



SPAA Public Service
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Regional Government in Michigan

The Need to Approach Local Government Service Delivery and Revenue Raising More Regionally

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We have a Structural Problem

- Financial condition of local governments remains precarious

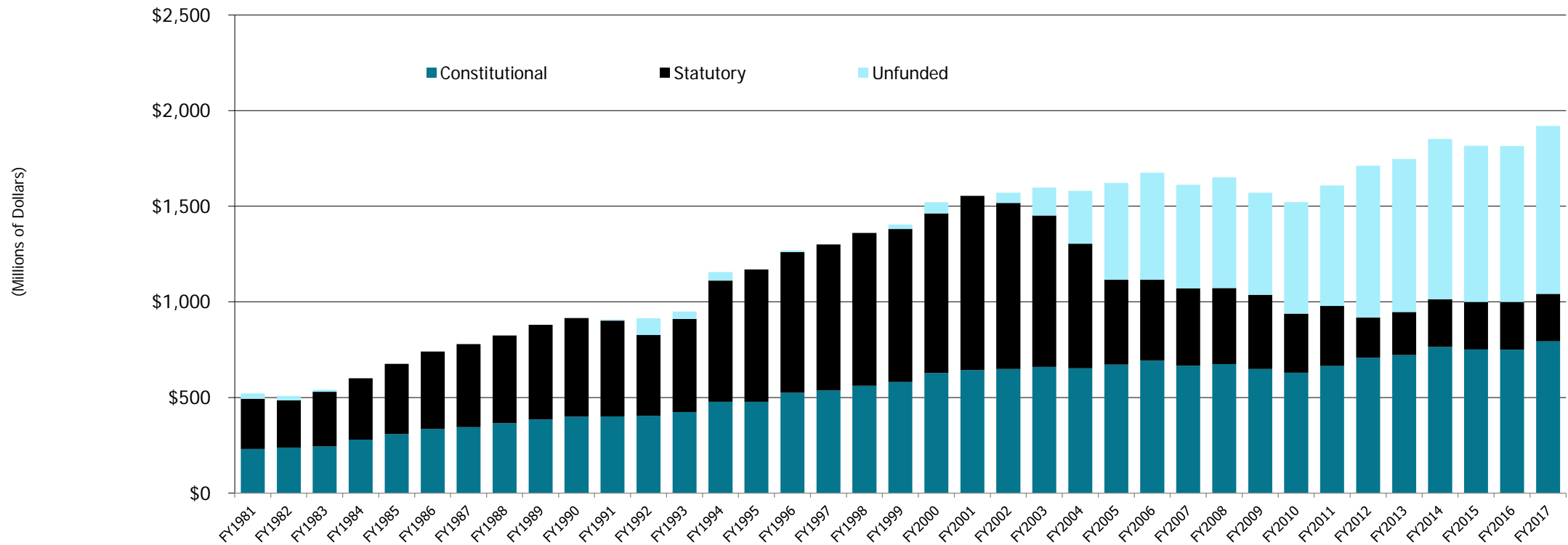


- With revenue and spending pressures, local officials left with few options
- How local government currently operates – spending and revenues – is not working

