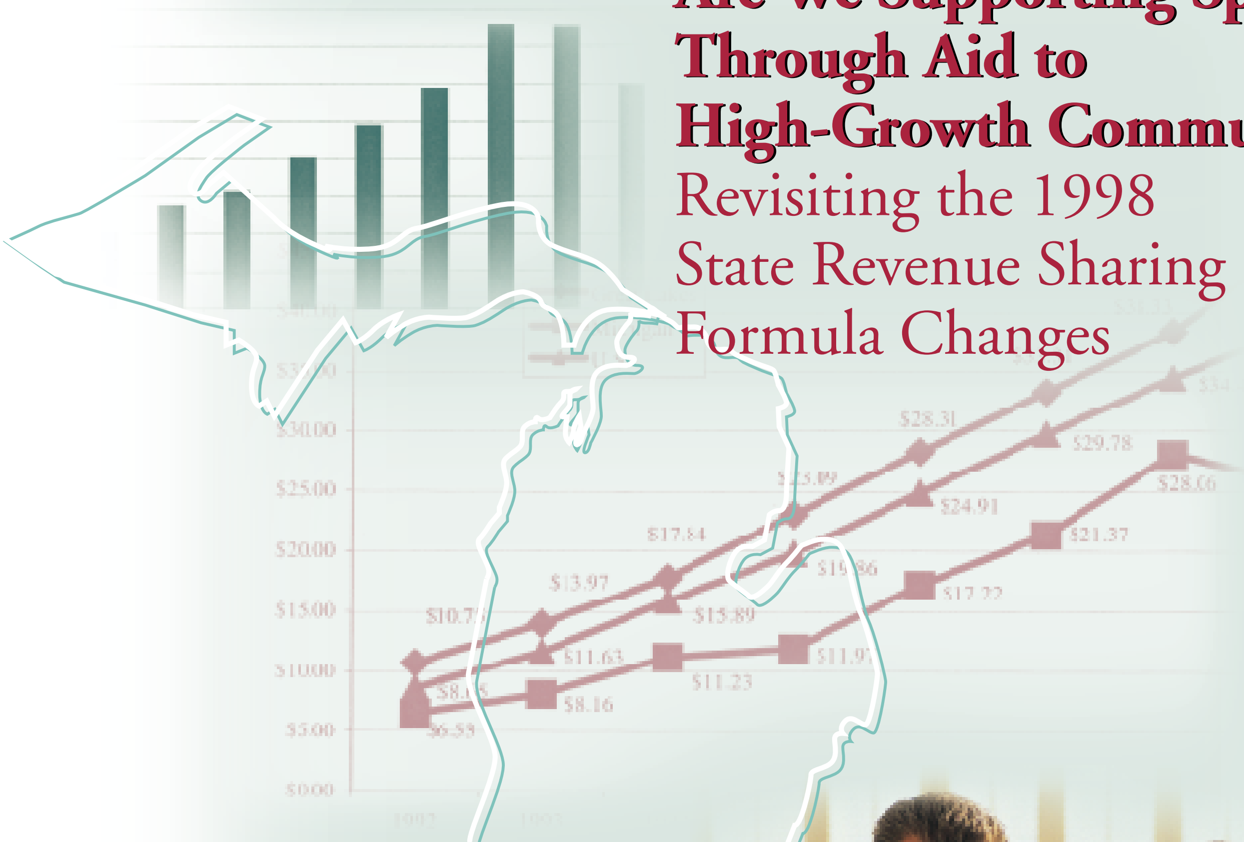
Informing the Debate

Urban Economic and Fiscal Concerns



Are We Supporting Sprawl Through Aid to High-Growth Communities?

Revisiting the 1998 State Revenue Sharing Formula Changes

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About this Series

Michigan State University's Urban Affairs Programs and the Institute for Public Policy and Social Research (IPPSR) convened a diverse group of 70 people from campus, business and the policy-making community in a two-day discussion to identify imminent issues and research needs pertaining to Michigan's urban areas. Held December 2-3, 2001 at Brook Lodge in Augusta, Michigan, the meeting engaged faculty, student scholars and practitioners. Together, they specified three broad areas of notable impact on urban centers, pinpointing particular issues that will most likely face community leaders and the legislature in the next year.

These areas are:

- Urban Housing and Land Development,
- Urban Economic and Fiscal Concerns, and
- Race, Urban Inequality and Social Justice.

The December urban discussion initiated problem-solving relationships among people representing a broad spectrum of disciplines, increasing awareness of differing perspectives on urban problems. Probable suggestions for how the group might continue working together to conduct research and analysis and assist policy leaders' decision-making were generated. The attendees called for support of urban-related activities among research faculty, student scholars, and off-campus practitioners. Since December 2001, contributors to this initiative have been referred to as the **Urban Research Interest Group**. There is an on-going effort to further develop and sustain this group.

Follow-up to December's meeting included a Lansing-held January 2002 luncheon policy forum featuring results from IPPSR's State of the State Survey of citizens' perspectives on urban problems. A panel presentation included State Representatives Ruth Johnson and Alexander Lipsey, as well as university faculty members Dozier Thornton, Acting Dean of Urban Affairs; Carol Weissert, IPPSR Director; and faculty researchers, Roger Hamlin (economic growth), Rex Lamore (urban sprawl), and Richard Hula (brownfield development). The forum was recorded by Michigan Government Television for replay on the statewide cable channel and remains available on videotape. It was webcast live through a partnership agreement with the College of Social Science, Dean's Office. Viewers were invited to call in questions and comments. Survey results were posted and remain on the IPPSR website for remote viewing and printing.

Another exciting outcome of this urban-focused initiative is the production of eight policy briefs, **INFORMING THE DEBATE: POLICY BRIEFS ON URBAN ISSUES**, addressing issues and policy implications related to the aforementioned areas of concern. In the context of these briefings, faculty authors identify main concerns of citizens residing in urban areas and inform policy leaders of various approaches to those concerns. In the winter of 2002, these papers will be published as a book and include an explanation of the problem, its history and innovative policy approaches to initiating positive change in urban centers. The book publication is being coordinated through MSU Press and will be available to the scholarly community and professional stakeholders.

Sponsors

This initiative has been supported by the Institute for Public Policy and Social Research (IPPSR), MSU Urban Affairs Program (UAP), and is partly made possible through the Applied Public Policy Research Program Grants allocated by the State of Michigan to develop expertise for Michigan's policymaking community. MSU's Provost, Vice President for Research and Graduate Studies, Dean of the College of Social Science and the Center for Global Change and Earth Observations at Michigan State University generously contributed to this initiative. Additional copies of the briefs are available online at http://www.ippsr.msu.edu/PPIE.

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Executive Summary[1]

In December 1998, the Michigan Legislature changed the statutory formula for distributing state revenue among cities, villages, townships and counties. At the time the changes were enacted, townships and west Michigan were projected to gain revenue at the expense of cities and southeast Michigan. This paper asks a different question concerning the 1998 changes; namely, are fast growing communities benefiting at the expense of Michigan's slow-growth central cities and inner ring suburbs? The authors compare actual revenue sharing payments from 2001 for these two groups with payments that would have been made under the pre-1998 formula, and projected payments that would have been made in 2001 had the formulas been fully implemented. We also examine the effects of the "Detroit exclusion" on the overall revenue sharing system and how the results change for communities if Detroit was included in the current formula calculation. We conclude that the 1998 formula changes do provide greater benefits to the rapidly growing suburban communities than what they would have received under the pre-1998 formula. Suburban townships fared the best of all under the formula changes. Growth of these areas generally involves new residential developments and loss of farmland — key elements in urban sprawl.

