deal with the impacts of the recession.

## Conclusion

The financial challenges facing Michigan cities were unmatched anywhere else in the nation from 2002-2012. During that time, Michigan municipalities were last in revenue growth generated from taxes and fees. Michigan was last in revenue growth from appropriations from the state and 46<sup>th</sup> in the nation in revenue growth from federal sources. Michigan municipalities weren't just last in the nation in overall revenue growth from 2002-2012, they weren't even in the same picture with the rest of the nation.

## Counties

### General Revenue: Overview

From 2002-2012, Michigan counties ranked 40<sup>th</sup> out of the 48 states which had county operations in revenue growth. While county revenues in Michigan increased by 25.5 percent over the course of 10 years, they still fell substantially below the 43.4 percent national average growth rate.

According to the Census report, Michigan counties had \$10.562 billion in General Revenues in 2012. This was an increase of 7.0 percent over the \$9.871 billion received in 2007 and a 25.5 percent increase over the \$8.415 billion received in 2002.

Table 6  
General Revenue: Michigan Counties

	<b>2002</b>	<b>2007</b>	<b>2012</b>
General Revenue (millions)	\$8,415	\$9,871	\$10,562
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	17.3%	7.0%	25.5%
Change US	32.5%	8.2%	43.4%
National Rank	47 of 48	32 of 48	40 of 48

### General Revenue

Between 2002 and 2007, Michigan ranked 47<sup>th</sup> out of the 48 states that have county operations in General Revenue growth. Only Kentucky, with a seven-percent loss in revenue, fared worse than Michigan. At 17.3 percent, Michigan's growth rate was about half the national average during this time period. Similar to what happened with Michigan cities, Michigan counties were not able to keep pace with what was happening in other areas of the country.

During the time of the Great Recession, Michigan counties struggled in much the same way as counties did across the nation. The revenue growth in Michigan counties slowed to a 7.0 percent increase in General Revenues, just slightly lower than the national average of 8.2 percent during the 2007-2012 time period. This placed Michigan 32<sup>nd</sup> in the nation in growth.

## Own Source Revenue

Less than half of the revenues in counties come from their own sources, as compared to nearly 75 percent for cities and 80 percent for townships. That being said, very little of the state and federal revenue coming into counties can be used by the county for general operations. Instead, most of these revenues are directed to specific programs. The one notable exception is statutory revenue sharing. This means that revenues derived at the local level, especially property tax revenue, is much more important to meeting the needs of general county operations than are federal or state revenues.

Table 7

Own Source Revenue: Michigan Counties

	2002	2007	2012
Own Source Revenue (millions)	\$4,228	\$5,276	\$4,971
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	24.8%	-5.8%	17.6%
Change US	38.3%	8.3%	49.7%
National Rank	42 of 48	41 of 48	46 of 48

According to the U.S. Census, counties in Michigan collected \$4.228 billion in 2002, \$5.276 billion in 2007, and \$4.971 billion in 2012 in local taxes and charges for services. However, the revenue numbers for 2007 are misleading due a change in state law that resulted in an accounting anomaly which overstated the amount of property taxes collected as compared to how the taxes could be used. This change was enacted to benefit the state which was cutting county revenue sharing and requiring counties to move up property-tax collection to create a fund to offset the state revenue-sharing loss. In 2007, counties were booking 133 percent of their normal property-tax revenue.

Looking at the long-term impact on the state's county operations, Michigan saw a 17.6 percent increase in revenues collected at the county level between 2002 and 2012 – this is one-third of the national average growth rate. Only Massachusetts and Kentucky saw smaller growth rates in revenues collected at the county level. While included in the study, counties in Massachusetts have an extremely limited role and operate on less than \$200 million per year; in contrast, Michigan counties operate on \$10 billion.

## Federal Revenue

Federal revenues have taken an expanded role in county operations over the course of this study. In 2002, the \$415 million in revenue from the federal government made up five percent of the total general revenues of county operation in Michigan. By 2012, the \$903 million represented approximately nine percent of total county revenues. Michigan's 117 percent growth in federal revenues from 2002-2012 exceeded the national average of 85 percent. This placed Michigan 19<sup>th</sup> in the nation in growth in federal support for county services. Michigan's federal support was significantly above the national average between 2002 and 2007, but slightly below average between 2007 and 2012.

Table 8  
Federal Revenue: Michigan Counties

	<b>2002</b>	<b>2007</b>	<b>2012</b>
Federal Revenue (millions)	\$415	\$742	\$903
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	78.8%	21.7%	117.7%
Change US	46.9%	26.5%	85.8%
National Rank	14 of 48	28 of 48	19 of 48



## State Revenues

In Michigan, counties are often described as the local provider of state services. The timeframe of the study from 2002-2012 supports this statement. Michigan was hit as hard as any state by the Great Recession. As jobs were lost, the demand for support services grew. State support for county operations grew from \$3.110 billion in 2002 to \$3.264 billion in 2007 to \$4.148 billion in 2012. The 26.8 percent jump in funds sent to the county from 2007 to 2012 was spurred on by the state's poor economy.

Table 9

### State Revenue: Michigan Counties

	2002	2007	2012
State Revenue (millions)	\$3,110	\$3,264	\$4,138
	2002-2007	2007-2012	2002-2012
Change MI	5.0%	26.8%	33.1%
Change US	20.8%	5.6%	27.6%
National Rank	43 of 48	11 of 48	26 of 48

Between 2002 and 2007, Michigan counties saw a five percent increase in state support for their operations. Nationally, counties saw a nearly 21 percent increase in state support; Michigan ranked 43<sup>rd</sup> in the nation in this category during the 2002-2007 time period. Part of this lower ranking was due to the accounting issue described earlier, which allowed the state to eliminate statutory revenue-sharing payments to counties in 2007. The next five years saw a 26.8 percent jump in state support to counties. This was five times the national average between 2007 and 2012; Michigan ranked 11<sup>th</sup> in the nation in the growth of state support during this time.

Over the long term, Michigan counties saw a 33.1 percent increase in state support from 2002-2012. This increase was greater than the national average of 27.6 percent and resulted in the state ranking 26<sup>th</sup> nationally in this growth category.

