

## CHAPTER 3

# About Local Government

### GLOSSARY

**Allocated millage**

Constitutional mills divided (allocated) among general law counties, townships, and intermediate school districts. All other millage is extra-voted.

**Authority**

Created by one or more general purpose governments to produce and provide a specific government service.

**Authorized millage rate**

Maximum millage rate established either by state law or a local unit's charter and approved annually by the legislative body.

**Charter (home rule) government**

County, village, or township that has taken the special steps necessary to permit it to organize and operate in ways different from a general law unit.

**Extra-voted millage**

Millage approved by voters in addition to allocated millage; may be either general operating millage or restricted as to purpose.

**General law government**

County, township, village that organizes and operates itself in accordance with the general law set out in state constitution and statute; has not taken the special steps necessary to change to a charter (home rule) unit.

### EVOLUTION OF LOCAL GOVERNMENT

The Northwest Land Ordinance (1785 and 1787; the latter set out settlement procedures), the Territorial Legislature, and Michigan's four constitutions have affected the evolution and structure of local government in Michigan.

The Northwest Land Ordinance, in addition to setting forth the settlement policy for the Northwest Territory, included provisions for its governance. The ordinance stipulated that

- the newly acquired territories would be divided into no fewer than three states and no more than five (ultimately, Illinois, Indiana, Michigan, Ohio, and Wisconsin);
- a rectangular grid would comprise the land survey format;
- 36 sections (one square mile each) would comprise a township—6 miles by 6 miles;
- the proceeds from the sale of section 16 in each township would be dedicated to school purposes (in Michigan, the state assumed control and sale of section 16 lands, which set the precedent for the state's giving financial aid to schools);
- *ad valorem* (in proportion to value) taxation would serve as the mechanism to finance local services; and
- territorial legislatures would create counties when given areas had reached a certain population density (the first to be created was Wayne County, in 1796); many cities already had been founded, e.g., Detroit, in 1701.

Two types of local government have evolved in Michigan.

- Counties, cities, villages, and townships are *general purpose* units; all have as their legislative body an elected board.
- Local K–12 school districts, intermediate school districts (ISDs), community colleges, and authorities are *special purpose* units; all have a governing body that may be elected or appointed.

Collectively, if authorities are included, there are more than 2,700 general- and special-purpose government units in Michigan (see Exhibit 1).

## LOCAL GOVERNMENT ORGANIZATION

### General Law and Charter Government

General purpose units of government (counties, townships, villages, and cities) operate with restricted powers, that is, the unit's authority is granted by the state, either through the constitution or statute. Whether a unit is empowered to engage in an activity depends on whether the state has expressly granted it authority to do so. (By contrast, local governments in most western states operate with *permissive* powers, that is, they may exercise any authority that the legislature has not expressly prohibited or restricted.)

In Michigan, counties and townships begin as *general law* units, but if they meet certain requirements set out in state statute, they may change to *charter* (home rule) units; villages must have a population of 750 to organize as a home rule village. By law, all cities are charter units.

- General law units may organize themselves and exercise authority only in the way that the state constitution and legislature have specifically set forth for this type of government.
- A charter (home rule) unit has more control over its organization and broader authority than does a general law unit. The charter sets forth the taxing and borrowing limits (subject to state law), number of departments, and types of services to be delivered to residents.

#### Counties

Only Wayne has become a charter county (the county electorate adopted a charter in 1980), as permitted by the Charter County Act (Public Act 293 of 1966). All other counties are general law units. The act permits voters in a charter county with population exceeding 1.5 million to choose to have either an elected county executive or an appointed county manager. (Although no counties with a population *under* 1.5 million have opted to become a charter county, if any were to do so, the act specifies that they must have an elected executive).

The difference between a charter county and a general law county are found in administration and legislative functions. In a charter county, the board of commissioners serves as legislators, and the executive/manager handles the county's day-to-day operations. Whether an elected executive has veto power, how staff

## EXHIBIT 1. Michigan Local Governments, by Type and Number

Type	Number
<b>General Purpose</b>	
Counties	83
Townships	1,242
Cities	273
Villages	261
TOTAL	1,859
<b>Special Purpose</b>	
K-12 districts	559
Intermediate school districts	57
Community colleges	29
Authorities	200+
TOTAL	845+

SOURCES: Michigan Municipal League; Michigan Township Association.