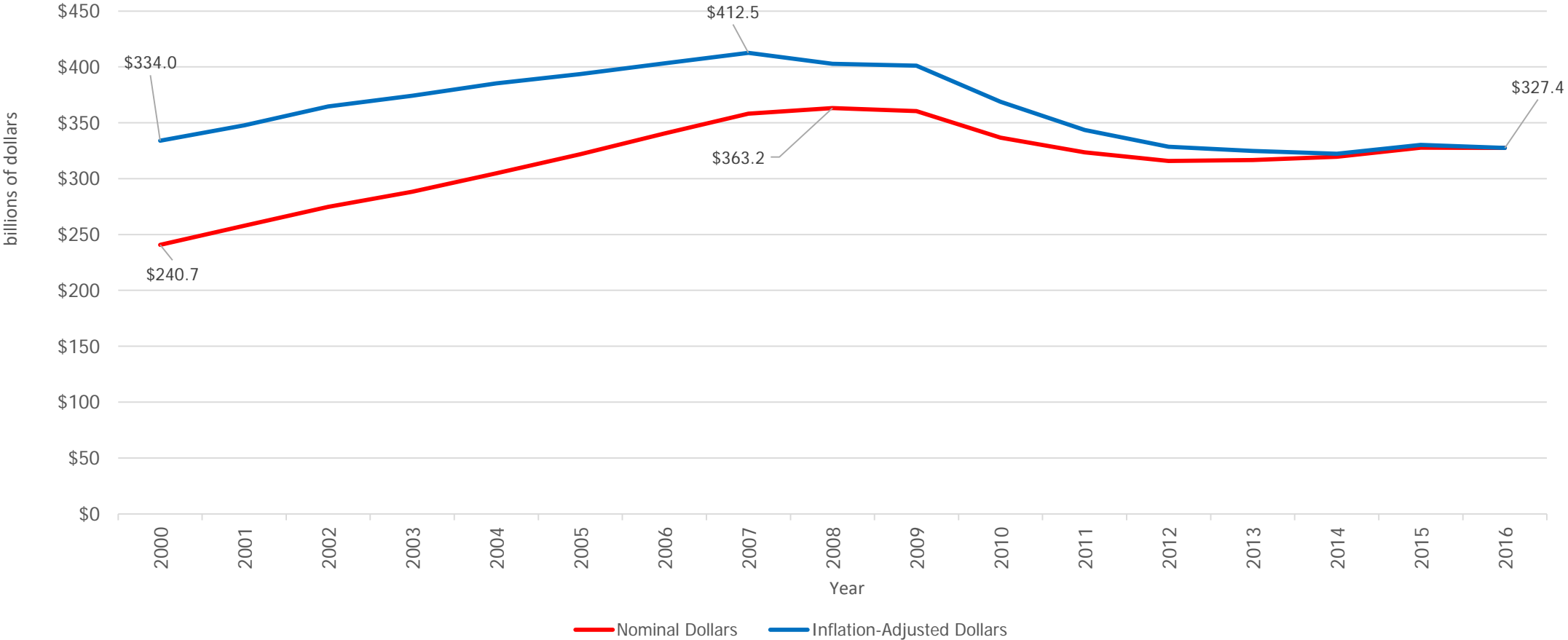
What are the Problems with Current Local Government Revenues?

- Disconnected from the local economy – local communities need more mechanisms to allow them to capture the economic activity taking place within their boundaries
- Local property tax is an insufficient revenue source – never intended to serve as the sole source of local government tax revenue
- State revenue sharing is in peril – easy funding source to cut when state revenues are declining
- Economic distortions at local level

Constitutional, Statutory, and Unfunded State Revenue Sharing, FY1981 to FY2017



Nominal and Real Statewide Taxable Values, 2000-2016



What are the Problems with the Current Local Government Service Delivery Model?