## Conclusion

Counties provide a broad range of services. Many of the social services provided at the county level are heavily dependent on state or federal support. As a result of this reality, state and federal funds play a much more significant role in county operations compared to cities or townships. However, general county operations are extremely dependant on local funding. Changes in federal and state funding driven by increased needs for social services during times of economic downturns should not be allowed to mask the underlying problem of funding basic county operations. The fact that only two states saw smaller growth rates in self-derived revenues and that one of those states, Massachusetts, has virtually no county functions, once again indicates how difficult the last decade has been on local government operation in Michigan. The reality that Own Source Revenues grew at one-third the rate of the national average over a 10-year period is a trend that can't be ignored.

## Townships

### General Revenue: Overview

From 2002-2012, Michigan townships saw a 20.7 percent increase in General Revenues. Only Maine townships experienced a smaller increase in revenues over the course of that decade. Overall township revenues, in the 20 states with township operations that report their information to the U.S. Census, increased by nearly 42 percent, a growth rate that was double Michigan's.

Table 10

### General Revenue: Michigan Townships

	2002	2007	2012
General Revenue (millions)	\$1,803	\$2,181	\$2,175
	2002-2007	2007-2012	2002-2012
Change MI	21.0%	-0.3%	20.7%
Change US	28.8%	10.1%	41.8%
National Rank	12 of 20	18 of 20	19 of 20

### General Revenue

In 2002, Michigan townships operated on \$1.803 billion in General Revenue. By 2007 township revenues had increased to \$2.181 billion; in 2012, revenues had declined to \$2.175 billion. Michigan townships saw a 21 percent increase in general revenues between 2002 and 2007 as compared to the 28.8 percent increase in township revenues seen nationally. This placed Michigan 12<sup>th</sup> out of 20 states with township operations. The Great Recession impacted the growth of revenues for townships from 2007-2012. Michigan townships saw an overall loss of revenue of 0.3 percent. Only two other states had townships that saw a greater loss in General Revenue.

### Own Source Revenue

Nearly 80 percent of township operations are funded by revenues collected locally. Overall, between 2002 and 2012, townships saw an increase of 30.4 percent in revenues derived from their own sources. Nationally, own source revenues for townships increased by 46.6 percent during the same time. Michigan was 17<sup>th</sup> out of the 20 states in revenue growth in this category.

Table 11

Own Source Revenue: Michigan Townships

	2002	2007	2012
Own Source Revenue (millions)	\$1,330	\$1,777	\$1,735
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	33.6%	-2.4%	30.4%
Change US	30.6%	5.0%	46.6%
National Rank	11 of 20	20 of 20	17 of 20

From 2002-2007, Michigan townships saw a 33.6 percent increase in revenues derived from their own sources – increasing from \$1.330 billion to \$1.777 billion. This exceeded the national average of 30.6 percent, placing Michigan 11<sup>th</sup> out of 20 states. On the flip side, Michigan townships were the hardest hit by the Great Recession. From 2007-2012, townships in Michigan saw their own source revenues decrease by 2.4 percent, declining from \$1.777 billion to 1.735 billion.

## Federal Revenue

The federal government is not a major funding source for township operations. Michigan townships received \$41 million in federal funds in 2002. Federal funds were reduced to \$30 million in 2007, and then increased to \$47 million in 2012.

Table 12

Federal Revenue: Michigan Townships

	2002	2007	2012
Federal Revenue (millions)	\$41	\$30	\$47
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	-27.4%	55.7%	13.0%
Change US	28.1%	22.2%	56.5%
National Rank	16 of 20	12 of 20	18 of 20

## State Revenue

From 2002-2007, Michigan townships saw a 12.3 percent decrease in state funds. During that same time, townships across the country saw an overall increase in funding of 21.8 percent. Much of this loss in state revenue can be attributed to cuts made to the statutory revenue sharing program at the state level. Most townships in Michigan were phased out of this program during this time period. By 2007, most townships were only eligible for the constitutional revenue-sharing distributions. Between 2007 and 2012, Michigan townships saw a 4.4 percent growth rate in revenues from the state. Nationally, the growth rate was an almost imperceptible 0.1 percent.

Table 13  
State Revenue: Michigan Townships

	<b>2002</b>	<b>2007</b>	<b>2012</b>
State Revenue (millions)	\$411	\$360	\$376
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	-12.4%	4.4%	-8.5%
Change US	21.8%	0.1%	22.0%
National Rank	15 of 20	14 of 20	17 of 20

Overall, Michigan townships lost 8.5 percent of their funding from the state during the 2002-2012 time period. Nationwide, townships saw an average increase of 22 percent. This placed Michigan 17<sup>th</sup> out of the 20 states in revenue growth from state sources over the decade of the study.

### Conclusion

Michigan townships fared better than their city and county counterparts in sustaining their operations. However, Michigan still lagged most other states in its ability to collect revenue from taxes and other fees. Townships were not as hurt by cuts to state revenue as were cities and counties, but this was only because almost all discretionary funds sent to townships by the state had been eliminated by 2007.

## Schools

### General Revenue: Overview

The U.S. Census numbers for Michigan local school districts show that despite strong growth from 2002-2007, Michigan did not fare well nationally when looking at funding growth from 2002-2012. General revenue for school districts in Michigan increased by 28.9 percent from 2002 to 2012, placing Michigan 41<sup>st</sup> in the nation out of the 46 states that had local school districts. The national growth rate was 40.7 percent.

Table 14

### General Revenue: Michigan Schools

	2002	2007	2012
General Revenue (millions)	\$14,866	\$20,581	\$19,156
	2002-2007	2007-2012	2002-2012
Change MI	38.4%	-6.9%	28.9%
Change US	33.7%	5.2%	40.7%
National Rank	12 of 46	44 of 46	41 of 46

### General Revenue

Schools in Michigan saw their General Revenues increase from \$14.866 billion in 2002 to \$20.581 billion in 2007. This 38.4 percent increase placed Michigan 12<sup>th</sup> in the nation in school district funding growth, and above the national average of 33.7 percent. The results for Michigan look much different in the 2007-2012 timeframe. Total General Revenues declined from \$20.581 billion to \$19.156 billion over these five years. Only two of the 46 states being evaluated saw larger losses than the 6.9 percent decline seen by Michigan schools. Overall, local school districts in the country saw a 5.2 percent increase in general funds from 2007-2012.