#### General purpose government

Created to carry out broad general government services and to act on state government's behalf.

#### Home rule

See charter government.

#### Mill

A monetary unit equal to 1/1000 of a dollar; millage is the tax rate on property—the number of mills assessed against the property's taxable value.

#### Special purpose government

Created to carry out a specific function.

#### State equalized value (SEV)

In Michigan, 50 percent of a property's market or true cash value.

functions are handled, and over which line department s/he has control depend on the provisions of the charter adopted by the electorate.

General law counties may adopt a form of centralized administration under the provisions of the Option Unified Form of County Government Act (P.A. 139 of 1973). The act permits general law counties, with voter approval, to have either an county executive elected by the public or a county manager appointed by the elected board. Only Bay and Oakland counties have adopted the unified form, both with an elected executive.

### *Townships*

Public Act 359 of 1947 extends the home rule (charter) option to townships meeting a certain population threshold (initially 5,000 but later amended to 2,000). The impetus for home rule for townships is to obtain some protection against being annexed by adjacent cities. Townships may achieve charter status by (1) the township board's adopting a resolution or (2) a vote of township residents. The latter course gives a township greater taxing authority than the former: five mills upon voter approval of charter status plus authority to go to the voters for additional mills. If charter status is achieved by resolution, the authority to tax property is restricted to the amount levied on the date the resolution is adopted. A charter township board also may appoint a superintendent or manager to serve as the township's chief administrative officer (general law townships are administered by the elected township board). Of Michigan's 1,242 townships, 124 have opted for charter status.

### *Villages*

A Michigan village may establish itself as either general law or, if its population is 750 or more, a home rule (charter) unit. Of the 261 villages in Michigan, 213 have organized themselves under the General Law Village Act (1895) and 48 under the Home Rule Village Act (1909). Although both types may levy up to 20 mills for operation, general law villages are limited as to how they may

use the 20 mills: streets (5.0 mills), cemeteries (2.5 mills), and general government operation (12.5 mills).

### *Cities*

All of Michigan's 273 cities are organized as home rule units. A city's residents, in adopting a charter, determine the form their government shall take; three options are available.

- *Council, manager* Under this organizational structure, which has been adopted by 175 cities, the city council appoints a city manager who administers the day-to-day operations of city government; the council is responsible for policy decisions and adopting the annual budget.
- *Strong mayor, council* This structure is used most often in larger cities where the mayor is elected directly by voters and is not a member of the legislative body (council). The mayor is the chief administrative officer and appoints/removes administrative officials that the charter designates as reporting directly to him/her.
- *Weak mayor, council* This structure often is found in smaller cities where the mayor is a council member and elected to the mayoralty by fellow council members. The mayor chairs council meetings and serves as the city's chief administrative and ceremonial officer.

### **Special Purpose Government**

K–12 school districts, intermediate school districts, community colleges, and authorities are *special purpose* governments, created to carry out a specific function. Special purpose districts have limited property-taxation authority and are governed by an elected or appointed board.

Authorities are created by one or more general purpose governments to produce and provide a specific government service. To give just a few examples, authorities may be created to operate an airport, harbor, or port; finance and oversee building or transportation projects; promote downtown development; construct and operate sewer and water systems; or operate emergency (police, fire, ambulance) services.

Authorities are of two general types, depending on how they are created.

- An authority may be created by a vote of the residents living in the jurisdiction of the general purpose government(s) that wish the authority to exist. Such a unit may or may not be given power by voters to levy property tax millage as a source of revenue.
- An authority also may be created through resolution by a general purpose government(s), but it will not have the power to levy millage for operation; it must rely on other funding sources (e.g., an appropriation from the board that created it).

### LOCAL GOVERNMENT ISSUES

Obviously, each type of general purpose government has issues that affect it more than the others. All, however, share three problems that have to do with money: declining authorized millage rates, the difference between the state-equalized and taxable value of property, and state revenue sharing. In addition, transportation funding, land use, solid waste management, consolidation and intergovernmental contracting, and federal devolution concern many local officials.