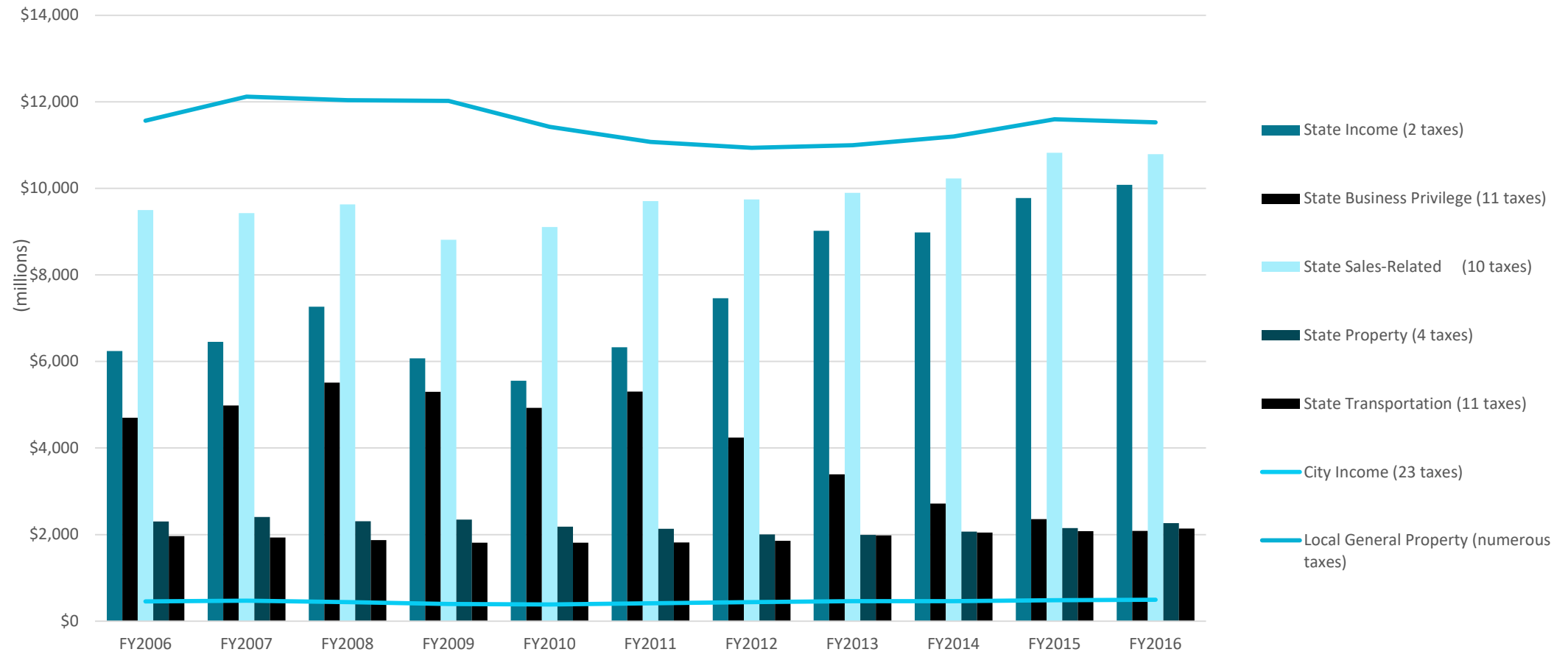
- Not efficient – majority of services provided at most local level of government
- Not always effective – not all local units have ability to provide range of services
- Socioeconomic and income inequalities

Current Local Government Revenue and Service Delivery Structures

Local Revenue Sources

- Local property tax
- State revenue sharing
- Other local taxes
 - Michigan counties: selective sales taxes
 - Michigan cities: income tax
 - Counties in other states: income, sales, motor fuel, alcohol, tobacco, utility users taxes
- Fees for services