### Own Source Revenue

In 2002, Michigan school districts collected \$4.698 billion in revenue from taxes and charges for services. By 2007, this amount had jumped to \$7.879 billion. This 67.7 percent increase in local revenue placed Michigan sixth in the nation in this category. This growth was thrown into reverse over the next five years when total local revenue decreased by 10.1 percent, from \$7.879 billion to \$7.084 billion. In five years, Michigan slipped from sixth best to third worst in the nation in local revenue growth. Michigan's 50.8 percent local revenue growth rate was very close to the national average of 46.0 percent from 2002-2012.

Table 15  
Own Source Revenue: Michigan Schools

	2002	2007	2012
Own Source Revenue (millions)	\$4,698	\$7,879	\$7,084
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	67.7%	-10.1%	50.8%
Change US	38.5%	5.4%	46.0%
National Rank	12 of 46	44 of 46	41 of 46

### Federal Revenue

In 2002, the federal government provided \$140 million to Michigan school districts. By 2007, the amount of federal aid had jumped to \$252 million. The 79.9 percent jump in federal funding for Michigan was more than triple the growth rate for school districts nationally. Michigan was sixth nationally in the rate of growth for federal funds. After 2007, the growth in federal funds came to a halt, as federal funding from 2007-2012 was slightly reduced from 252 million to 250 million. This placed Michigan in 34<sup>th</sup> place in the nation over the five-year span. Over the total 10-year span, Michigan saw its federal funding increase by 78.8 percent, which was well over the national average of 49.0 percent. Michigan placed a respectable 18<sup>th</sup> in the nation in federal revenue growth over the course of this review.

Table 16  
Federal Revenue: Michigan Schools

	2002	2007	2012
Federal Revenue (millions)	\$140	\$252	\$250
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	79.9%	-0.6%	78.9%
Change US	25.0%	19.1%	49.0%
National Rank	6 of 46	34 of 46	18 of 46

## State Revenue

In 2002, the state provided \$10.019 billion in support to local school districts, which includes Intermediate School Districts (ISDs) and Community Colleges. By 2007, state support for school districts had increased to \$12.424 billion. This 24.0 percent increase was a bit below the national increase in state support for school districts, which was 30.5 percent. Michigan ranked 29<sup>th</sup> in the nation in the growth of state support for schools from 2002-2007.

Table 17

### State Revenue: Michigan Schools

	2002	2007	2012
State Revenue (millions)	\$10,019	\$12,424	\$11,792
	<b>2002-2007</b>	<b>2007-2012</b>	<b>2002-2012</b>
Change MI	24.0%	-5.1%	17.7%
Change US	30.5%	4.3%	36.0%
National Rank	29 of 46	42 of 46	43 of 46

Once the Great Recession took hold, funding for schools was impacted across the nation. Nationally, state support for school districts increased by only 4.3 percent from 2007-2012. Michigan failed to keep pace with the nation; state support for school districts fell from \$12.434 billion to \$11.792 billion. This 5.1 percent drop in revenues resulted in Michigan placing fourth from last in the nation in its support of local schools from 2007-2012.

State support for schools in Michigan does not compare well against the nation looking at the 2002-2012 time period. State spending increased by only 17.7 percent over the course of 10 years. This is less than half of the national average increase of 36.0 percent. Michigan ranked 43<sup>rd</sup> out of 46 in the nation in growth in state support for school districts

## Conclusion

Local school districts saw significant decline in financial support from 2007-2012. Overall, school funding saw a reduction during this time period, with only two states being harder hit than Michigan. Local revenues fell during this time period as did state support for local schools. While the numbers are a little less bleak over the broader time period of 2002-2012, being ranked 41<sup>st</sup> out of 46 states and growing at three-quarters of the rate of the nation overall are not figures that inspire confidence.



## Taxes and Fees: Evaluating Michigan Local Governments

This report has looked at local government revenues derived from three main categories – Own Source revenues and Federal and State transfers of revenue. However, the Census report also allows us to look at Own Source revenues by two distinct components – taxes and fees. In Michigan, tax revenues are overwhelmingly derived from property taxes. Fees can be derived from everything from water and sewer bills, to money paid by students for their lunches. Taxes can only be authorized by the voters of a community and, in the case of property taxes, growth is strictly regulated. Fees, on the other hand, have rates set by the legislative body and the amount collected is limited only to the actual cost of the service provided.

Michigan's two constitutional amendments – Headlee and Proposal A – have placed significant limitations on local governments' ability to generate revenues through taxation. However, these limitations can have very different impacts on local governments. Areas of the state that have seen significant new construction do better under this revenue system than areas where development has already occurred. The Census report offers some insight on the ability of different types of governments to generate necessary revenues.

Table 18  
Municipal Tax and Fee Revenue Growth, 2002-2012

	Michigan	U.S. Average
Taxes	8.9%	64.6%
Fees	22.3%	45.7%

According to the Census reports, Michigan cities and villages were collecting 8.9 percent more in tax revenue in 2012 than they were in 2002. This pales in comparison to the national average where cities across the nation saw their tax revenue increase by an average of 64.6 percent from 2002-2012. Michigan ranked dead last in the nation in growth in tax revenue over the course of the decade in review. When looking at fee revenue, Michigan fared slightly better. Fees climbed 22.3 percent in Michigan from 2002-2012, which placed the state 44<sup>th</sup> in the nation in growth. Nationally, municipal fees increased 45.7 percent over the 10-year period.

Table 19  
County Tax and Fee Revenue Growth, 2002-2012

	Michigan	U.S. Average
Taxes	38.8%	59.7%
Fees	4.8%	36.6%

County revenue included collecting \$2.1 billion in property taxes and an additional \$100 million from other taxes in 2012. They also collected another \$2.7 billion in charges for services. Between 2002 and 2012, Michigan counties saw tax collections increase by 38.8 percent and charges for services increased by 4.8 percent. This placed Michigan 42<sup>nd</sup> and 43<sup>rd</sup> respectively in these two categories based on the 48 states that have counties. Nationally, counties saw a 58.7 percent increase in taxes from 2002-2012 and a 36.6 percent increase in fees.

