The Center for Local, State, and Urban Policy
Gerald R. Ford School of Public Policy | University of Michigan

FISCAL HEALTH PROJECT
March 2025

The Fiscal Health of Michigan Local Governments 2023

Executive Summary

This report provides an annual update on Michigan local government fiscal health. Using financial data reported to the State of Michigan in 2023, this analysis develops a set of indicators to look at cash, budgetary, long-term, and service solvency for counties, cities, villages, and townships in Michigan. This update finds that there were few significant changes in overall trends for the fiscal health of Michigan local governments compared to the past few years. Federal aid continues to bolster general fund balances and cash reserves, resulting in strong cash and budgetary solvency measures. However, local governments should beware of "fiscal cliffs" as one-time revenues from pandemic-era aid expire. Local governments continue to show variability in their ability to meet long-term financial and service obligations, due in part to restrictive revenue policy and high long-term liabilities from pensions and retiree healthcare benefits.

Introduction

Michigan's local governments deliver essential community services, maintain infrastructure, and ensure public safety. Their capacity to fulfill these roles hinges on financial health, which is influenced by revenue sources, expenditure patterns, debt burdens, and other long-term liabilities. Over the past few years, local governments have confronted a complex fiscal environment marked by inflation, personnel challenges, stalling revenues, expiring/diminishing federal aid, and increasing economic uncertainty. Facing these challenges and uncertainties, many local governments have built up robust reserves and implemented prudent financial management policies to try to position themselves to respond to emerging concerns.

As of the spring 2024 Michigan Public Policy Survey (MPPS), only 8% of Michigan local governments rated their level of fiscal stress as high, while 69% rated their level of fiscal stress as low, essentially unchanged from 2022 (65%), 2021 (65%), and 2020 (64%). However, local leaders also reported increasing concerns about long-term fiscal stress and doubts about the long-term impact of federal aid.[1] In the Spring 2022 (MPPS), only 8% of local leaders thought that federal funding would "significantly" improve their fiscal health, with another 44% estimating that it might "somewhat" improve their fiscal health, but 42% expected federal aid to have little to no effect.[2]

Looking forward, while the economic outlook for the state is largely positive,[3] Michigan's local governments face ongoing structural challenges that make them particularly susceptible to fiscal stress and less able to take advantage of economic recovery compared to local governments in other states.[4] Therefore, it is essential to provide ongoing monitoring of trends in local fiscal health to detect any changes in patterns or other warning signs of fiscal stress.

Authors

Margaret Walthall
University of Michigan

Stephanie Leiser
University of Michigan

Natalie Fitzpatrick
University of Michigan

This report examines key local government fiscal indicators to assess the cash, budgetary, long-term, and service-level solvency of Michigan's counties, cities, villages, and townships. By analyzing financial performance, debt and pension obligations, spending patterns, and revenue structures, we gain insights into the fiscal strengths and challenges facing local governments. Understanding these trends is essential for policymakers, administrators, and residents as they navigate an uncertain economic future and strive for sustainable service delivery.

Data and Method

The data used in this report are from the FY 2023 Annual Financial Report (F-65) submitted by local units of government and compiled by the Michigan Department of Treasury.[5] The data were downloaded in August 2024 and include the following number of observations:

Table 1
Sample size by fiscal year and jurisdiction type

	FY 2022	FY 2023
Cities (275 total)	253	273
Villages (258 total)	218	242
Townships (1,240 total)	1,077	1,193
Counties (83 total)	83	79

Data were cleaned to remove any obvious errors (e.g., values were reported as negative instead of positive) and merged with 2020 Census population data. Certain local units may be included in the dataset, although if they did not report complete data, they may not be reflected in all ratios and measures calculated in this report.

For each financial indicator, median values are reported, broken down by jurisdiction type. Medians are reported instead of means (i.e., averages) to minimize the influence of outliers that have very high or very low values. While outliers may reflect accurate values, they also can sometimes reflect errors. For this analysis, therefore, median values better reflect a "typical" local government than mean values. For some indicators, the entire distribution of values is shown so readers can get a sense of the shape and range of values.