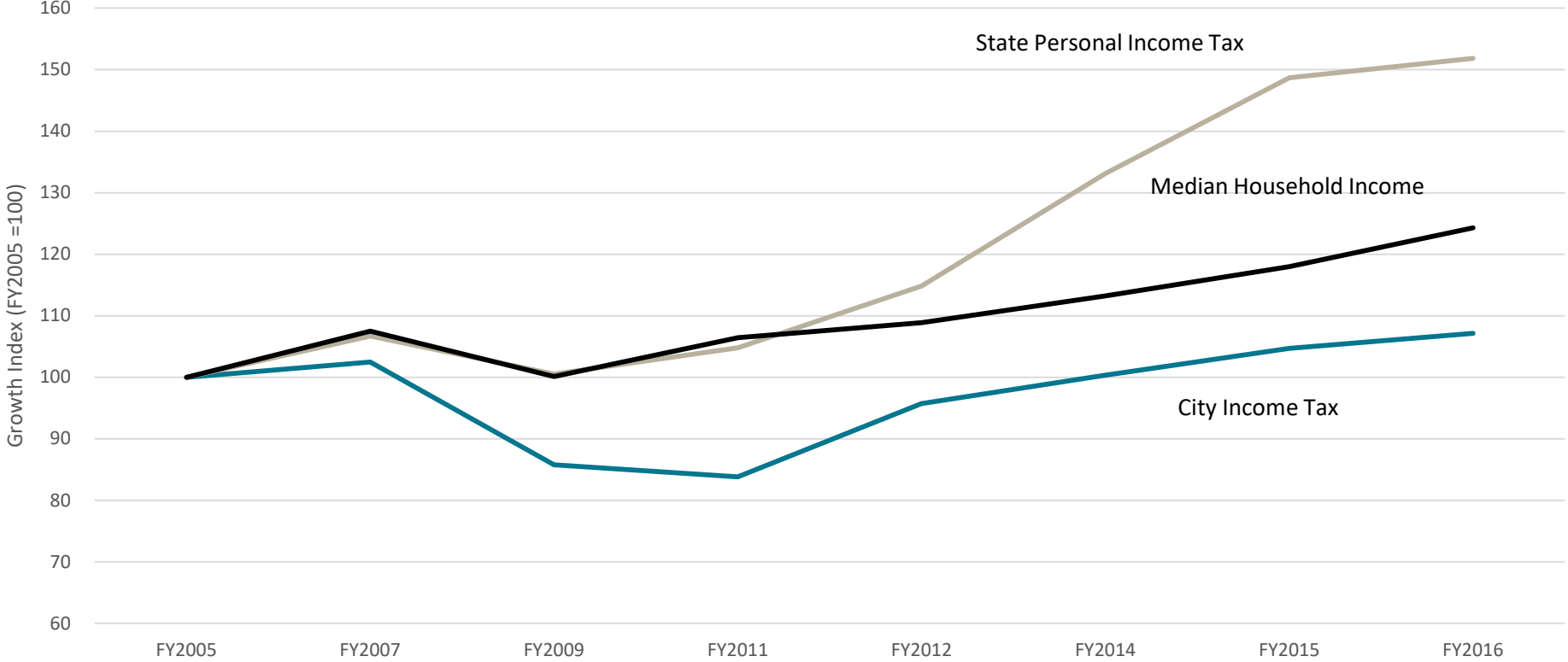
State and Local Taxes in Michigan



Local Income Tax

- Uniform City Income Tax Act of 1964
- Two things must happen for any city to levy an income tax:
 - 1) A local ordinance in support of income tax must be passed by legislative body
 - 2) City residents must vote in support of the tax at the ballot
- Can support dwindling property tax revenues or allow cities to lower property tax millage rates
- Allows cities to export tax to workers who live in other communities
- More closely tied to economy than property tax
- Authorized to most local level of government
- 23 cities currently levy

Income Tax Revenue and Michigan Household Income Growth, FY2005-FY2016



Local Governments in Michigan

- 83 counties
- 533 cities and villages
- 1,240 townships
- Creatures of the state
- Overlapping geographical boundaries, service responsibility, and taxing authority – local government service provision complicated!

County Governance

- Boards of commissioners
- Election of clerk, register of deeds, treasurer, sheriff, and prosecuting attorney – plural executive
- General law counties (79 of 83)
- Optional unified counties (Bay and Oakland)
- Charter counties (Macomb and Wayne)
- Evolved from administrative arm of state government to regional local government

Recommendations for Michigan: Regional Taxes and Services

Why Do We Need to Shift to Regional Government?

- Revenue: raising revenue at the regional level allows for tax-base sharing and reduces competition among local units and reduces other negative externalities
- Local services: providing services at the regional level allows for economies of scale and can improve efficiency and effectiveness of local governments
- Regional services: some services, like public transportation, transcend local boundaries and can only be provided regionally

Why Counties/Regions?