#### Millage Rates and Property Tax Collections

There are two types of millage: *allocated* and *extra-voted*. The Michigan Constitution permits up to 15 mills to be levied in a county without a vote of citizens and specifies that the revenue be allocated to the county and its townships and intermediate school districts; prior to Proposal A (1994), the K–12 districts also received a share. The allocation is made either by the county tax allocation board (state statute establishes the board’s composition) or by county voters, who may reconfigure the millage allocation for up to 20 years. County voters also may raise the 15-mill limit to 18 mills. With adoption of Proposal A, the portion that had been allocated to K–12 school districts was removed from the allocation process and permanently assigned to K–12 districts.

*Extra-voted* millage is additional taxation approved by voters, usually for a specific purpose. For example, all 83 Michigan counties levy extra-voted millage to enable them to support selected services.

#### Operating Millage

Another Proposal A provision that affects local government is the prohibition on millage *roll-ups* (increases). The so-called Headlee amendment (1978) to the state constitution requires a local unit to *roll back* (reduce) its authorized millage rate if an annual increase in the jurisdiction’s state equalized value (SEV), excluding new construction, exceeds the increase in the consumer price index (CPI). Before Proposal A, if a unit’s SEV increase was *less* than the CPI, the unit could recapture a portion of the millage that had been rolled back in previous years. Proposal A prohibits such roll-ups; thus, once a millage is reduced through a roll-back, that rate becomes the unit’s “authorized millage rate.” Over time, local units that depend on property taxes are seeing their authorized millage rate slowly decline. The only way for a unit to reestablish its original authorized rate is to ask voters to approve the necessary millage, and locals are reluctant to do this, especially for general operations.

With the exception of cities, the average millage rate for the various units of general purpose governments has increased, principally due to extra-voted millage. Exhibit 2 presents the average millage rates for 1986 and 1996; the *total* is the combined rate (all millage) paid by a property owner. The effect of the 1994 school-finance reform legislation is evident in the difference between the total millage rate in 1986 and that in 1996: the total rate dropped from about 55 to 39 mills—roughly 29 percent. The fact that three of the four types of general purpose governments have exhibited an increase is not counter to the above discussion on millage rollbacks, because the increases are due to units requesting extra-voted millage for specific purposes (e.g., senior citizens, roads), which helps them to make up for erosion in their authorized tax base.

An example of the effect of millage rollbacks concerns county government. Counties receive allocated mill-

**EXHIBIT 2. Average Millage Rate, Michigan General Purpose Governments, 1986 and 1996**

Unit of Government	1986	1996
Counties	6.17	6.36
Townships	3.18	3.74
Cities	16.52	16.07
Villages	12.31	12.55
TOTAL average	55.12	39.32

SOURCE: State Tax Commission annual reports.

age, and, to enable them to support selected services, all 83 also levy extra-voted millage. In 1986, for operations, counties were averaging nearly 5.3 mills in allocated millage and an additional 0.8 mills in extra-voted millage (totaling 6.1); for debt service, an average of an additional 0.034 mills was levied. By 1996, after Proposal A, the average allocated rate of counties was down to nearly 5.0 mills and the extra-voted rate was up to 1.4 mills (totaling 6.4). The reduction in the allocated rate from 5.3 to 5.0 principally is due to Headlee amendment roll-backs.