Michigan local governments' cash solvency generally continues to be quite strong

One way to assess the fiscal health of local governments is to focus on indicators of short-term cash solvency. Measures of cash solvency are intended to capture whether a government has enough liquid resources to meet current obligations or to address an emergency. Although cash solvency measures can be applied to assess liquidity in any fund, they typically focus on the general fund because it is the primary operating fund for most governments. As detailed below, these metrics suggest that Michigan local governments' cash solvency generally appears to be quite strong.

General Fund Balance Ratio

Within the general fund, arguably the most important number is the unrestricted general fund balance, which is the proportion of a government's savings that is not restricted in how it can be used. The unrestricted general fund balance often represents the "emergency reserves" or "rainy day" fund for many governments and can be drawn down to respond to emergencies, fill unexpected budgetary shortfalls, or save up funding for large purchases. The Government Finance Officers Association recommends that governments maintain an unrestricted general fund balance of at least two months of regular operating revenues or expenditures, about 15 to 20% of annual revenue. As shown in *Table 2*, medians for all jurisdiction types well exceed the GFOA minimum, and counties continue to have the lowest median fund balance at 31% of revenue. Additionally, the median township's fund balance has declined slightly, yet continues to have the highest median compared to other jurisdiction types at almost 138% of revenues in FY 2023. Medians for cities and villages remain similar to FY 2022, with fund balances of 38% and 81% of annual revenues, respectively.

Local government officials say:

Most Michigan local officials say their general fund balance is "about right." On the Spring 2024 MPPS, 69% of local officials statewide said their general fund balance is "about right" while 22% said their balance is "too low," and just 4% reported that it is "too high." Village officials were most likely to say their balance was too low (37%), while township officials were least likely (17%).[6]

Table 2
Cash solvency indicators (medians) by jurisdiction type and year

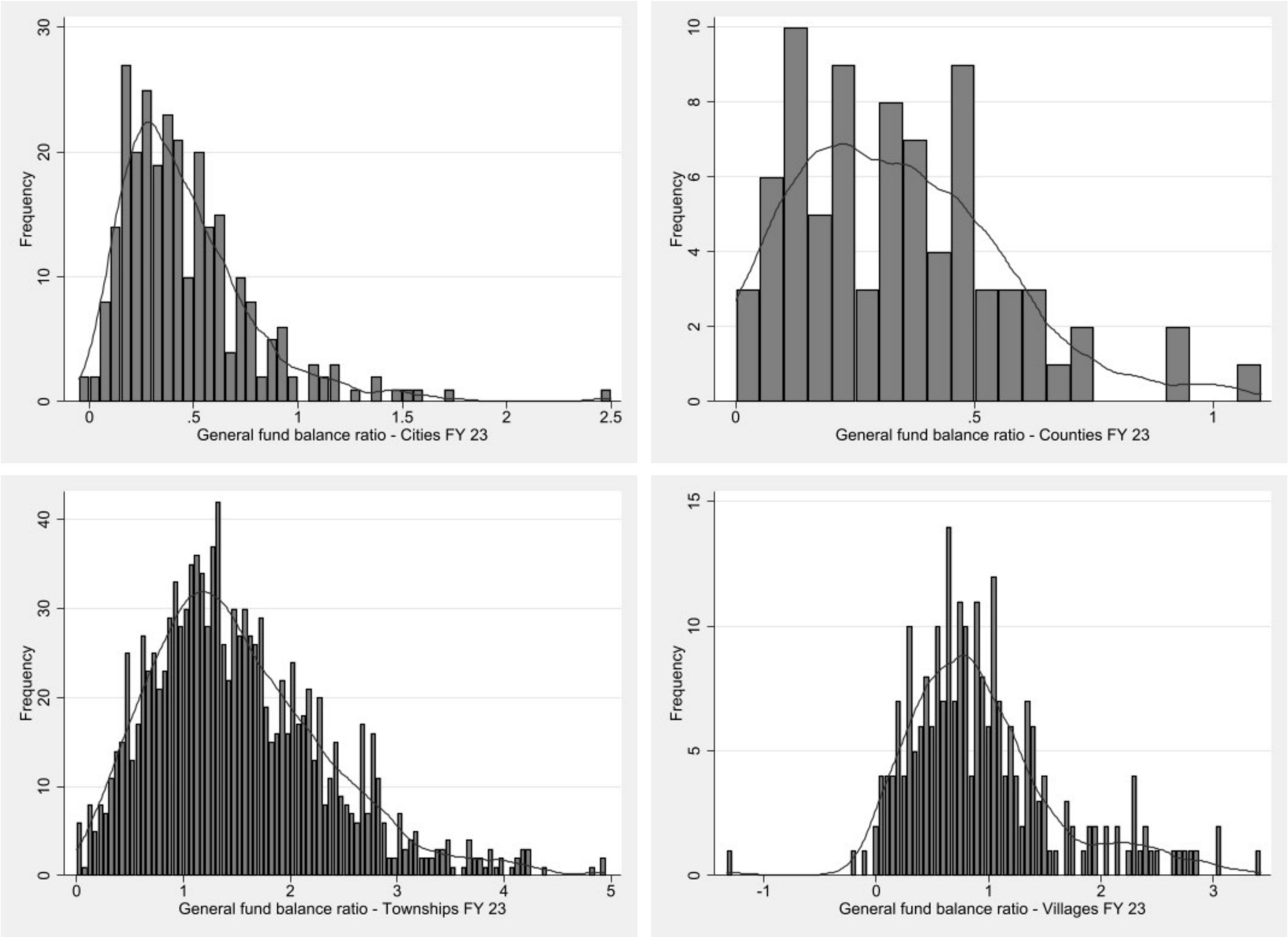
	Median general fund balance		Median days of cash on hand	
	FY2022	FY2023	FY2022	FY2023
Counties	0.28	0.31	213.47	193.06
Cities	0.39	0.38	257.10	245.76
Villages	0.81	0.81	691.70	508.31
Townships	1.47	1.38	490.20	620.00