- Local economies align better with regions than with cities or townships
- Counties already governing at regional level
- Regions still compete, but more difficult for businesses and individuals to leave a region
- Socioeconomic and income inequalities decreased at regional level

Expand Local-Option Taxes

- Authority to levy provided in state Constitution and state law
- Advantages
 - ❖ Diversify revenue sources
 - ❖ Levy taxes on a base that reflects area's economic strengths
 - ❖ Local autonomy
- Disadvantages
 - ❖ Can increase combined tax rates – can be revenue neutral
 - ❖ Can create/increase economic disparities
 - ❖ Can make local units more vulnerable to economic downturns

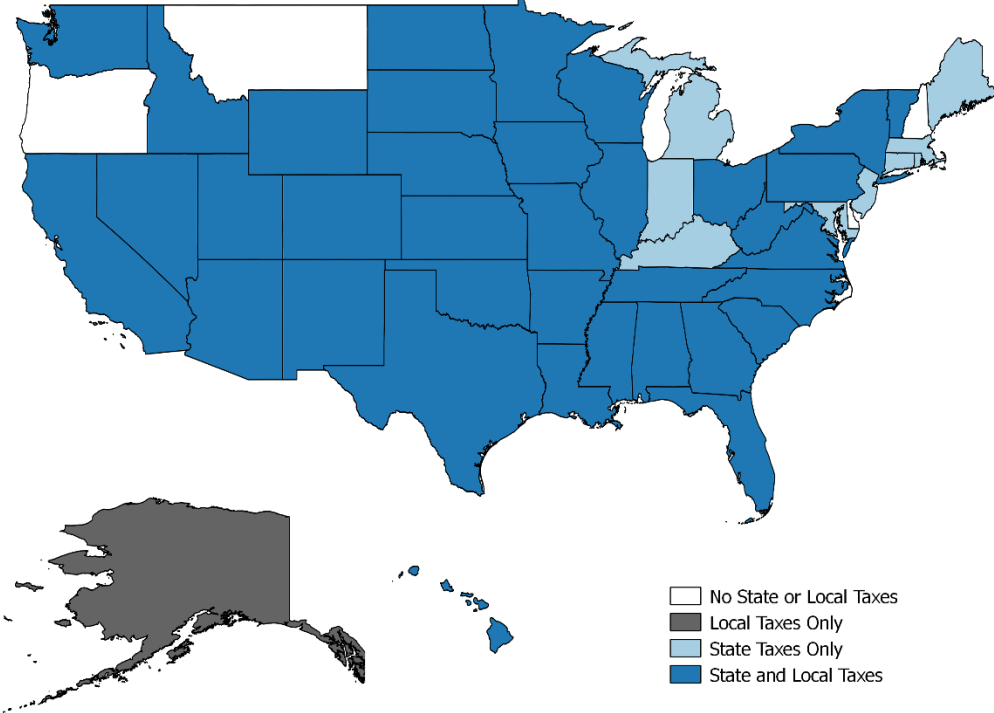
Local Retail Sales Tax

- State sales tax: a 2% tax that must be imposed and a 4% tax that is authorized, but not required, to be levied
 - ❖ State rate limited to 6%
 - ❖ Most tax proceeds constitutionally or statutorily earmarked
- Local sales tax: not currently available
 - ❖ Not clear if 6% rate limit applies to local units of government
 - ❖ Question of whether authority for a local sales tax could be granted by state complicated by earmarking of sales tax revenue
 - ❖ May require a constitutional amendment
- Constitutional and/or statutory impediments exist