Table 20  
Township Tax and Fee Revenue Growth, 2002-2012

	Michigan	U.S. Average
Taxes	49.1%	52.1%
Fees	12.0%	25.6%

Michigan townships saw a 42.8 percent increase in tax revenues between 2002 and 2007, ranking them second in the nation in this category. However, between 2007 and 2012, tax revenues only increased by 4.4 percent, placing Michigan second-from-last in the nation during this timeframe. Overall, Michigan was slightly below the national average in tax revenue growth during the 2002-2012 timeframe, with a 49.1 percent growth rate compared to the national rate of 52.1 percent, but still ranked 15<sup>th</sup> in the nation out of the 20 states that have townships.

Fees and other charges increased by 24.5 percent between 2002 and 2007 in Michigan townships. This was followed by a reduction in collections by 10.1 percent between 2007 and 2012. Michigan's 12.0 percent increase in collection of fees from 2002-2012 was 14<sup>th</sup> out of the 20 states in the study. This was less than half of the national average growth rate of fees in townships, which was 25.6 percent.

Table 21  
School Tax and Fee Revenue Growth, 2002-2012

	Michigan	U.S. Average
Taxes	61.1%	51.5%
Fees	20.8%	29.2%

Taxes for local school districts in Michigan saw a 61.1 percent increase between 2002 and 2012. This compares to the national average of 51.4 percent. Of the 46 states that have local governments that operate schools, Michigan placed 23<sup>rd</sup> in the nation in tax revenue growth. Collection of fees by local schools increased by 20.8 percent over the 10 years reviewed. Nationally, fees increased by 29.2 percent over the same period of time. Michigan ranked 28<sup>th</sup> in growth rate in this category.

## Findings

Taxes, especially property taxes, are the lifeblood of cities, villages, townships, and counties in Michigan. Most general operating revenues are derived from this source. Property taxes for school operations play a much less important role in school operations as they are simply blended into the state school aid formula. The Census numbers indicate a very diverse picture of what was happening in local governments across Michigan from 2002-2012. Michigan townships saw a nearly 50 percent increase in property tax revenues over the course of the decade, nearly matching the national average of all townships in the nation during this time period. Counties saw a nearly 40 percent increase in tax revenue. While substantial, the growth rate was not as robust as townships and it was increasing at only two-thirds the national rate.

Cities and villages in Michigan saw tax revenues increase by just 8.9 percent over 10 years. Cities across the nation saw their tax revenue increase, on average, seven times faster than Michigan's rate. This has placed Michigan cities at a significant disadvantage to the rest of the nation. SEMCOG's report, *Running on Empty*, discusses the impact of Michigan's constitutional property tax limitations, especially their disparate impact on fully developed communities.

The Census numbers further reinforce the findings in *Running on Empty*. Michigan has created a constitutional barrier that has slowly eroded the ability of many of our cities to compete with the rest of the nation. Unfortunately, the Great Recession accelerated the erosion process. Many cities in Michigan lost substantial tax base and, under the constitution, the ground lost will never be recovered. This constitutional dynamic must be recognized and remedied.

## Revenue Summary

We know that Southeast Michigan – including all of the counties that make up the SEMCOG region – were among the hardest hit areas of the state when looking at declining property values during the Great Recession. Many local government officials in our area might be surprised to learn that there were significant areas of the state that continued to see growth in overall Taxable Value during the recession.

The U.S. Census numbers reinforce what local government officials saw. Cities were getting hammered by the recession, while many townships, especially those outside our region, were seeing some growth in revenues even during the worst of times. Counties saw a mixture of experiences; the greater the area of the county that was urbanized, the greater the likelihood the county saw diminished property tax revenues.

The actions by Michigan's state government compounded the problems of many local governments. Once again, cities took the biggest blow. The loss of hundreds of millions of dollars each year in reduced revenue sharing distributions during the time when these local governments were seeing huge blows to their property tax revenues reverberated throughout the SEMCOG region. Again, because townships received little of the revenue sharing money that is under legislative control, they were generally shielded from the budget cuts made by the state.

An August 2016 report by the University of Michigan Center for Local, State, and Urban Policy (CLOSUP) confirms in a very real way the findings from the Census study. In the CLOSUP poll, 71 percent of township officials who responded considered the fiscal stress on their community as relatively low; only half of the cities, villages, and counties came to the same conclusion. This comes after four years of growth relative to the time of the Census study and end of the recession. Local governments in Michigan are still struggling from the effects of the past 15 years.

## Expenditures: Michigan Compared to the Nation

The first part of this report looked at the relative changes in revenue for the various levels of local government in Michigan as compared to those found in other states. What this did not answer was where Michigan ranks in overall spending for government services. The rest of this report will look at how much Michigan is spending on various services that are generally deemed to be primarily the responsibility of local governments. In each case, the numbers are normalized to a per capita amount to allow a realistic comparison. What may be more insightful is Michigan's relative position nationally on spending by service area over time. In each case, Michigan's spending pattern is reviewed over a 20-year timeframe. The 2014 ranking, the latest available is also included in each category.

### Michigan's Public Payroll

In 1992, Michigan ranked 13<sup>th</sup> in the nation in per capita expenditures for public employee payroll at the combined state and local levels. By 2002, the combined total had slipped to 23<sup>rd</sup>; in 2012, Michigan was 37<sup>th</sup>. By 2014, Michigan had risen slightly to 34<sup>th</sup> in the nation. From 1992-2012, the payroll of state-level employees was increasing at a faster pace than payrolls of Michigan's local governments.

2014 National Ranking - 34<sup>th</sup>

Table 22

State and Local Employee Salary and Wage on a Per Capita Basis, 1992-2012

	1992	1997	2002	2007	2012
Michigan	\$1,546	\$1,740	\$2,069	\$2,149	\$2,233
Michigan Rank	13	22	23	29	37
U.S. Average	\$1,502	\$1,767	\$1,942	\$2,427	\$2,684

### State Payroll

According to U.S. Census information, from 1992-2012 Michigan saw its state employee payroll increase from \$4.5 billion to \$7.5 billion. Nationally, state governments paid their employees a total of \$113 billion in salaries and wages in 1992; by 2012, the total payroll for state governments had increased to \$251 billion. This means that Michigan's total state payroll only increased by 67 percent compared to the national change of 123 percent. The 67 percent increase in Michigan matches very closely with the rate of inflation from 1992-2012, which was 64 percent.