Note: Fund balance ratio = unrestricted general fund balance / general fund revenue. Days of cash on hand ratio = general fund cash / (general fund expenditures / 365)

Figure 1 includes histograms that show the ratios of unrestricted general fund balance to revenues for jurisdictions of each type. In the past year, counties and villages increased their median general fund balance ratio, while cities and townships declined, both distributions moving slightly to the right.

As in past years, each distribution is right-skewed, with most local units near the median, but a few with high ratio values. However, the distribution for cities became more concentrated around the median with fewer high-end outliers, while counties gained more high-end outliers. Looking at the low end of the distribution, there were 26 cities (9.4% of cities for which data were available), 19 counties (24.1%), 15 townships (1.3%), and 17 villages (7.0%) with an unrestricted general fund balance ratio at or under 15%, a potential sign of fiscal stress.

Figure 1
Unrestricted general fund balance to revenue ratios, by jurisdiction type



Days of Cash on Hand

Another way to evaluate cash solvency is to assess a government's cash balance. A general rule of thumb is to keep at least 90 days of cash on hand, in case revenue flows were disrupted or emergency expenditures were required. As shown in *Table 2*, median values for all jurisdiction types are well above the recommended minimum in FY 2023. However, the median days of cash on hand decreased over the past year for counties, cities, and villages and increased for townships.

Overall Cash Solvency

Overall, Michigan local governments' cash solvency continues to appear quite strong. While some local units have low general fund balances, most have maintained strong cash positions. As municipalities spend the remaining American Rescue Plan Act and other pandemic-related funds and return to "normal" spending levels, they will need to carefully monitor cash and fund balances to ensure that they remain healthy.