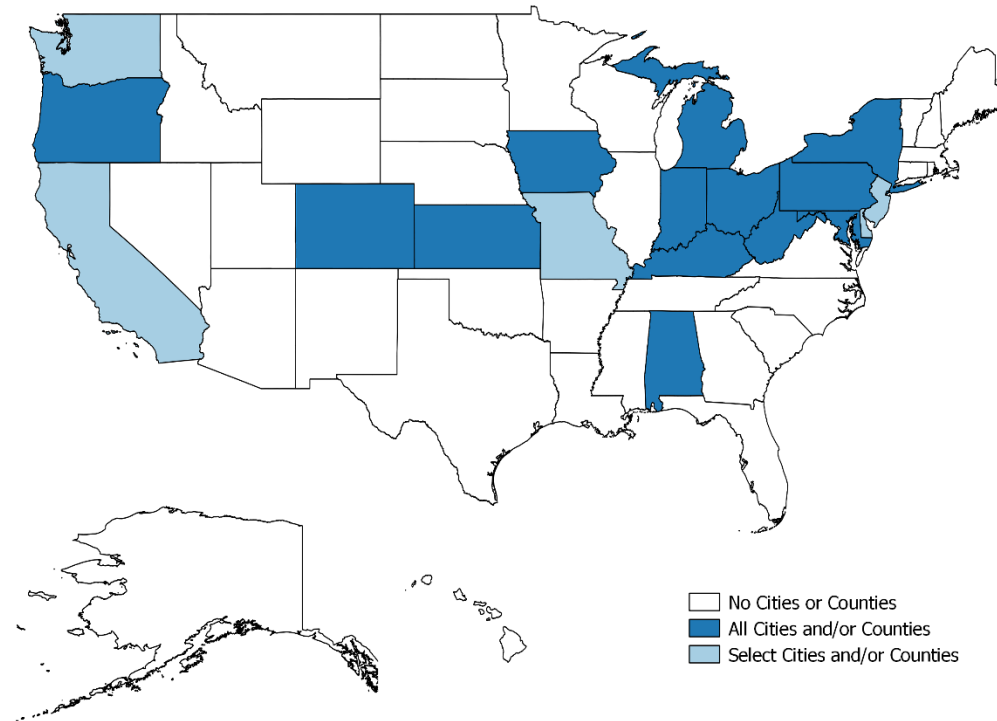
Local Sales Tax

- Fairly transparent
- More popular than property and income taxes
 - ❖ People have more control over whether they pay tax
 - ❖ Generate large sums of money with fairly low rates
 - ❖ Export tax burden to nonresidents
- Avoidance likely if possible
 - ❖ Shopping across borders for lower rate
 - ❖ Online sales (this may be changing with recent Supreme Court ruling)