Table 23

State and Local Payroll, 1992 and 2002 (in thousands)

	MI State Level	U.S. State Level	MI Local Level	U.S. Local Level
1992	\$4,498,828	\$112,685,119	\$10,090,082	\$270,412,611
2012	\$7,503,809	\$251,330,412	\$14,566,741	\$591,143,886
% Change	67%	123%	44%	119%

\*U.S. population increased by 23 percent between 1992 and 2012

This begs the question – When looking at state expenditures for employee pay, is Michigan state government headed in the right or wrong direction when compared to the rest of the nation? Salary growth that is just half of the rest of the nation’s rate over an extended period of time has ramifications. Even after adjusting for changes in population over the years, Michigan’s growth rate is two-thirds of the national rate. Is this making state government more affordable for its citizens? Yes. Is it impacting the level of service? Possibly.

### Local Government Payroll

The U.S. Census also details local government spending on salaries and wages by each state. Nationally, the growth in salaries paid to local government employees – including schools, counties, cities, and townships, as well as other special districts – closely matched state government trends. Nationally, local governments paid out \$270 billion in wages in 1992; that amount increased to \$591 billion in 2012 – a 118 percent increase over 20 years. State-level wages increased 123 percent over the same time period.

As noted earlier, Michigan state government can be viewed as diligent in controlling its payroll when compared to other states; however, it was a spendthrift when compared to Michigan’s local governments. In 1992, local governments in Michigan paid \$10.1 billion in employee wages. By 2012, this amount had increased to only \$14.6 billion. This 45 percent increase over 20 years compares to the 67 percent increase in payroll at the state level. Total wage expenditures for Michigan local government employees grew at just two-thirds the rate of inflation over the two decades under study and just a third of the rate of the rest of the nation. Even after adjusting for population changes, Michigan local government payrolls grew at half the rate of the rest of the nation.

While some may explain that maintaining state government salaries at the level of inflation over 20 years is a solid and frugal policy, it would be hard to use those same terms to describe a policy that has seen total wages paid to local government employees increase at a rate that is only two-thirds the rate of inflation over the same 20-year period.

Table 24

State and Local Payroll, 2002 and 2012 (in thousands)

	<b>MI State Level</b>	<b>U.S. State Level</b>	<b>MI Local Level</b>	<b>U.S. Local Level</b>
2002	\$6,038,060	\$167,841,309	\$14,528,011	\$441,721,617
2012	\$7,503,809	\$251,330,412	\$14,566,741	\$591,143,886
% Change	24.3%	49.7%	0.3%	33.8%

Looking at public employee salary growth over the shorter period of 2002-2012 is even more disconcerting for Michigan. Nationally, state-level employee wage compensation increased by 50 percent, while in Michigan, state employees saw total payroll increase by 24 percent, just half of the national rate. However, the more dramatic scenario involves the total payroll for local governments in Michigan. The total payroll for Michigan schools, cities, counties, townships, and other governments remained virtually unchanged between 2002 and 2012. Total salaries increased by just 0.3 percent over 10 years. This compares to a 34 percent increase by all local governments across the rest of the country.

### Cities hit hard

The U.S. Census provides even greater detail on local government spending. In Michigan, between 2002 and 2012, state employee payroll increased by 24.3 percent, townships saw a 23.5 percent increase, and counties had a 13.2 percent overall increase. Public schools in Michigan saw an increase of 10.6 percent in their payroll over the decade. The most startling numbers are associated with municipal operations in Michigan. Cities and villages saw their total payrolls go from \$3.6 billion to \$2.4 billion over the 10-year span from 2002-2012, a 33 percent decrease.

Table 25

Michigan Payroll by Type of Government, 2002 and 2012

	<b>MI State</b>	<b>MI Municipalities</b>	<b>MI Counties</b>	<b>MI Townships</b>	<b>MI Schools</b>
2002	\$6,038,060	\$3,641,209	\$1,881,689	\$442,555	\$8,164,589
2012	\$7,503,809	\$2,420,053	\$2,129,503	\$546,600	\$9,027,222
% Change	24.3%	-33.5%	13.2%	23.5%	10.6%

The concern of Michigan local governments is that the state's financing mechanisms for their operations do not allow a "recovery" from the impact of the recession. The strict limitations on property tax growth will likely mean that local governments will continue to grow at a much slower pace than similar governments in other states from a now-diminished base. The ability to provide basic services, particularly in areas that are funded by local property tax revenues, are likely to continue on a path of decline compared to the rest of the nation.

## Administrative Costs

When looking to control government costs, people often look at the administrative expenditure lines to create efficiencies. In Michigan, expenditures on general administrative costs are extremely low, compared to the rest of the nation.

The U.S. Census looks at administrative costs from three perspectives:

### 2014 National Rankings Administrative Costs

- Financial – 41<sup>st</sup>
- Buildings – 43<sup>rd</sup>
- Other – 44<sup>th</sup>

**Financial Administration** – Includes activities involving finance and taxation, accounting, auditing, and budgeting. It also includes tax administration, collection, custody and disbursement of funds, as well as administration of employee retirement and debt and investment.

**General Public Buildings** – Includes provision and maintenance of all buildings not allocated to a particular source.

**Other Governmental Administration** – Includes the activities of the governing body, the office of the chief executive, central staff services, and agencies concerned with personnel administration, recording, planning, zoning, and other similar activities.