*Property Tax Collections*

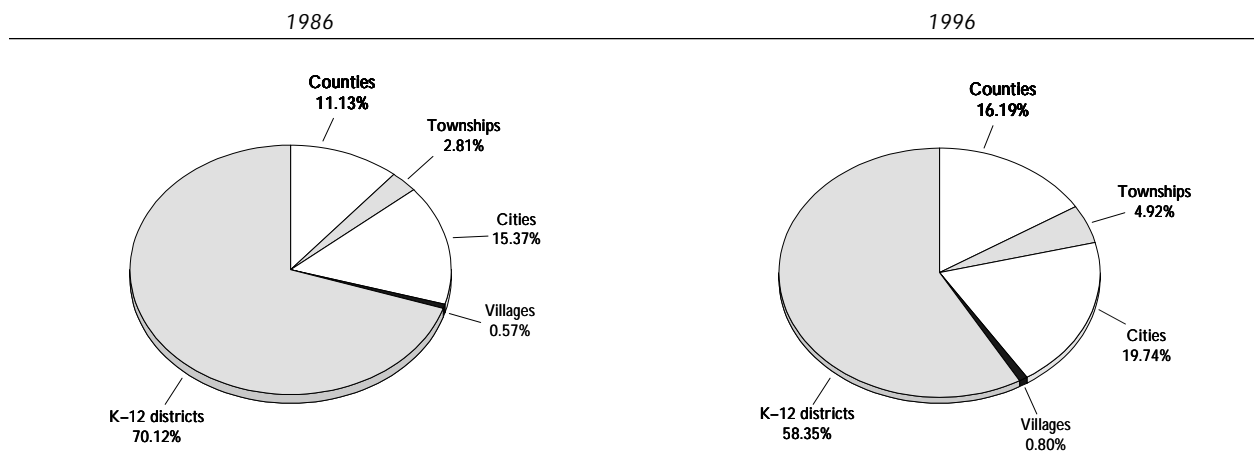
Property tax is an important revenue source for local governments, but the distribution of it as a percentage

of total collections has shifted since Proposal A's passage. Of the \$5.8 billion collected in property tax revenue in 1986, slightly more than 70 percent was directed to K-12 education; the balance, just under 30 percent (approximately \$1.74 billion), was used by local governments. Proposal A substituted mostly sales tax revenue for the property tax revenue formerly used to support K-12 education. Although total property tax collections increased to \$7.5 billion by 1996, as a percentage of total collections, the share used for K-12 education had dropped to roughly 57 percent of the total (includes the state education tax), which means local government now accounts for the use of almost 44 percent of total property tax collections (see Exhibit 3)—an increase of about 12 percent.

**Taxable Value versus State Equalized Value**

Proposal A created a new assessment class for property in Michigan: *taxable value*. The proposal limits individual property assessments to the increase in the consumer price index or 5 percent growth, whichever is less. The limited—or capped—value is a parcel's "taxable value," and this is the base to which millage is applied. Thus, a taxing jurisdiction's property tax revenue growth is limited to the CPI plus the value of property added to the tax roll as new construction. Upon sale or exchange of real property, the property is reassessed (that is, the cap is

**EXHIBIT 3. Property Tax Distribution, by Type of Unit, 1986 and 1996**



SOURCE: State Tax Commission.

removed), generally resulting in a higher assessed value. Local units with an active real estate market will be able to recapture that portion of assessed value that previously was not taxed due to the cap.

Artificially capping/limiting assessment increases has created a difference in taxes paid on similarly valued property in the same taxing jurisdiction; the extent of the difference depends on how often a property is sold. Such tax differences have the potential to create substantial taxpayer dissatisfaction: Tax payments will be different for similarly valued property, regardless of the fact that they require the same level of public services (e.g., roads, sewers, public safety). Tax assessors now are required to maintain three sets of values on real property: capped, assessed, and state equalized (the state equalized valuation equals 50 percent of market value). Contrary to popular belief, Proposal A increased rather than reduced the complexity and burden of property tax assessing.

### State Revenue Sharing

State government shares some of its tax revenue with local general purpose units of government. In Michigan, revenue sharing is *unrestricted*—that is, there are no strings attached; local governments may use it as they see fit. Revenue sharing in Michigan has evolved for principally three reasons.

- Local governments are deemed “agents of the state”—that is, they carry out functions and responsibilities on state government’s behalf.
- There are tax-collection efficiencies involved. It is more efficient for the state to collect and share sales tax revenue with locals than it would be to have each unit collect the sales tax at the point of sale.
- It compensates for instances in which the state has usurped local taxing authority. For example, when the single business tax was adopted (1975), local governments lost property tax revenue derived from business inventory. In recognition of the tax change, the state provides an inventory-replacement payment to local governments through the state revenue-sharing program.