States that Levy State and Local Sales Taxes



States that Allow Local Units to Levy Income Taxes



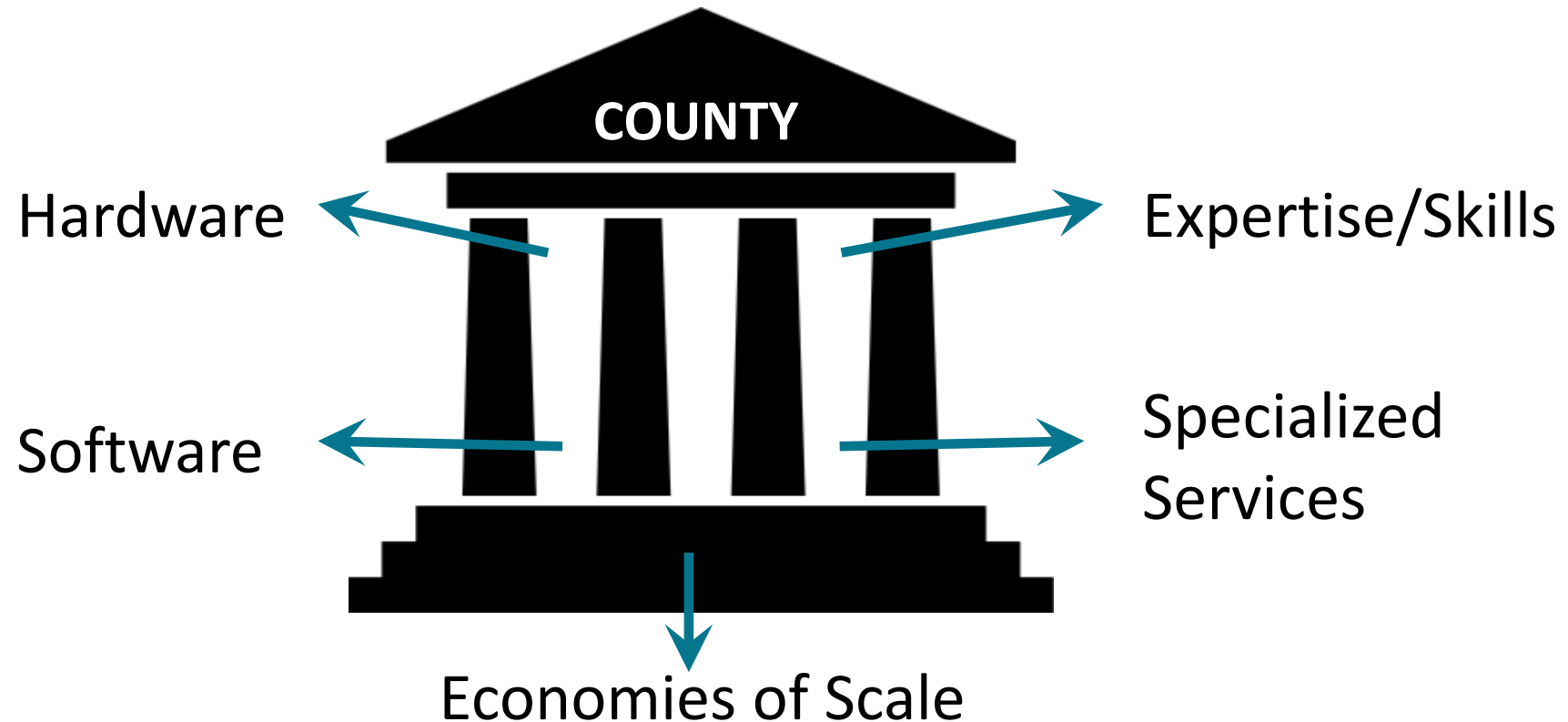
Other Taxes that Can be Levied Locally

- Transportation taxes: motor fuel and vehicle related
- Utility taxes: currently allowed in Detroit
- Sin taxes: alcohol, tobacco, marijuana, casino gambling, soda/sugar
- Tourism taxes: hotel/motel, restaurant meals, car rentals
- Entertainment/amusement taxes
- Sharing economy taxes

Regional Taxes

- Local income taxes best suited to regions that are employment centers
- Local sales taxes best suited to big cities regions that can draw people in to shop/spend in them
- Tourism and entertainment taxes best suited to regions that invite tourism due to their urban nature (Detroit, GR), large shopping centers or tourist destinations (Frankenmuth), or proximity to natural beauty and activities (the lakeshore)
- Most important: taxes best suited to regional areas where multiple units of government can benefit from them without facing direct local competition from neighbors

Reorganize Service Delivery Around Counties



Regional Service Delivery

- Counties offer:
 - ❖ Economies of scale
 - ❖ Economies of skill
 - ❖ Less income inequalities
- Enable local governments to concentrate efforts on developing the identity and placemaking that will attract people and businesses
- The state can promote collaboration or hinder it
 - ❖ Institutionalized and encouraged vertical collaboration
 - ❖ Local revenue restrictions and spending requirements