Table 26

Financial Administration Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$63	\$66	\$80	\$99	\$88
U.S.	\$71	\$92	\$116	\$127	\$124
Michigan Rank	33	43	44	40	44

Table 27

General Public Buildings Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$22	\$29	\$33	\$39	\$21
U.S.	\$23	\$30	\$39	\$44	\$45
Michigan Rank	27	23	28	29	45



Table 28

## Other Governmental Administration Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$45	\$53	\$66	\$67	\$65
U.S.	\$39	\$48	\$64	\$86	\$88
Michigan Rank	16	19	25	39	42

In 2012, Michigan was 44<sup>th</sup> in the nation in per capita expenditures for Financial Administration, 45<sup>th</sup> in expenditures on General Public Buildings, and 42<sup>nd</sup> on Other Governmental Administration when looking at the combined state and local figures.

Michigan has traditionally controlled its Financial Administration costs. In 1992, the state ranked 33<sup>rd</sup> nationally in this category, but was ranked in the 40s in 1997, 2002, and 2007. Michigan ran in the middle of the pack on General Public Building expenditures, ranking between 23<sup>rd</sup> and 29<sup>th</sup> in the nation between 1992 and 2007, but the Great Recession had significant impact on this budget item. Michigan cut its expenditures on buildings by 2012 by nearly half compared to 2007 and dropped in ranking to 45<sup>th</sup> in the nation.

The cost of general governance in Michigan has had a long downward trend. Michigan ranked 16<sup>th</sup> and 19<sup>th</sup> in 1992 in the per capita cost of Other Governmental Administration, but by 2007 had dipped to 39<sup>th</sup>. This drop reflects the significant efforts to reduce government operational costs as budgets were strained, especially at the local levels. The further decline, to 42<sup>nd</sup> in the nation in 2012, reflected the continued financial problems throughout the state, and the further decline to 44<sup>th</sup> in 2014 indicates the end of the recession is not going to allow local governments to return to what existed in the past.

The Census numbers give clear insight that governments and, particularly local governments, responded to the challenges of a poor economy by significantly scaling back the cost of governance. At present time, only a handful of states can claim that they have lower administrative costs than Michigan.

## Public Safety Expenditures

### Police

Public safety services are the cornerstone of most local government operations. While the state provides law enforcement services in the form of the state police, most services are provided through either county sheriff departments or local police departments. Fire services are organized almost exclusively at the local level, with many areas of the state protected by multi-jurisdictional operations. Public safety must also take into account the cost of the judicial system and corrections. In Michigan, as is the case with most states, judicial and correctional costs and operations are predominantly controlled at the state level, but have significant local government impact.

#### 2014 National Rankings Public Safety

- Police – 38<sup>th</sup>
- Fire – 39<sup>th</sup>
- Corrections – 13<sup>th</sup>
- Judicial – 28<sup>th</sup>

Recently, studies have been released documenting the serious decline in the number of police officers in Michigan. U.S. Census information on state and local expenditures support these reports. In 1992, Michigan was 16<sup>th</sup> in the nation in per capita expenditures for police protection. Given Michigan’s significant urban centers, this ranking should not be surprising due to the greater need for police services in higher density areas. By 2002, Michigan had slipped to 22<sup>nd</sup> in the nation in per capita expenditures for police services.

Table 29  
Police Protection Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$134	\$161	\$202	\$235	\$238
U.S.	\$135	\$180	\$229	\$268	\$309
Michigan Rank	16	22	22	23	38

The impact of the Great Recession on Michigan is demonstrated in the 2012 Census report in which Michigan had dropped to 38<sup>th</sup> in the nation in per capita expenditures for police protection. In 2014, Michigan maintained its ranking of 38<sup>th</sup> in the nation. Across the country, police protection is primarily a service funded and operated at the local level. The information compiled by the U.S. Census documents the concerns expressed by local government officials across the state – that limited financial resources have significantly impacted some of the most important services offered to their citizens.

### Fire

Fire services are also one of the most critical public services offered by local government. Unlike police protection which relies almost exclusively on full-time police officers, fire operations in Michigan cover the spectrum of operational models. While the SEMCOG region is dominated by fire departments organized at the municipal level, often with full-time firefighters, other parts of the state rely on paid on-call firefighters, which often protect areas encompassing multiple local government jurisdictions.

Table 30  
Fire Protection Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$46	\$55	\$70	\$94	\$96
U.S.	\$56	\$73	\$92	\$117	\$135
Michigan Rank	27	34	33	28	35

In 1992, Michigan ranked 27<sup>th</sup> in the nation in per capita expenditures for fire protection services. By 2002, Michigan had fallen to 33<sup>rd</sup> in the nation and, by 2012, the state had further slipped to 35<sup>th</sup> place. In 2014 Michigan had fallen further to 39<sup>th</sup>.

### Corrections

Michigan has traditionally been very concerned about the cost of corrections. The Census numbers shed light on this subject. In 1992, Michigan ranked 11<sup>th</sup> in the nation in the per capita cost of providing correctional services. While the main costs are at the state level, the operation of county jails involving individuals who received shorter-term sentences would also be included. Michigan's relative position remained stable at 12<sup>th</sup> in the nation in 2002 and ninth in 2007. By 2012, Michigan had seen a significant shift in its national ranking, placing 20<sup>th</sup> in the nation for the cost of corrections, However the state moved back up to 13<sup>th</sup> in the nation in 2014.

Table 31  
Corrections Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$119	\$161	\$212	\$239	\$226
U.S.	\$113	\$151	\$194	\$217	\$231
Michigan Rank	11	11	12	9	20

### Judicial

Before someone enters the correctional system, they must pass through the judicial system. While all courts in Michigan are under state control, local courts are funded with significant supplemental local revenue. In 1992, Michigan was 15<sup>th</sup> in the nation in per capita judicial and legal costs. In 2002, the state was again relatively steady in its funding for this governmental service placing 14<sup>th</sup> in the nation. By 2007, the state had dropped to 23<sup>rd</sup> in the nation and by 2012, the state was 28<sup>th</sup>. Per capita costs were actually lower in 2012 than they were in 2007. In 2014, the state remained steady at 28<sup>th</sup> in the nation.

Table 32  
Judicial Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$64	\$77	\$111	\$105	\$115
U.S.	\$64	\$82	\$111	\$123	\$137
Michigan Rank	15	20	14	23	28

Many would consider Michigan falling from 11<sup>th</sup> in the nation in per capita costs for corrections to 20<sup>th</sup>, with our judicial costs sliding from 15<sup>th</sup> in the nation to 28<sup>th</sup> as a fiscal improvement. However, most would not take the same viewpoint of Michigan falling from 16<sup>th</sup> in the nation to 38<sup>th</sup> in spending for police protection.