In Michigan, Fiscal Year 1999-2000 saw 61.4 percent of state-generated revenue transferred to local units of government — among the highest percentages in the country.

Overview of Issues in Michigan

Every state shares revenue in some fashion with its local governments. This revenue is often in the form of targeted funding for specific services or programs (such as state funding of K-12 education, transportation infrastructure, and community mental health services) as well as unrestricted revenues to localities (funds localities can use for their own priorities) based on a predetermined formula. Nationally, an average of more than one-third of states' spending goes to local units of government in the form of targeted and unrestricted revenue sharing. Reasons generally given for the distribution of state-collected revenues to local governments include:

- taking advantage of the economies and efficiencies of centralized collections of revenues at the state level;
- compensating local governments for taxes that have been moved to the state level;
- equalizing local revenues on some basis other than the point of collections and;
- compensating local jurisdictions for the spillover effects of services they provide that benefit larger regions or the state as a whole (Peterson 2000).

[1] The authors wish to express thanks to Scott Loveridge and Lynn Harvey for their reviews of the text; Tom Clay for sharing his dataset, spreadsheet and valuable advice; and Denys Nizalow for creating the maps.

In Michigan, as in other states, the outer-ring suburbs and exurbs continue to grow as the population of cities and inner-ring suburbs declines. Since these territories, by and large, fall under the jurisdiction of townships in Michigan, this means that townships are capturing the "lion's share" of population growth.

In Michigan, Fiscal Year 1999-2000 saw 61.4 percent of state-generated revenue transferred to local units of government —among the highest percentages in the country. Of the $14.4 billion distributed by the state to local governments, $1.4 billion was in the form of unrestricted revenue sharing (Ryan 2000).

A recent study of unrestricted revenue sharing in New York, California, and Wisconsin found that those states' policies tend to favor faster-growing suburban communities, rather than serving to compensate central cities for slower rates of growth in fiscal capacity. The study found that on a per capita basis, state intergovernmental aid in these states increased more rapidly in faster growing and wealthier suburbs than in central cities (Chernick 2001). This policy brief examines the distribution of unrestricted revenue sharing in Michigan; specifically, whether the trends reported by Chernick in New York, California and Wisconsin are also occurring in Michigan.

The formula used to distribute a significant portion of Michigan's unrestricted revenue sharing was changed in December 1998. As is the case with any change in revenue/expenditure-related public policy, the change in the revenue-sharing formula created winners and losers. During the debate that took place in Lansing, the common perception was that the winners under the new formula would be Michigan's townships and the growing communities of western Michigan. The losers were projected to be the cities, naturally affecting southeast Michigan the most. In a research report published in September 2000, Citizens Research Council of Michigan (CRC) found the common perception to be generally, although not uniformly, true. Townships and villages generally gained in share of statutorily defined payments as cities lost share. West Michigan, mid-Michigan and the I-75 corridor had more winners than losers, while the reverse was true for the six-county area surrounding and including metropolitan Detroit (Citizens Research Council of Michigan 2000). There were, however, many notable exceptions to these general observations. The interplay between the components of the new formula makes it difficult to generalize its effects in simple township versus city or east versus west terms.

In this paper, we examine the data for variables other than jurisdiction type (i.e. township or city) to forecast formula outcomes. In Michigan, as in other states, the outer-ring suburbs and exurbs continue to grow as the population of cities and inner-ring suburbs declines. Since these territories, by and large, fall under the jurisdiction of townships in Michigan, this means that townships are capturing the "lion's share" of population growth. From 1990 to 2000, the percentage of the state's population living in townships increased from 41 percent to 45 percent. In absolute numbers, township population increased by 666,202 persons over a span of time that saw the state's population as a whole only increase by 643,147. While the "township versus city" debate regarding revenue sharing may have been reflecting an underlying assumption that the growing suburbs, mostly townships, were the winners under the new formula, we analyze this question directly by comparing the revenue sharing outcomes of Michigan's fastest growing communities to its larger central cities.

Michigan's Revenue Sharing Programs[2]

Funding for Michigan's unrestricted revenue sharing program consists of two streams of dedicated tax revenues: a constitutional allocation and a statutory allocation. Michigan's Constitution allocates 15 percent of the four percent gross collections of the state sales tax to unrestricted local revenue sharing. These payments are made strictly on a per capita basis using population counts from the decennial census. In FY 2000-01 the total amount paid to cities, villages and townships under the constitutional allocation was $642.8 million.

The statutory allocation provides that 21.3 percent of the four percent gross collections of the state sales tax go to revenue sharing with local governments. This is further broken down into a county allocation (25.06 percent of the 21.3 percent) and a city/village/township allocation (the remaining 74.94 percent of the 21.3 percent). The statutory allocation in FY 2000-01 was $912.7 million, of which $228.7 million went to counties, with the remaining $684.0 million going to cities, villages and townships. County payments are made on a per capita basis. The city/village/township statutory allocation, which was the subject of the 1998 amendments, is the focus of this paper.

The Pre-1998 Formula

The pre-1998 revenue sharing allocation was calculated using two formulas: a relative tax effort formula (how much the local unit taxed itself) and an inventory reimbursement formula (based on revenue lost when the state eliminated the local business tax in 1975). Box 1 provides more details on each of these elements of the pre-1998 formula and some of the problems with the formula. By the mid-1990s, the criticism of the formulas had built to a point that a legislative task force was given the mission of developing a new method for distributing shared revenues. In late 1998 the legislature approved a new distribution method that incorporated elements recommended by various members of the task force.[3] In addition, the legislature made changes to the source of revenue sharing monies so that now unrestricted revenue sharing is paid entirely from state sales tax collections, instead of from a combination of sales, income, and Single Business Tax funds.

[2] For a detailed discussion of the history of unrestricted revenue sharing in Michigan, see Citizens Research Council of Michigan (2000).
[3] The task force itself could not come to a consensus recommendation. The resulting formula incorporates different elements recommended by various task force members.

Box 1. Details on Elements of the Pre-1998 Formula.

Relative Tax Effort. The relative tax effort formula was a weighted formula factoring local population, local tax effort (property tax millage and local income tax) and the average statewide local tax effort. This formula resulted in revenue sharing payments that generally favored high-taxing jurisdictions. Because of constitutional limitations on the millage that can be levied by general law townships and charter townships, it was consistently characterized as a formula factor favoring cities. Critics argued that the relative tax effort calculation actually encouraged communities to raise millage rates because it would result in more favorable revenue sharing payments.

Inventory Reimbursement. The inventory reimbursement formula used the local unit of government's personal property inventory tax base as it existed in 1975 to calculate revenue sharing payments. It was included as a factor in unrestricted revenue sharing to compensate for the repeal of the inventory tax in 1975, and paid out of Single Business Tax revenues. In FY 1998, nineteen of the twenty-five communities that received inventory reimbursement payments in excess of $30 per capita were cities (Citizens Research Council of Michigan 2000). Expectedly, these were communities with strong manufacturing economies in the 1970s. The obvious flaw in this formula factor was that it bore little relationship to personal property inventories in the mid-1990s. Critics maintained that the need to dedicate revenue sharing monies to replace a tax that was eliminated 20 years ago had long since passed.