Local government officials say:

A majority (60%) of Michigan local government leaders say cash flow is not a problem at all. In spring 2024, 31% said cash flow was not much of a problem, and only 7% said it was somewhat of a problem or a significant problem. Concerns about cash flow are slightly higher among counties, where 15% said it was somewhat of a problem or a significant problem, up from 8% in 2023.[7]

Key findings:

- There is wide variation in local government general fund balance levels, but very few are lower than recommended.
- The median number of days of cash on hand continues to be strong for all jurisdiction types.

Michigan local governments have strengthened their budgetary solvency, though a notable number of municipalities continue to face challenges

To better understand the short-term balance between a local government's expenses and revenue, we separated governmental activities (funded from general revenues like property taxes and state revenue sharing) from "self-funding" business-type activities (e.g., water/sewer system, parking, recreation center funds, etc.). Budgetary solvency indicators capture the effects of both external conditions (e.g., economic pressures that slow tax base growth) and internal/management responses (e.g., trimming expenditures). Overall, for FY 2023, indicators suggest that budgetary solvency for most Michigan local governments is fairly strong.

General Fund Margin

The general fund margin ratio is analogous to the general fund's "profit margin" and measures the percentage by which revenues exceed expenditures.

The median values reported in *Table 3* suggest that revenues comfortably exceed expenditures for each jurisdiction type. Between FY 2022 and 2023, the median margin for counties grew from 2.7% to 5.1%, and the median for cities increased slightly from 3.6% to 4.0%. Medians for villages and townships, while higher than for cities and counties, have fallen from 10.3% to 8.9% and from 19.3% to 13.8%, respectively.

However, a notable share of localities continue to experience negative general fund margins. Villages have the highest proportion, with negative margins at 31% (74 villages), followed by cities at 27% (74 cities) and counties at

23% (18 counties), while townships have the lowest share at 21% (252 townships). While a general fund deficit in one year is not necessarily problematic for an individual local government, ongoing deficits are often a sign of stress, and tracking changes in overall trends for local governments can provide insight into systematic challenges local governments may be facing.

Table 3
Budgetary solvency indicators (median), by jurisdiction type and year.

	Median general fund margin		Median general fund balance growth	
	2022	**2023**	**2022**	**2023**
Counties	0.03	0.05	0.08	0.15
Cities	0.04	0.04	0.08	0.09
Villages	0.10	0.09	0.12	0.10
Townships	0.19	0.14	0.12	0.09

	Median enterprise fund margin		Median enterprise fund balance growth	
	2022	**2023**	**2022**	**2023**
Counties	0.11	0.15	0.03	0.04
Cities	0.10	0.12	0.03	0.04

Note: Margin ratio = revenues / expenditures. Fund balance growth ratio = (current year fund balance - prior year fund balance) / prior year fund balance.

General Fund Balance Growth

A similar measure to assess the budgetary solvency of a government is to calculate how much the general fund balance has grown or declined in the past year.

In FY 2023, the median annual general fund balance growth was strongest for counties at 14.5%. Fund balances for the median city, village, and township also experienced strong growth of 8.6%, 10.4%, and 9.1%, respectively. As federal aid diminishes, it is likely that fund balance growth will slow.

Enterprise Fund Margin and Fund Balance Growth

Enterprise funds encompass all business-type activities, which typically have fee-for-service revenue and are designed to be financially self-sustaining. Examples of local government enterprise activities include drinking water systems, sewer/wastewater systems, senior housing, parking, airports, etc. The margin ratio is analogous to a profit margin for the combined enterprise activities of a given government. Accumulating profit is not a goal of enterprise funds, but aiming for modest margins allows them to keep fees reasonable while building reserves, investing in infrastructure, and ensuring quality services.

For both counties and cities, the median enterprise fund margin remained strong in FY 2023, with counties having a median margin of 15.3% and cities having a median margin of 11.5%, as shown in *Table 3*. Strong margins also mean that enterprise fund balances are growing. *Table 3* also shows that the median county and city continued a pace of around 3 to 4% annual growth in enterprise fund balances.