## K-12 Funding

The funding of educational programs has been a hotly debated issue dating back decades. Passage of Proposal A has not diminished the fervor over appropriate funding levels for elementary and secondary education.

2014 National Ranking – 34<sup>th</sup>

There is no other public service, or private service for that matter, that is more closely scrutinized than K-12 education. We rigorously test students each year and then post the collective results publicly in as many ways possible to inform everyone on how well this form of local government is performing. Also, no other public employee has as many close personal relationships with those that they serve than does a teacher.

Because of this close scrutiny, which is not unique to Michigan, the educational system drives more decisions on where a person decides to raise a family than any other government service. The educational system can be of great assistance to an economic development plan or it can be a great hindrance.

The U.S. Census figures for state and local expenditures for elementary and secondary education paint a very dramatic picture. In 1992, two years before enactment of Proposal A, Michigan ranked 10<sup>th</sup> in the nation in per capita expenditures for K-12 education. Once Proposal A passed, Michigan maintained its national standing in 1997, 2002, and 2007, ranking 8<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> respectively in per capita expenditures. However, by 2012, Michigan had changed drastically. Between 2007 and 2012, Michigan's expenditures for K-12 education dropped 10 percent, dropping the state from 8<sup>th</sup> in the nation in expenditures to 25<sup>th</sup>. The state's national ranking plummeted again in 2014 to 34<sup>th</sup>.

Table 33

Elementary and Secondary Education Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$1,013	\$1,283	\$1,608	\$1,916	\$1,728
U.S.	\$897	\$1,111	\$1,461	\$1,704	\$1,801
Michigan Rank	10	8	7	8	25

The direction the state has taken on K-12 funding since 2007 should be setting off alarm bells. This very visible public service is the key indicator many will use to judge all services provided by state and local governments. If Michigan cannot support its schools – the public service most legislators indicate as their top priority – than what does that say about all other services provided?

## Natural Resources and Parks

Two Census categories from the State and Local Government Revenue and Expenditure reports are a good barometer of Michigan’s efforts to capitalize on its greatest natural asset – the great outdoors. The categories to consider are **Natural Resource** expenditures and **Parks and Recreation** spending.

2014 National Rankings  
Natural Resources and  
Parks

- Natural Resources – 47<sup>th</sup>
- Parks and Recreation – 31<sup>st</sup>

### Natural Resources

The Census tracks a category of spending identified as Natural Resources. This includes expenditures for conservation, and promotion and development of natural resources such as soil, water, forests, minerals, and wildlife. It includes expenditures for irrigation, drainage, flood control, forestry and fire protection, soil reclamation, soil and water conservation, fish and game programs, and agricultural fairs.

Table 34  
Natural Resources Expenditures Per Capita

	1992	1997	2002	2007	2012
Michigan	\$31	\$55	\$58	\$41	\$38
U.S.	\$51	\$63	\$78	\$91	\$92
Rank	41	31	34	46	47

Michigan has traditionally ranked poorly in this category as compared to the rest of the nation. In 1992, Michigan ranked 41<sup>st</sup> in the nation in per capita expenditures for natural resources. In 1997, Michigan had improved its standing to 31<sup>st</sup> in the nation, but since that time Michigan has continued to slide down in national rankings. In 2002, Michigan was 34<sup>th</sup> in expenditures; by 2007, Michigan had fallen to 46<sup>th</sup> and finally Michigan hit 47<sup>th</sup> in 2012; it retains that position in 2014.

### Parks

Michigan’s national standing for Parks and Recreation services was not significantly better than its standing on Natural Resources. Parks and Recreation expenditures include golf courses, play fields, playgrounds, public beaches, swimming pools, tennis courts, parks, auditoriums, stadiums, camps, recreation piers, marinas, botanical gardens, galleries, museums, and zoos. It also includes building and operation of convention centers and exhibition halls. Outside of a ranking of 19<sup>th</sup> in the nation in 2002, Michigan has ranked between 33<sup>rd</sup> and 39<sup>th</sup> in the nation in the other years that were reviewed. By 2012, Michigan had fallen to 40<sup>th</sup> in the nation in per capita expenditures in this category and then saw a recovery to 31<sup>st</sup> in 2014.

Table 35  
Parks and Recreation Cost Per Capita

	1992	1997	2002	2007	2012
Michigan	\$45	\$49	\$107	\$86	\$79
U.S.	\$62	\$78	\$107	\$120	\$119
Rank	34	39	19	33	40

Michigan's high expectations to generate significant revenue from tourism activities and to leverage the Great Lakes and other waterways as economic development "draws" are not backed by state and local government priorities in spending as expressed in this data.

## Infrastructure

Infrastructure is the foundation upon which economic development is built. Road, sewer, and water systems are the basic services that allow metropolitan areas to operate and which connect the economy with the rest of the world. Unfortunately, they are also one of those things that once built have a tendency to be underfunded, especially when there seems to be more pressing financial needs. In Michigan, that seems to be the case for the last 20 years.

### 2014 National Rankings Infrastructure

- Construction – 50<sup>th</sup>
- Roads – 50<sup>th</sup>

### Construction

In combined state and local government spending, Michigan was dead last in the nation in per capita construction expenditures in 2012, followed by another last place finish in 2014. While major projects can be put on hold for a short time due to budget constraints, Michigan’s history on expenditures for capital outlay have never been impressive. In 2007, Michigan was 48<sup>th</sup> in the nation in overall capital outlay expenditures; Michigan’s high point was in 2002, when the state was 35<sup>th</sup> in this category. In 1992 and 1997, Michigan was ranked 46<sup>th</sup> and 44<sup>th</sup> in the nation in investing in itself.