The 1998 Formula

The new statutory allocation is based on a set of three formulas. Each formula is used to distribute one-third of the monies payable to cities, villages and townships under the statutory allocation. The per capita taxable value element is intended to help jurisdictions with low tax base. The population-unit type element makes adjustment for type of unit (city, township or village) and size of population — helping larger and more complex operations. The yield equalization element provides greater assistance to units with lower taxing capacity and higher tax effort. Box 2 provides more details on each of these elements.

Three other factors are critical to understanding statutory revenue sharing, as it exists today. First, the new formulas phase in over a period of ten years, at the rate of ten percent per year. Thus, in FY 2001, 30 percent of statutory revenue sharing was distributed under the new formulas, while 70 percent was still based on the old formula. The 10-year phase-in was designed to cushion the blow to communities who will see a significant drop in payments under the new formulas.

Box 2. Details on Three Formulas of the New System.

The Per Capita Taxable Value formula compares the statewide average taxable value (TV) per capita to the TV per capita for the individual unit. A unit with TV per capita below the state average receives a weight (computed as a ratio) greater than 1, while a unit above the state average receives a weight less than 1. The payment is computed as (Per Capita Taxable Value ratio times the unit's population). The objective is to provide greater revenue sharing to those units with less ability to raise revenue through local property taxes.

The Population-Unit Type formula uses a weighting scheme based on unit type (i.e. city, village or township) and unit population to distribute funds. The concept is that, on average, the greater the population of a local government unit and the more complex the system of services it provides (cities presumably more complex than villages; villages more complex than townships) the greater its needs will be. The Population-Unit Type weighting scheme is provided in Appendix 1. The payment is computed as (Weight Factor times the total unit population).

Under the Yield Equalization formula, a "guaranteed" tax base (local tax collections plus state revenue sharing payment per mill of local tax effort) is assured to each municipality. The guarantee amount is expressed in terms of a taxable value per capita ($22,317 in 2001) that would pay out the entire amount of statutory revenue sharing. The Yield Equalization formula is designed to offset variances in taxable property wealth among local units by providing greater assistance to units with lower taxing capacity and higher tax effort. The payment is computed as (local tax effort in mills times [guarantee TV per capita minus actual TV per capita] times unit population). Thus, local units having a taxable value per capita greater than the guarantee amount do not receive yield equalization payments.

Second, the city of Detroit was excluded from application of the new formulas in exchange for a freezing of combined annual constitutional and statutory payments at $333.9 million until FY 2006. As a part of this arrangement the city agreed to lower its personal income tax rates over a ten-year period. Finally, the year-to-year increase in total statutory revenue sharing payments for any individual community is capped at 8 percent. Thus, if City A receives $10,000 in statutory payments in FY 2001 then the maximum statutory payment it can receive in FY 2002 will be $10,800. If the formulas would have generated an increase greater than eight percent then the excess is distributed in a way that creates a minimum payment "floor" for other communities. An important exception exists, however, for communities that experienced population growth of 10 percent or greater between 1990 and 2000. For these communities, neither the eight percent cap nor the minimum payment floor is applied. Thus, while allocations to jurisdictions with moderate growth (between eight and 10 percent) are constrained because of the cap and floor, allocations to jurisdictions with large growth (10 percent and over) are not constrained.

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The new formula sunsets in 2007, at which time the entire statutory revenue sharing system will be revisited by the legislature. This means that the new formula actually expires at the conclusion of the 10-year phase-in period. Undoubtedly the debates over revenue sharing that will take place in the period leading up to 2007 will use the existing formula as the point of departure.

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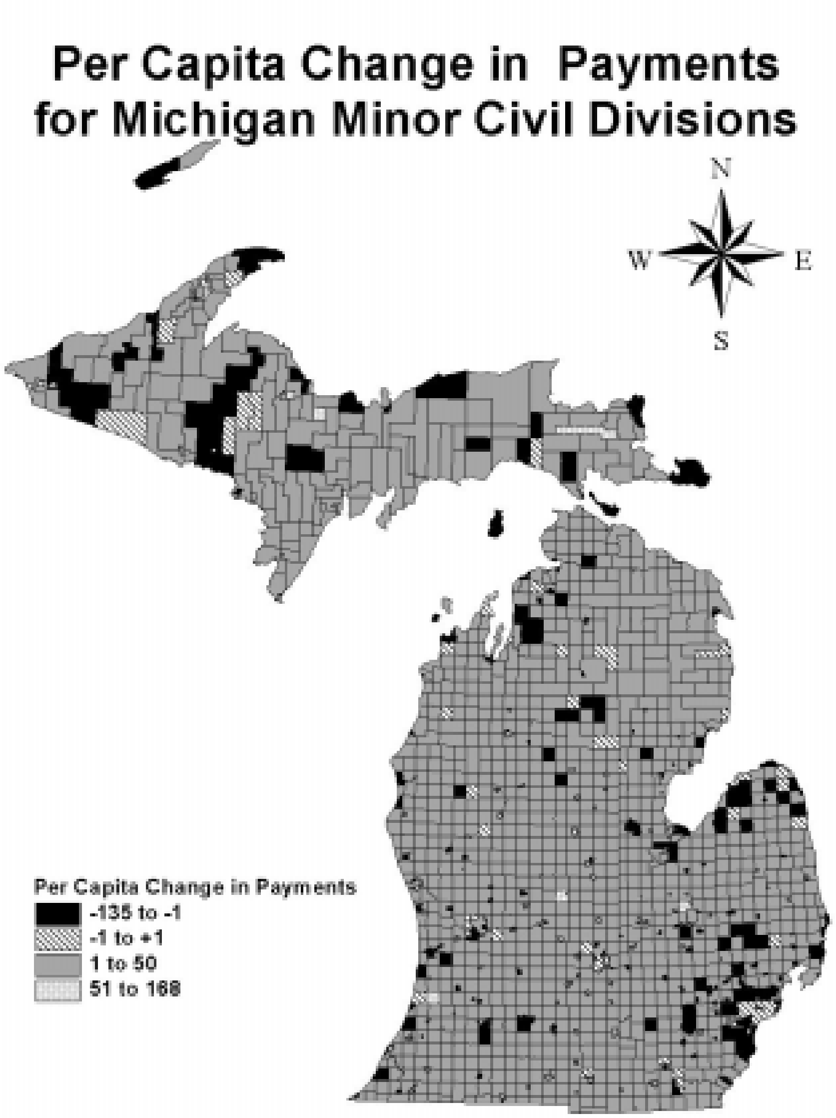
Impact of the 1998 Change

With this background, the authors set out to determine whether the new revenue sharing formulas, when compared to the old formula, benefit fast-growing communities at the expense of the slower growing (indeed, in many cases declining) central cities. Using the revenue sharing calculator model created by Thomas Clay at Citizens Research Council, data from the 1990 and 2000 censuses, and the actual sales tax proceeds and statutory revenue sharing payments for fiscal year 2001, calculations were performed that compared:

- actual revenue sharing payments made to communities in 2001 (the third year of the phase-in period);
- payments that would have been made in 2001 if the pre-1998 formula were still in place; and,
- payments that would have been made in 2001 if the new formula were fully implemented (i.e. if there were no phase-in period in place).

Importantly, 2001 saw a significant decline in sales tax revenues. It was thought that significant year-to-year declines in payments to communities would be avoided if the sales tax revenues continued to grow at about four percent per year (Citizens Research Council of Michigan 2000). FY 2001 thus gives us an opportunity to examine the formula outcomes under weaker economic conditions.

Figure 1. Per Capita Change in Payments for Michigan Minor Civil Divisions.