Overall Budgetary Solvency

Overall, local government budgetary solvency continues to appear strong in FY 2023. General fund margins remained stable or improved for many jurisdictions, but there continues to be a significant share of local governments with negative margins, a potential area of concern. Fund balance growth was another strong point for many jurisdictions, though future growth may slow as federal aid diminishes. Similarly, enterprise fund margins remained robust, ensuring the financial sustainability of business-type activities.

Key findings:

- While most jurisdictions spend less than they collect in revenue, there continue to be some potential warning signs for jurisdictions with negative general fund margins.
- General fund balance growth for the median jurisdiction of each type was strong in FY 2023, with the median county having the strongest growth in the past year.
- Enterprise funds continue to have healthy margins and solid fund balance growth.

Pension and OPEB obligations remain a strain on local government fiscal health

While cash and budgetary solvency measures focus on a shorter time horizon, long-term solvency assesses a government's ability to fulfill its obligations several years into the future, focusing on the burden of balance sheet liabilities, including debt and unfunded pension and other post-employment benefits (OPEB) obligations (e.g., retiree healthcare benefits). A heavy burden of long-term liabilities can exacerbate fiscal stress for governments as it may pressure them to redirect resources away from current services and toward the fixed costs of debt service and pension/OPEB costs.

Debt to Revenue

Focusing first on ordinary debt (e.g., bonds), the debt to revenue ratio helps us assess the overall size of a government's debt burden.

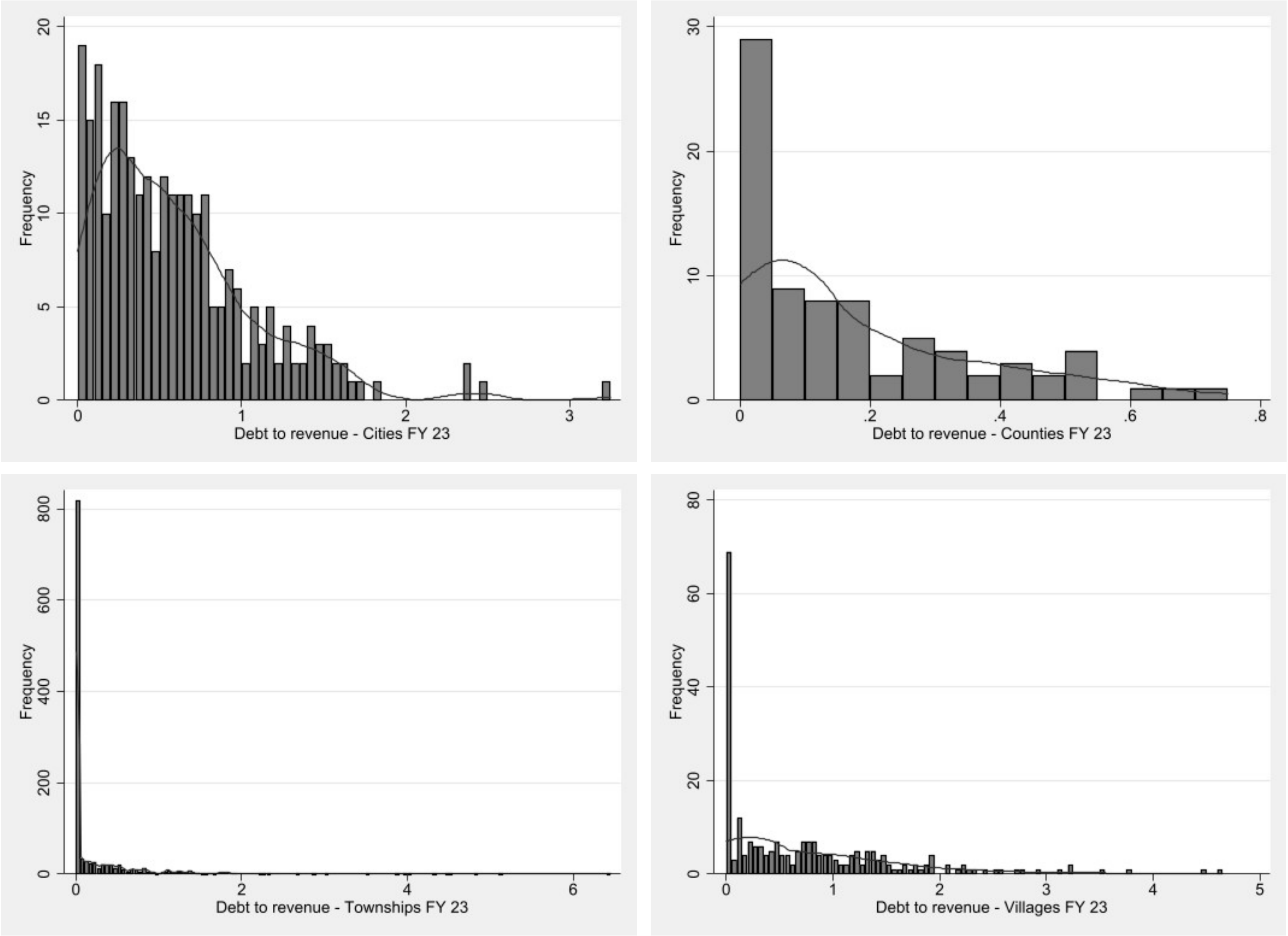
Table 4 shows the median debt-to-revenue ratios for each type of jurisdiction. Not surprisingly, the median city and village, which tend to provide more capital-intensive services like drinking water and roads, have higher median ratios. Their total debt is around 48 - 49% of annual revenues, little changed from 2022. Counties, on the other hand, often provide more labor-intensive services like courts and public health, so the median county's debt is only about 10-11% of annual revenues. The median township has no debt at all.