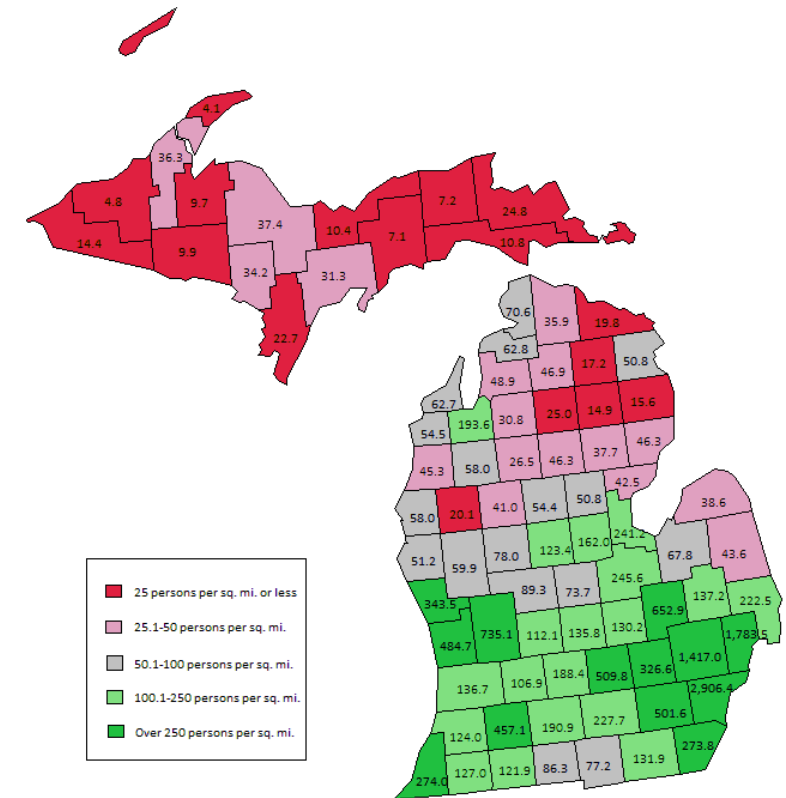
Specific Service Recommendations

- Information technology: backbone of expanded county services
- Administration and general government (HR, fiscal, document)
- Tax collection
- Elections
- Property assessment and equalization
- Road commission and road services
- County sheriff and public safety (especially administrative and special services)
- Additional services

Considerations for Regional Taxes and Services

Prerequisites for Change at County Level

- Counties have potential to provide expanded regional service delivery
- Change cannot happen in a vacuum
- County governments are not uniform
 - ❖ Population densities vary from very rural (red) to very dense (green)
 - ❖ Have to be able to tailor recommendations to meet their abilities and needs
 - ❖ Not one-size-fits-all: understand variance



Modernize County Government

- Hindered by governance structure
 - ❖ General law counties: plural executive and diffused accountability
 - ❖ Stand-alone government without regional emphasis
- Adopt a charter or organize as an optional unified county
 - ❖ Mirrors federal/state systems
 - ❖ Provides checks and balances
 - ❖ Increases accountability
- Change culture of county government to view county capabilities as an asset to share with the region
- Strong county leadership needed

Need More Resources at County Level to Support Expanded Services

- Authorize levy of more local-option taxes at county level
 - ❖ Less administratively burdensome
 - ❖ Limit negative externalities
- Local-option taxes can include income, sales, “sin”, tourism, transportation, and other taxes.
- Changing local tax mix can be revenue neutral, but allow for greater growth potential
- Michigan is an outlier nationally when it comes to local-option taxes

Principles of Good Tax Policy

- Adequacy
- Transparency
- Reliability
- Equity: horizontal and vertical
 - ❖ Problems caused by tax base disparities
- Neutrality: taxes should minimize interference with economy
- Administrative efficiency

Implementation Potential

- Steps to authorize new local taxes in Michigan:
 - 1) State needs to pass law authorizing local units to levy any new local tax
 - 2) It may be necessary to pass a constitutional amendment, which would require statewide vote of the people, in order to allow for a local sales tax
 - 3) Once state Constitution and state law allow for a local tax, then legislative body of a local unit (e.g., city council or county commission) needs to pass a resolution or ordinance to levy tax at rate desired by local unit and allowed in state law
 - 4) Local voters need to pass any new local-option tax before it can be levied by a local government

Conclusion

Regional Government in Michigan

- Regional tax base sharing
- Regional services
- Regional governance
- Providing services and raising taxes at regional level can address a lot of concerns around local government service delivery and local-option taxes

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