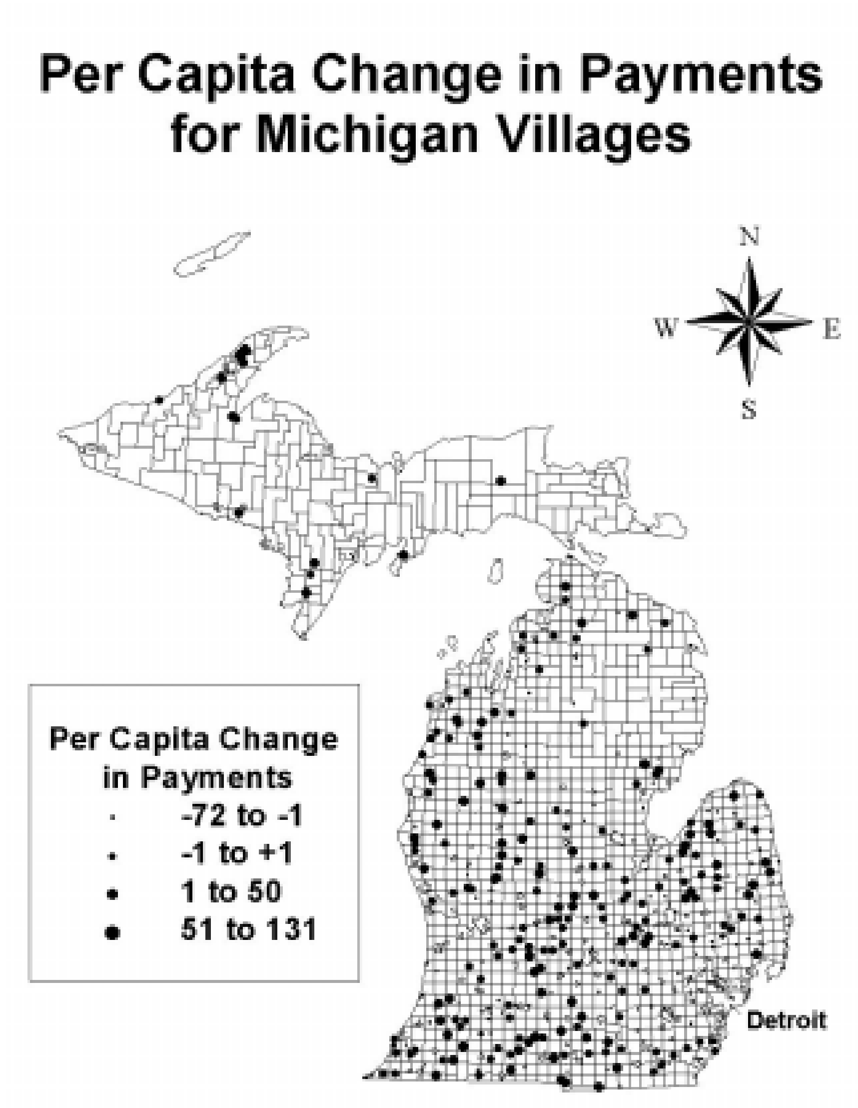


The largest losses seem to be concentrated in the large cities and older suburbs of southern Michigan.

We first calculated the per capita gain/loss for every township, city and village in Michigan. Figure 1 illustrates the per capita difference in payment (in dollars) for townships and cities using the pre-1998 formula and the payments that would have been made in 2001 had the formula been fully implemented. It is clear that a large majority of the state's townships and cities would gain additional payments under the fully implemented new formula. However, there would be some losers as well. The largest losses seem to be concentrated in the large cities and older suburbs of southern Michigan. A cluster of townships in the tip of the thumb region and a number of townships in the western Upper Peninsula are also losers. Figure 2 shows the same comparison for Michigan villages — only a few villages would come out worse under the fully implemented new formula.

Detroit's revenue sharing payments are frozen at $333.9 million under the current revenue sharing system.

Figure 2. Per Capita Change in Payments for Michigan Villages.

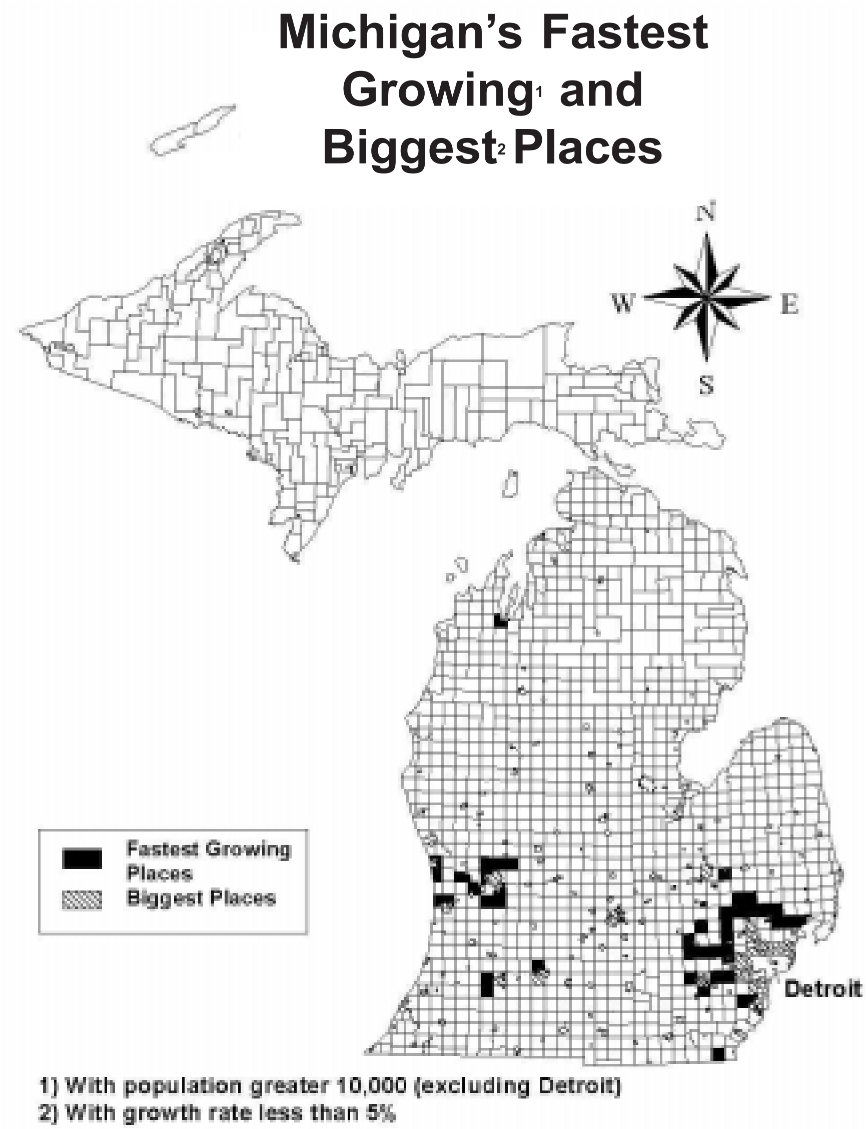


Michigan's Fifty Fastest-Growing Communities

To further analyze the impacts of the new law on growing communities, we compared the 50 fastest-growing Michigan communities with a population greater than 10,000 (42 townships, eight cities) to the 20 largest Michigan communities with growth rates of five percent or less (18 cities, two townships).[4] Figure 3 shows the location in the state of these 70 communities. We excluded Detroit from this analysis because Detroit's revenue sharing payments are frozen at $333.9 million under the current revenue sharing system.