Table 4
Long-term solvency indicators (medians), by jurisdiction type and year

	Median debt to revenue		Median long-term liabilities to revenue	
	2022	**2023**	**2022**	**2023**
Counties	0.11	0.11	0.41	0.41
Cities	0.50	0.49	1.17	1.09
Villages	0.48	0.49	-	-
Townships	0.00	0.00	-	-

Figure 2 shows the entire distribution of debt-to-revenue ratios for each jurisdiction type. These distributions show that while most municipalities have relatively low ratios under 1.0, each distribution is right-skewed, meaning that there are a small number of outlier jurisdictions (4 cities, 16 townships, and 20 villages) with high debt burdens above 2.0.

Figure 2
Debt-to-revenue ratios, by jurisdiction type



Long-term Liabilities to Revenue

Turning to a more comprehensive measure of the long-term financial burdens local governments face, we add pension and OPEB liabilities to debt to calculate a ratio of long-term liabilities divided by revenue. Because few villages and townships have liabilities associated with pensions or OPEB, these calculations focus on cities and counties (see *Table 4* above). The median city's long-term liabilities are about 109% of annual revenues, while the median county's liabilities were 41% of annual revenues. Pension and OPEB liabilities continue to comprise the majority of long-term liabilities for most cities and counties.

Pension Funded Ratios

The indicators in *Table 5* take a closer look at pension and OPEB plans. The table includes the median funded ratios, and the ratio of plan assets to plan liabilities, excluding jurisdictions that do not have these plans. A "fully funded" plan with enough assets to cover expected liabilities will have a funded ratio near 100%. Underfunded plans will have ratios less than 100%, and the government's balance sheet will include a "net pension liability" for the unfunded amount.

Table 5
Pension and OPEB indicators (medians), by jurisdiction type and year

	Median general employees pension funded ratio		Median OPEB funded ratio	
	2022	2023	2022	2023
Counties	75.1%	71.2%	32.0%	40.5%
Cities	72.2%	66.6%	25.0%	31.6%
Villages	80.0%	71.2%	19.5%	19.8%
Townships	79.0%	72.9%	24.5%	71.0%

Note: *Funded ratio = plan assets / plan liabilities*

The first two columns of *Table 5* show median funded ratios for general employee pension plans, the most common type of pension plan. Between FY 2022 and FY 2023, the median funded ratio decreased for each type of jurisdiction, mainly due to faltering investment returns on plan assets. The median township, county, and village have ratios in the low 70% range in FY 2023, down from the mid-to-high 70s the prior year. The median city's funded ratio decreased to 66% from 72% in FY 2022.