Table 36

Capital Outlay: Construction Expenditures Per Capita

	1992	1997	2002	2007	2012
Michigan	\$246	\$347	\$535	\$485	\$445
U.S.	\$395	\$497	\$702	\$813	\$853
Rank	46	44	35	49	50

### Roads

Michigan has recently enacted laws that will increase investment in the road system in our state. Michigan has traditionally ranked either last or near last in per capita expenditures in this area over the past two decades. When fully implemented, the new funding proposal will add approximately \$1.2 billion per year to road expenditures compared to 2012. If all of this additional funding is expanded in capital projects, Michigan would move up from last in the nation in investing in roads to 39<sup>th</sup>. Of course, this revenue is phased in over five years and the higher ranking is based on the assumption that the other states that Michigan passes will not see any increase in expenditures on their roads over that period of time. Even the additional General Fund revenue added to the state’s transportation budget in 2014 was not enough to raise Michigan out of the last in national ranking.



Table 37

Capital Outlay: Road Construction Expenditures Per Capita

	<b>1992</b>	<b>1997</b>	<b>2002</b>	<b>2007</b>	<b>2012</b>
Michigan	\$84	NA	\$116	\$156	\$118
U.S.	\$145	NA	\$235	\$266	\$289
Rank	50	NA	50	46	50

## The Road to Economic Recovery for Michigan Local Governments is Blocked

Two years ago, SEMCOG's Local Government Revenue Task Force released its report, [\*Running on Empty\*](#). The report looked at local government property tax revenues from the time Proposal A passed through the time of the Great Recession. The report also put a spotlight on the state budget and how it responded to local government financial needs. Starting in 2002, the state effectively placed a freeze on total revenue distributions going to local governments even though revenues collected by the state increased by \$5 billion from 2002 to 2014.

*By the Numbers* is a natural follow-up to *Running on Empty*. *By the Numbers* essentially looks at the simple question, "How are Michigan local governments doing financially as compared to the rest of the nation?" The results of the study give a very clear indication that Michigan local governments were hit harder by the Great Recession than most in the nation and, as a result, the services they deliver were greatly impacted.

Every level of local government in Michigan was significantly impacted by Michigan's "one state recession," as well as the Great Recession:

- **County** tax and fee revenues grew at less than one-third of the national average from 2002-2012; only two states saw smaller increases.
- **Township** overall revenues increased at half the rate of townships across the country during the same time. Again, only one state saw smaller increases.
- Per capita expenditures for K-12 **Education** dropped from eighth in the nation in 2007 to 34<sup>th</sup> in 2014.
- **Cities** were battered by the economy like nowhere else in the country. Cities across the country saw their revenues increase by 50 percent between 2002 and 2012. Michigan cities lost 8.5 percent of their funds over that time span.

Local governments in Michigan have been dealing with revenue limitations for decades. Wage growth for employees of Michigan local governments was half the national rate over the past two decades. The greatest challenge was in Michigan cities where payrolls were reduced by a third from 2002-2012.

Over the past 20 years, the cost of administering Michigan local governments has gone from the national average to one of the lowest in the nation. Michigan expenditures for police and fire protection have gone from above average nationally to much below the national average. Placing in the bottom quintile in the nation in spending on parks, spending 40 percent below the national average, is not a positive attribute for a state that is so proud of its natural assets.

Issues of inadequate infrastructure have dominated Michigan headlines for the past several years. Road, stormwater, and drinking water infrastructure have become critical issues. Nationally, Michigan has ranked poorly over the past 20 years in these areas. In 2012, Michigan was last in the nation in infrastructure investment, investing at only half of the average of other states. While the legislature has adopted a plan to spend more on our most visible infrastructure – roads – Michigan will still spend much below average on roads even after the new funding is fully implemented.

Education may be the most problematic service to quantify. For years, Michigan ranked in the top 10 in funding its local schools. Between 2007 and 2012, Michigan dropped from eighth in the nation to 25<sup>th</sup> and to 34<sup>th</sup> in 2014. Unfortunately, student test results are falling behind other states as well.

*By the Numbers* has not painted a very rosy picture for Michigan local governments. If you talk to local elected officials from across the state, you will find most have experiences consistent with the report, or worse. As noted in the report, some local governments have been battered, while others have not seen significant hardships.

The greatest challenge as we move forward is to reach a shared understanding that what happens collectively in our state, even the failure of one community, impacts us all. This report compares Michigan to the rest of the country, but it does not dwell on how different parts of the state and different local governments experienced different impacts.

Many local government officials talk about the fact that it will take years – if not decades – to get back to where they were in 2007 from a financial standpoint. Even this view understates the real issue. **Michigan’s local government funding structure will never get them back to where they were relative to the rest of the nation. By the time they get back financially to where they were, the rest of the nation will have moved on and at a growth rate that is much faster than Michigan.**

The Headlee Amendment has impacted every local government in the state. Headlee was an experiment in fiscal restraint at the time. Many thought it would create significant financial hardship for local governments. The expected disaster never seemed to materialize, but the problem is that Headlee’s impact is very slow and methodical. As other parts of the country raced ahead, Michigan proceeded at a slow and measured pace. Some areas of the state, where significant construction took place, did well. Other areas remained operational, but were not moving ahead. Finally, some areas could not keep up; they lost ground to everyone. The cumulative impact of Headlee was erosive and persistent.

Headlee’s effects accelerated a hundred-fold during the Great Recession. The historic loss in property value has reset the Headlee baseline at a much lower level and created a new normal for local government operations. While the economy and tax revenues associated with it accelerated across the country, Michigan local governments will be prohibited from benefiting from that recovery. Taxes related to recovering property values will once again be throttled by Headlee, which denies economic recovery to local government operations in the state. Unfortunately, the Great Recession has weakened so many local governments that any significant future issue related to expenditures or revenues could cause the financial collapse of many.

The SEMCOG report, *Running on Empty*, focused on changes that can be made to allow Michigan’s local governments to compete with the rest of the nation once again, while still protecting its citizens and property owners. They include eliminating Headlee rollbacks. Once Proposal A passed and included the cap on taxable values, the concept of Headlee millage rollbacks lost its purpose. Instead, the millage rollback has become the biggest barrier to financing needed services in core communities. The state must also enable local governments to raise revenue, and step up their efforts to financially support the locals.

The Great Recession exposed the significant weaknesses in Michigan’s local government financing system. The question is will we correct the situation, or will we instead continue to close our eyes to the fact that struggling local governments will significantly impact Michigan’s economic future.

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