[4]The authors chose to include 50 communities in the first subset because it captured the largest communities with growth rates in excess of 20 percent. While the selection criteria for the second subset was admittedly more arbitrary (20 largest communities with growth rates of 5 percent or less) we believed it would essentially capture Michigan's major central cities and suburbs. Figure 3 largely substantiates this belief.

Figure 3. Michigan's Fastest Growing and Biggest Places.



Twenty-two of the 50 fastest growing communities received larger revenue sharing payments in 2001 than they would have received under the old formula.

Comparing the payments to the 50 fastest growing communities that would have been made under the pre-1998 formula to actual 2001 payments shows mixed results (Appendix 2 — 2nd column from right — provides percentage differences). Twenty-two of the fifty fastest growing communities received larger revenue sharing payments in 2001 than they would have received under the old formula (Table 1). Two townships — Gaines and Bedford — received payments well over 100 percent more than they would have received under the pre-1998 formula. The range among the "winners" was from 186 percent (Gaines Township, Kent County) to a mere fraction of a percent gain for Superior Township in Washtenaw County. Ten of the 22 "winners" are from Kent and Ottawa counties.

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However, nine are from southeast Michigan (Genesee, Oakland, Livingston, Wayne and Washtenaw counties). The commonalities for these communities is that they are all in suburban or "exurban" areas, and they are all townships.

Table 1. Fastest-Growing Communities Benefiting in 2001 Actual Payments from New Formula.

Township	County	% Difference pre-1998 formula v. actual 2001 payments
Gaines	Kent	185.88
Bedford	Monroe	114.81
Georgetown	Ottawa	93.46
Allendale	Ottawa	76.89
Plainfield	Kent	66.29
Alpine	Kent	63.55
Byron	Kent	58.30
Spring Lake	Ottawa	42.09
Grand Rapids	Kent	41.12
Genoa	Livingston	35.78
Commerce	Oakland	35.65
Oxford	Oakland	35.49
Huron	Wayne	29.44
Davison	Genesee	27.80
Texas	Kalamazoo	23.34
Cannon	Kent	23.29
Hamburg	Livingston	17.45
Fenton	Genesee	16.67
Garfield	Grand Traverse	9.69
Scio	Washtenaw	8.18
Park	Ottawa	7.32
Superior	Washtenaw	.11

Despite the fact that there were slightly more "losers" than "winners" in 2001, of the 50 fastest growing communities, the average of all payments made to these communities was 10 percent larger than it would have been under the pre-1998 formula, showing those communities included in this subset that are benefiting from the new formula received significantly larger payments. It is interesting to note that none of the eight cities included in the fastest growing communities were winners under the formula as it was used in 2001.

The delineation between winners and losers would have been more profound had the current formula been fully implemented in 2001. Thirty-seven of the fifty communities would have received larger payments in 2001 than they would have received under the pre-1998 formula (see far right column in Appendix 2). Townships accounted for 35 of the 37 winners using this comparison. Six of the eight cities included in the fifty communities would have still lost revenue sharing monies compared to the pre-1998 allocation if the new formula had been fully implemented in 2001. The average payment to the 50 fastest growing communities assuming full implementation in 2001 was over 69 percent larger than it would have been using the old formula. The differences range from a 585.69 percent larger payment (Gaines Township, Kent County) to a 58.89 percent smaller payment (City of Rochester)—a much larger variation than when the actual 2001 payments are compared to the pre-1998 formula.

Overall, the 20 largest communities saw an increase of only 1.72 percent in actual payments compared to what they would have received under the pre-1998 formula.

Michigan's Twenty Largest Communities

We now examine the effects of the change for the 20 largest communities with growth rates under five percent (again, excluding Detroit). The results of the comparisons using actual 2001 payments are again mixed — eight winners, 12 losers (second column from right on Appendix 3). Table 2 shows that the eight "winners" include six cities and two townships. The range for the winners is relatively small—ranging from 17.6 percent increase for East Lansing to less than one percent for St. Clair Shores. Overall, the 20 largest communities saw an average increase of only 1.72 percent in actual payments compared to what they would have received under the pre-1998 formula (compared to an average increase of 10.1 percent for the 50 fastest growing communities).

Table 2. Largest Communities Benefiting in 2001 Actual Payments from New Formula.

Township	County	% Difference pre-1998 formula v. actual 2001 payments
East Lansing	Ingham	17.56
Flint	Genesee	14.43
Royal Oak	Oakland	13.20
Saginaw	Saginaw	11.25
Bloomfield	Oakland	5.46
Westland	Wayne	4.59
Redford	Wayne	1.21
St. Clair Shores	Macomb	.85

The total per capita payment average for the largest communities is still double that of the fastest growing jurisdictions.

Michigan's 20 largest communities would have been hurt more in 2001 if the formula had been fully implemented (far right column on Appendix 3). Only five communities would have seen larger revenue sharing payments in 2001, had the formula been fully implemented, then they would have received using the pre-1998 formula. Four cities would have been winners, compared to fourteen losers. The average payment would have been over 14 percent smaller using these comparisons. The differences range from a 61.27 percent larger payment (City of East Lansing) to a 47.57 percent smaller payment (City of Warren).

However, different cities see differing effects. For example, Grand Rapids would have received more revenue sharing in 2001 using the 1998 formula, but if the formula had been fully implemented in 2001, they would have received more money. Specifically, the city's actual payment in 2001 was $14.2 million; Grand Rapids would have received $15.8 million under the old formula, but it would have received $18.6 million if the new formula was fully implemented. Flint received more revenue sharing money in 2001 payments ($16 million) than it would have under the pre-1998 formula or the current formula fully implemented. Appendix 3 illustrates the complexity of policymaking in this area where patterns of growth and wealth in individual cities play a pivotal role in who wins and who loses.

Table 3 analyzes the differences using per capita, rather than actual, payments. The payment amounts calculated for each community were divided by 2000 census population figures. The average increase for all of the 50 fastest-growing communities would have been $13 per capita, compared to essentially no increase per capita for the 20 largest jurisdictions. While this difference is striking, it is worth noting that the total per capita payment average for the largest communities is still double that of the fastest growing jurisdictions.

Table 3. Change in Per Capita Payments: 50 Fastest Growing and 20 Largest Communities.

	Per capita payment in 2001 using pre-1998 formula	Per capita payment in 2001 if current formula fully implemented	Difference ($) per capita	Difference (%) per capita
50 Fastest	23.60	36.60	13.0	55.1
20 Largest	78.62	78.82	0.20	0.25

In short, Michigan's fastest growing communities clearly benefit from the 1998 change in the statutory revenue sharing formula. With their actual 2001 payments, these communities saw a mean 10 percent increase over what they would have received under the old revenue sharing formula. If the new formula had been fully implemented, however, the mean increase in 2001 allocations to the fastest-growing communities would have jumped to nearly 70 percent. That these fast-growing communities benefit most dramatically if the 1998 law had been fully implemented in 2001 leads us to conclude that they will continue to benefit as the formula phases in over the next few years.

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Formula Components and Inclusion of Detroit

Table 4 breaks down the new formula into its three component parts to determine which communities will benefit from each when the current formula is fully implemented. As this table illustrates, it is clear that the Population-Unit Type and Per Capita Taxable Value components account for the lion's share of the increase to the fastest growing communities. Although the Yield Equalization formula is designed to provide greater assistance to units with lower taxing capacity and higher tax effort, it does not appear to be sufficient to offset the losses to the largest communities brought about by the elimination of the use of relative tax effort as a component of the revenue sharing formula. Fourteen of the twenty largest communities receive revenue sharing monies as a result of the inclusion of Yield Equalization as a component of the revenue sharing formula, while only twelve of the fifty fastest-growing communities receive monies under Yield Equalization.