Until recently, when P.A. 342 of 1996 amended the state revenue-sharing program, local governments had received a portion of revenue from four taxes levied by the state: sales, income, intangibles, and single business. These funds were distributed to cities, villages, and townships in two ways: *per capita* and *relative tax effort (RTE)*. Per capita distribution is straightforward: High-population units (e.g., Oakland County) receive more than low-population units (e.g., Montmorency County). Relative tax effort rewards units according to how their taxation level stacks up against the state average: high-tax units receive more than low-tax units.

The 1996 amendment to the State Revenue Sharing Act froze RTE payments at the FY 1996–97 level and will retire them completely at the end of the current fiscal year (1997–98). The amendment also removed income, intangibles, and single business tax revenue from the revenue-sharing pool and offset the revenue loss with distribution from sales tax collections. All future growth in the share of the sales tax that goes into the revenue-sharing program will be distributed on a per capita basis unless a new formula is devised. (The distribution formula may be changed: The new law also requires a joint Senate/House Revenue Sharing Task Force to come up with a new distribution formula, but it has not yet completed its task.)

The switch from RTE to completely per capita distribution creates winners and losers. Winners are units of government with large and rapidly expanding population; losers are units with slow-growing or declining population. Among the winners will be townships that are being suburbanized; among the losers will be older central cities.

For counties, state revenue sharing is the source of 8–10 percent of general fund revenue, but for townships it can be as high as 70 percent. Thus, when state policymakers are considering revenue-sharing changes, they will find it essential to define the program’s objectives and consider the consequences the various distribution methods will have on the various types of local government.

## Devolution

“Devolution” refers to transferring or passing down responsibility from one government level to another. The nation’s governors have lobbied Congress for authority to manage certain programs (e.g., welfare, transportation, environmental enforcement). Although the concept of devolution is receiving considerable attention, only a few programs actually have devolved from the federal to the state level or the state to the local level.

Among the programs that in part have been transferred to state responsibility, the most notable are social services. And in some instances, the state in turn has passed programmatic administration to counties or groups of counties. The block welfare-grant concept has resulted in establishing “multi-community collaboration councils” at the county level; the councils provide policy oversight for administration of myriad social service programs.

Devolution also may occur from state to local government. Townships have been lobbying state officials to directly allocate to townships their share of state transportation monies, a modification of the current policy by which transportation monies are directed to cities, villages, and counties, and the latter share them with townships; legislation has been proposed to accomplish this.

## INTERGOVERNMENTAL COOPERATION AND CONSOLIDATION

### Cooperation

The Michigan Legislature has enacted several statutes that permit intergovernmental cooperation. Basically, any local governments authorized to engage in a given activity or provide a given service may do so collaboratively. Numerous examples of intergovernmental contracting and cooperation may be found, ranging from joint fire departments to sewer/water authorities organized by multiple local units. Intergovernmental collaboration usually arises from locals’ wish to reduce costs through specialization or take advantage of economies of scale in producing and providing services.

## Consolidation

There are three types of consolidation: functional, geographical, and political.

- *Functional* consolidation is service specific—for example, consolidating fire, police, or emergency service departments. Across the state there are numerous instances of functional consolidation.
- *Geographical* consolidation is embodied in the wave of school consolidations that occurred from the 1930s to the 1960s, when Michigan reduced the number of public school districts from 6,200 to the present 559. Geographical consolidation ignores political or jurisdictional boundaries and focuses on a service area, in this case the reasonable geographic boundary of a school district.
- *Political* consolidation entails merging two “bodies corporate” into one political jurisdiction. This occurs rarely: In Michigan, the last one was in 1837. (Battle Creek Township and the City of Battle Creek merged in the early 1980s, but this was accomplished through total annexation, not consolidation, although the end result is the same.)

## FOR ADDITIONAL INFORMATION

“A Review of the Effects of Home Rule on Wayne County Government,” Report No. 286, Citizens Research Council of Michigan, 38200 West Ten Mile Rd., Suite 200, Farmington Hills, Mich. 48335, September 1987.

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