Table 4. Composition of Payments: 50 Fastest Growing and 20 Largest Communities.

Makeup of current component payments as a percentage of total payment if formula fully implemented in 2001			
	Population-Unit Type Componenent	**Per Capita Taxable Value Component**	**Yield Equalization Component**
50 Fastest	50.80	44.93	4.26
20 Largest	44.22	24.98	30.80

Regardless of the legislature's efforts to sow the middle ground, it is clear that the resulting formula, when compared to the pre-1998 formula, provided much greater benefits to the rapidly growing suburban communities than to the state's slower growing central cities.

Finally, we calculated the revenue sharing payment outcomes of the 50 fastest-growing communities, the 20 largest communities and the City of Detroit if Detroit were included in the revenue sharing system. This analysis could prove instructive as the debate begins anew over revenue sharing in the period leading up to 2007 (See Appendix 4 and Appendix 5).

Recall that Detroit's combined constitutional and statutory payments are frozen at $333.9 million through FY 2006.[5] Since Detroit's 2001 constitutional payment amounted to roughly $61.6 million, this means that $272.3 million was taken from the statutory shared revenue pool to meet the obligation to the state's largest city. Appendices 4 and 5 show that in the lean economic times of 2001, Detroit's guaranteed payment would have taken significant revenues away from other jurisdictions had the formula been fully implemented.[6] For example, the guaranteed payment to Detroit would have reduced the revenue sharing pool such that Grand Rapids would have shown a 17.8 percent increase, when compared to the old formula, rather than the 39.7 percent increase it would have shown if Detroit were included in the formula mix.

Policy Options

The Revenue Sharing Task Force faced numerous conflicting objectives as they worked to overhaul Michigan's statutory revenue sharing system (Duprey and Harvey 1998). Should Michigan's general revenue sharing system emphasize:

- support for communities with declining fiscal capacity;
- compensation for the increasing demand for municipal services that accompanies rapid population growth;
- assistance to larger communities with more complex service delivery demands, regardless of growth rates; or
- help for those who "help themselves" by tying payments to local tax effort or, conversely, penalize jurisdictions with high local taxes?

In the end, the legislature chose a compromise position by developing a three-part formula that serves as a partial response to one or more of these conflicting objectives.

Regardless of the legislature's efforts to sow the middle ground, it is clear that the resulting formula, when compared to the pre-1998 formula, provided much greater benefits to the rapidly growing suburban communities than to the state's slower growing central cities. Our analysis shows that the rapidly growing suburban *townships* fared the best of all, with only two of the 37 rapidly growing townships losing funds when compared to the old formula. Replacing relative tax effort with formulas supporting a more diffuse set of objectives (all of which incorporate population figures in some fashion) has served these communities well. Since these growing

[5] Detroit's payment freeze will expire just prior to the sunset of the current statutory formula system.

[6] It is difficult to assess Detroit's outcome under this scenario since the city agreed to a reduction of a number of local taxes in exchange for the guaranteed payment. Certainly in terms of revenue sharing in 2001 Detroit's bargain resulted in a better outcome than what they would have received if the formula had been fully implemented; however, it would be misleading to focus solely on these outcomes because all of these factors were in play politically prior to reaching compromise.

suburban communities usually lose productive farmland as residential areas are developed, it can be argued that the change in the formula further supports land use policies that encourage sprawl.

Policy Recommendations

Is this outcome fair? This policy brief does not suggest a response. If revenue sharing dollars per capita is used as a measure of fairness the argument can be advanced that Michigan's largest cities still receive significantly more revenue sharing monies per capita than do the 50 fastest growing communities in our study. An examination of Figure 1 further shows that, for the vast majority of jurisdictions, statutory revenue sharing per capita would not have changed significantly in 2001 regardless of the formula employed. If fairness means distributing revenue sharing to those communities faced with continued population stagnation or decline (usually reflective of economic decline) then the new formula falls short. Proponents of this position could say that the constitutional portion of revenue sharing gives sufficient weight to per capita measures of fairness, and that statutory revenue sharing should be used to address other needs. Perhaps the crafting of a three-part formula is a testament to the legislature's ability to forge compromise — a compromise that gives all sides in the debate something to simultaneously argue for *and* against. Our intention is not to take sides in the debate but to highlight the consequences of the formula change — a consequence that seems to benefit growing areas, disadvantage largest communities and support urban sprawl and loss of farmland surrounding suburbs-another major issue for legislative consideration in 2007 or earlier.

If revenue sharing dollars per capita is used as a measure of fairness the argument can be advanced that Michigan's largest cities still receive significantly more revenue sharing monies per capita than do the 50 fastest growing communities in our study.

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Appendices

Appendix 1: Population-Unit Type Weighting Factors			
Population	Weight Factor Cities	Weight Factor Villages	Weight Factor Townships
5,000 or less	2.50	1.50	1.00
5,001 to 10,000	3.00	1.80	1.20
10,001 to 20,000	3.60	2.16	1.44 (1)
20,001 to 40,000	4.32	(2)	4.32
40,001 to 80,000	5.18		5.18
80,001 to 160,000	6.22		6.22
160,001 to 320,000	7.46		(3)
320,001 to 640,000	8.96		
640,001 or greater	10.75		
(1) A township with a population of 10,000 or more that provides fire and police services on a 24-hour basis and water and sewer to 50 percent of its residents receives city weight factors			
(2) No Michigan villages have a population greater than 20,000			
(3) No Michigan townships have a population greater than 160,000			

Appendix 2: Characteristics of 50 Fastest Growing Communities									
Community	Twp or City	County	2000 Population	% Population Change 1990-2000	Actual 2001 Payments	2001 Payments Using pre-1998 Formula	2001 Payments if Current Formula Fully Implemented	% Difference pre-1998 formula v. actual 2001 payments	% Difference pre-1998 formula v. payments if formula fully implemented
Macomb	Twp	Macomb	50,478	122.2	791,886	852,636	1,805,042	(7.12)	111.70
Pittsfield	Twp	Washtenaw	29,501	72.3	613,402	749,633	844,940	(18.17)	12.71
Holland	Twp	Ottawa	28,911	65.0	628,210	789,685	891,845	(20.45)	12.94
Allendale	Twp	Ottawa	13,042	62.6	266,938	149,216	641,637	78.89	330.01
Hartland	Twp	Livingston	10,996	60.3	110,705	143,719	184,421	(22.97)	28.32
Oakland	Twp	Oakland	13,071	58.9	173,549	213,186	295,851	(18.59)	38.78
Hamburg	Twp	Livingston	20,512	58.4	285,140	242,771	619,119	17.45	155.02
Wixom	City	Oakland	13,263	55.1	511,469	683,507	301,974	(25.17)	(55.82)
South Lyon	City	Oakland	10,036	54.9	408,590	561,389	363,087	(27.22)	(35.32)
Cannon	Twp	Kent	12,075	52.3	131,974	107,044	219,998	23.29	105.52
Washington	Twp	Macomb	17,122	50.4	239,841	251,572	431,319	(4.66)	71.45
Genoa	Twp	Livingston	15,901	47.0	156,145	115,000	243,704	35.78	111.92
Rochester	City	Oakland	10,467	46.8	379,641	610,152	250,837	(37.78	(58.89)
Orion	Twp	Oakland	30,748	46.3	601,481	663,451	824,678	(9.34)	24.30
Chesterfield	Twp	Macomb	37,405	44.4	795,684	1,008,876	1,169,173	(21.13)	15.89
Novi	City	Oakland	47,386	43.6	1,373,275	1,843,247	1,444,656	(25.50)	(21.62)
Alpine	Twp	Kent	13,976	41.7	194,153	118,709	382,154	63.55	221.92
Texas	Twp	Kalamazoo	10,919	41.6	104,696	84,887	183,800	23.34	116.52
Scio	Twp	Washtenaw	13,421	40.3	144,771	133,828	161,021	8.18	20.32
Oxford	Twp	Oakland	14,485	38.7	318,698	235,221	196,110	35.49	(16.63)
Gaines	Twp	Kent	20,112	38.4	316,795	110,814	759,831	185.88	585.68
Independence	Twp	Oakland	32,581	37.4	786,003	875,878	966,177	(10.26)	10.31
Commerce	Twp	Oakland	30,349	37.0	483,813	356,674	816,780	35.65	129.00
Grand Haven	Twp	Ottawa	13,278	36.7	225,514	247,129	237,436	(8.75)	(3.92)
Green Oak	Twp	Livingston	15,403	35.6	166,744	216,030	232,994	(22.81)	7.85
Springfield	Twp	Oakland	13,338	34.4	194,251	218,389	226,543	(11.05)	3.69
Shelby	Twp	Macomb	65,159	33.9	1,876,630	2,168,781	2,196,720	(13.47)	1.29
Canton	Twp	Wayne	76,366	33.9	2,260,675	2,646,443	2,653,468	(14.58)	0.27

Appendix 2: Characteristics of 50 Fastest Growing Communities

Community	Twp or City	County	2000 Population	% Population Change 1990-2000	Actual 2001 Payments	2001 Payments Using pre-1998 Formula	2001 Payments if Current Formula Fully Implemented	% Difference pre-1998 formula v. actual 2001 payments	% Difference pre-1998 formula v. payments if formula fully implemented
Byron	Twp	Kent	17,553	32.6	262,197	165,630	492,234	58.30	197.19
Garfield	Twp	Gr Traverse	13,840	31.6	200,214	182,532	217,746	9.69	19.29
Huron	Twp	Wayne	13,737	31.5	333,264	257,474	496,683	29.44	92.92
Grand Rapids	Twp	Kent	14,056	30.6	150,202	106,438	221,228	41.12	107.85
Park	Twp	Ottawa	17,579	29.8	270,687	252,226	463,064	7.32	83.59
Spring Lake	Twp	Ottawa	10,626	29.4	157,102	110,568	159,710	42.09	44.45
Fenton	Twp	Genesee	12,968	28.7	147,565	126,483	212,766	16.67	68.22
Georgetown	Twp	Ottawa	41,658	27.5	711,549	367,804	1,685,473	93.46	358.25
Oshtemo	Twp	Kalamazoo	17,003	26.9	380,404	448,363	366,332	(15.16)	(18.30)
Walker	City	Kent	21,842	26.4	673,643	850,240	643,281	(20.77)	(24.34)
Fenton	City	Genesee	10,582	25.5	386,154	497,762	301,596	(22.42)	(39.41)
White Lake	Twp	Oakland	28,144	25.1	630,497	635,994	888,150	(0.86)	39.65
Lyon	Twp	Oakland	11,041	25.1	168,307	223,020	179,512	(24.53)	(19.51)
Northville	Twp	Wayne	20,372	23.4	419,597	553,922	543,341	(24.25)	(1.91)
Superior	Twp	Washtenaw	10,740	23.2	226,177	225,922	297,187	0.11	31.54
Hamtramck	City	Wayne	22,558	22.8	3,398,416	3,771,695	3,961,936	(9.90)	5.04
Brandon	Twp	Oakland	13,230	22.5	332,894	544,199	249,529	(38.83)	(54.15)
Brownstown	Twp	Wayne	22,989	22.2	1,487,327	1,677,275	1,132,163	(11.32)	(32.50)
Plainfield	Twp	Kent	30,195	21.0	569,380	342,411	1,007,007	66.29	194.09
Davison	Twp	Genesee	17,722	20.8	412,165	322,517	765,668	27.80	137.40
Bedford	Twp	Monroe	28,606	20.5	481,611	224,206	1,023,180	114.81	356.36
Kentwood	City	Kent	45,255	19.6	1,139,541	1,436,484	1,473,122	(20.67)	2.55
							AVERAGE	10.1	69.4

Appendix 3: Characteristics of 20 Largest Communities

Community	Twp or City	County	2000 Population	Actual 2001 Payments	2001 Payments Using pre-1998 Formula	2001 Payments if Current Formula Fully Implemented	% Difference pre-1998 formula v. actual 2001 payments	% Difference pre-1998 formula v. payments if formula fully implemented
Grand Rapids	City	Kent	197,215	14,192,342	15,818,921	18,641,999	(10.28)	17.85
Warren	City	Macomb	138,247	9,895,200	10,337,785	5,420,348	(4.28)	(47.57)
Flint	City	Genesee	124,646	15,952,438	13,940,336	14,865,037	14.43	6.63
Lansing	City	Ingham/ Eaton	119,128	13,728,281	14,046,357	12,101,358	(2.26)	(13.85)
Ann Arbor	City	Washtenaw	113,992	6,687,972	8,134,610	4,443,692	(17.78)	(45.37)
Livonia	City	Wayne	100,545	4677824	5,133,331	3,599,365	(8.87)	(29.88)
Westland	City	Wayne	86,483	4,954,330	4,737,019	6,316,558	4.59	33.34
Southfield	City	Oakland	78,263	4,284,192	5,070,124	2,468,240	(15.50)	(51.32)
Kalamazoo	City	Kalamazoo	76,901	7,880,231	8,240,940	6,877,282	(4.38)	(16.55)
Taylor	City	Wayne	65,868	5,941,001	6,973,971	5,262,252	(14.81)	(24.54)
Pontiac	City	Oakland	65,738	12,751,839	12,872,166	7,217,060	(0.93)	(43.93)
St Clair Shores	City	Macomb	63,096	3,057,868	3,031,976	2,473,679	0.85	(18.41)
Saginaw	City	Saginaw	61,520	9415524	8,463,641	8,429,400	11.25	(0.40)
Royal Oak	City	Oakland	60,062	3,393,244	2,997,573	2,092,660	13.20	(30.19)
Dearborn Hts.	City	Wayne	58,264	3,485,294	3,989,036	3,679,947	(12.63)	(7.75)
Battle Creek	City	Calhoun	53,057	4,521,940	5,078,101	3,140,407	(10.95)	(38.16)
Redford	Twp	Wayne	51,622	3,834,941	3,789,029	2,948,982	1.21	(22.17)
Roseville	City	Macomb	48,129	3,099,546	3,105,859	2,508,961	(0.20)	(19.22)
East Lansing	City	Ingham	46,525	3,997,503	3,400,404	5,483,709	17.56	61.27
Bloomfield	Twp	Oakland	43,023	1,210,110	1,147,460	1,200,587	5.46	4.63
						AVERAGE	**(1.72)**	**(14.28)**

Appendix 4: Comparison Including Detroit in Revenue Sharing Formula 50 Fastest Growing Communities

Community	Twp or City	County	Detroit Excluded (Status quo)		Detroit Included in Revenue Sharing Formula	
			% Difference pre-1998 formula v. actual 2001 payments	% Difference pre-1998 formula v. payments if formula fully implemented	% Difference pre-1998 formula v. actual 2001 payments	% Difference pre-1998 formula v. payments if formula fully implemented
Macomb	Twp	Macomb	(7.12)	111.70	(0.19)	186.90
Pittsfield	Twp	Washtenaw	(18.17)	12.71	(12.47)	51.97
Holland	Twp	Ottawa	(20.45)	12.94	(15.11)	52.03
Allendale	Twp	Ottawa	78.89	330.01	92.11	447.82
Hartland	Twp	Livingston	(22.97)	28.32	(17.24)	74.73
Oakland	Twp	Oakland	(18.59)	38.78	(12.53)	87.81
Hamburg	Twp	Livingston	17.45	155.02	26.17	245.51
Wixom	City	Oakland	(25.17)	(55.82)	(21.27)	(41.45)
South Lyon	City	Oakland	(27.22)	(35.32)	(22.23)	(20.17)
Cannon	Twp	Kent	23.29	105.52	32.46	180.03
Washington	Twp	Macomb	(4.66)	71.45	2.18	131.76
Genoa	Twp	Livingston	35.78	111.92	45.57	187.76
Rochester	City	Oakland	(37.78	(58.89)	(33.53)	(44.64)
Orion	Twp	Oakland	(9.34)	24.30	(2.68)	68.04
Chesterfield	Twp	Macomb	(21.13)	15.89	(15.47)	56.73
Novi	City	Oakland	(25.50)	(21.62)	(20.25)	5.56
Alpine	Twp	Kent	63.55	221.92	75.47	320.53
Texas	Twp	Kalamazoo	23.34	116.52	32.53	194.89
Scio	Twp	Washtenaw	8.18	20.32	14.48	60.91
Oxford	Twp	Oakland	35.49	(16.63)	45.05	13.07
Gaines	Twp	Kent	185.88	585.68	207.04	814.12
Independence	Twp	Oakland	(10.26)	10.31	(3.62)	49.38
Commerce	Twp	Oakland	35.65	129.00	45.40	209.13
Grand Haven	Twp	Ottawa	(8.75)	(3.92)	(2.29)	30.44
Green Oak	Twp	Livingston	(22.81)	7.85	(17.15)	46.61
Springfield	Twp	Oakland	(11.05)	3.69	(4.60)	40.97
Shelby	Twp	Macomb	(13.47)	1.29	(7.06)	37.08
Canton	Twp	Wayne	(14.58)	0.27	(8.21)	35.81

Appendix 4: Comparison Including Detroit in Revenue Sharing Formula 50 Fastest Growing Communities						
			Detroit Excluded (Status quo)		Detroit Included In Revenue Sharing Formula	
Community	Twp or City	County	% Difference pre-1998 formula v. actual 2001 payments	% Difference pre-1998 formula v. payments if formula fully implemented	% Difference pre-1998 formula v. actual 2001 payments	% Difference pre-1998 formula v. payments if formula fully implemented
Byron	Twp	Kent	58.30	197.19	70.02	303.07
Garfield	Twp	Gr Traverse	9.69	19.29	17.42	61.78
Huron	Twp	Wayne	29.44	92.91	39.03	149.57
Grand Rapids	Twp	Kent	41.12	107.85	51.52	182.71
Park	Twp	Ottawa	7.32	83.59	15.32	148.95
Spring Lake	Twp	Ottawa	42.09	44.45	51.62	95.19
Fenton	Twp	Genesee	16.67	68.22	25.37	129.02
Georgetown	Twp	Ottawa	93.46	358.25	107.75	508.73
Oshtemo	Twp	Kalamazoo	(15.16)	(18.30)	(9.10)	4.94
Walker	City	Kent	(20.77)	(24.34)	(15.24)	2.05
Fenton	City	Genesee	(22.42)	(39.41)	(17.40)	(18.52)
White Lake	Twp	Oakland	(0.86)	39.65	6.42	89.17
Lyon	Twp	Oakland	(24.53)	(19.51)	(19.13)	9.29
Northville	Twp	Wayne	(24.25)	(1.91)	(18.69)	32.57
Superior	Twp	Washtenaw	0.11	31.54	7.52	78.39
Hamtramck	City	Wayne	(9.90)	5.04	(4.55)	20.40
Brandon	Twp	Oakland	(38.83)	(54.15)	(34.28)	(37.51)
Brownstown	Twp	Wayne	(11.32)	(32.50)	(7.17)	(19.28)
Plainfield	Twp	Kent	66.29	194.03	78.07	291.60
Davison	Twp	Genesee	27.80	137.40	37.28	202.69
Bedford	Twp	Monroe	114.81	356.36	130.58	507.57
Kentwood	City	Kent	(20.67)	2.55	(15.41)	37.72

Appendix 5: Comparison Including Detroit in Revenue Sharing Formula
21 Largest Communities

21 Largest Communities (including Detroit)

Community	Twp or City	County	Detroit Excluded (Status quo): % Difference pre-1998 forumula v. actual 2001 payments	Detroit Excluded (Status quo): % Difference pre-1998 formula v. payments if formula fully implemented	Detroit Included In Revenue Sharing Formula: % Difference pre-1998 forumula v. actual 2001 payments	Detroit Included In Revenue Sharing Formula: % Difference pre-1998 formula v. payments if formula fully implemented
Detroit	City	Wayne	NA	NA	8.35	(29.81)
Grand Rapids	City	Kent	(10.28)	17.85	4.07	39.71
Warren	City	Macomb	(4.28)	(47.57)	(1.05)	(30.28)
Flint	City	Genesee	14.43	6.63	(21.53)	23.08
Lansing	City	Ingham/ Eaton	(2.26)	(13.85)	(4.18)	0.37
Ann Arbor	City	Washtenaw	(17.78)	(45.37)	12.16	(26.47)
Livonia	City	Wayne	(8.87)	(29.88)	3.80	(6.89)
Westland	City	Wayne	4.59	33.34	(12.09)	61.33
Southfield	City	Oakland	(15.50)	(51.32)	9.94	(34.68)
Kalamazoo	City	Kalamazoo	(4.38)	(16.55)	(1.56)	(3.48)
Taylor	City	Wayne	(14.81)	(24.54)	9.14	(11.88)
Pontiac	City	Oakland	(0.93)	(43.93)	(4.31)	(36.16)
St Clair Shores	City	Macomb	0.85	(18.41)	(8.07)	4.14
Saginaw	City	Saginaw	11.25	(0.40)	(18.56)	14.48
Royal Oak	City	Oakland	13.20	(30.19)	(20.74)	(6.13)
Dearborn Hts.	City	Wayne	(12.63)	(7.75)	6.34	10.22
Battle Creek	City	Calhoun	(10.95)	(38.16)	5.00	(26.32)
Redford	Twp	Wayne	1.21	(22.17)	(6.60)	(6.90)
Roseville	City	Macomb	(0.20)	(19.22)	(6.34)	(1.75)
East Lansing	City	Ingham	17.56	61.27	(26.20	86.93
Bloomfield	Twp	Oakland	5.46	4.63	(13.03)	40.92

	Actual 2001 payment	2001 payment using pre-1998 formula	2001 payment if current formula fully implemented
Detroit payments (in $)	272,301,858	297,104,189	208,525,618

Informing the Debate

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