For local governments with pension plan funded ratios below 60%, the Protecting MI Pension Grant Program provided grants sufficient to raise the funded ratio to 60%. This $750 million program was adopted in the State's FY 2023 budget, and grants were disbursed in August 2023. Improvements in funded ratios for these plans should appear in FY 2024 data, assuming most pension plans' valuation dates occur each year on December 31.

OPEB Funded Ratios

Table 5 also shows median OPEB plan-funded ratios for jurisdictions that have these plans. Across all jurisdiction types, the median OPEB funded ratio improved between FY 2022 and FY 2023, most significantly for townships, growing from 24.5% to 71.0%. The number of townships that reported having OPEB plans also grew by 136% from only 36 jurisdictions in FY 2022 to 85 in 2023, likely accounting for the significant increase in the median funded ratio for townships. For counties, cities, and villages, the median OPEB funded ratio grew by 8.5 percentage points, 6.6 percentage points, and 0.3 percentage points, respectively. While increasing funded ratios is a positive sign, unfunded OPEB liabilities remain large, and keeping up with annual contributions can be a heavy burden for local governments.

Local government officials say:

On the Michigan Public Policy Survey, local officials are consistently more likely to predict higher levels of fiscal stress five years down the road, compared to during the current fiscal year. As of Spring 2024, 57% of jurisdictions statewide expect low fiscal stress in 2029, while 33% expect medium (21%) or high (12%) stress.[8]

Overall Long-term Solvency

Michigan local governments face varying levels of long-term financial obligations. Cities and villages generally carry higher debt burdens due to their capital-intensive services, while counties and townships generally maintain lower debt levels. Long-term liabilities, primarily driven by pension and OPEB obligations, continue to be a significant financial concern for many local governments. While the Protecting MI Pension Grant Program may have provided relief for the most underfunded pension plans, median funded ratios have declined, highlighting ongoing fiscal challenges. Encouragingly, OPEB-funded ratios improved across most jurisdiction types, particularly for townships. Continued monitoring of debt and long-term liabilities will be crucial for ensuring the long-term financial sustainability of Michigan's local governments.

Key findings:

- While most municipalities are within the desired range, a small number of outlier jurisdictions have high debt burdens, potentially a cause for concern.
- Pension and OPEB obligations make up more than half of the long-term liability burden for many cities, and an even larger proportion for many counties
- Pension-funded ratios slipped in FY 2023, with median values in the low -70% range, slightly lower for cities. However, the Protecting MI Pension Grant support disbursed in August 2023 should provide much-needed help for jurisdictions with very low funded ratios.
- Median funded ratios for OPEB plans are generally low but improving, leaving OPEB obligations as a heavy burden on many local governments.

Local governments show wide variation in capacity to deliver services

Long-term fiscal health depends on both meeting financial obligations and delivering quality public services. While financial data do not directly measure the performance or quality of services, they can still provide some clues about local governments' capacity to deliver services. However, interpreting these indicators often requires additional assumptions. High expenditures per capita, for example, could reflect strong service provision and good fiscal health, or it could reflect the burden of high fixed costs and fiscal stress. It is also important to interpret service solvency indicators alongside other indicators of long-term solvency. In well-funded governments, meeting long-term financial obligations and service solvency usually coexist without conflict, but in financially strained governments, there may be difficult tradeoffs between current services and making payments on long-term liabilities

Expenditures Per Capita

To gain insight into both resident demand and government capacity to deliver services to residents, we can examine governmental expenditures per capita. Generally, we expect higher spending for cities, which often have diverse and complex service needs and are more densely populated. Indeed, as shown in *Table 6*, median expenditures per capita are highest for cities at $1,302. Villages and townships, on the other hand, typically have smaller populations and fewer service needs, with median per capita expenditures of $847 and $380 respectively. The median county spends $874 per capita.

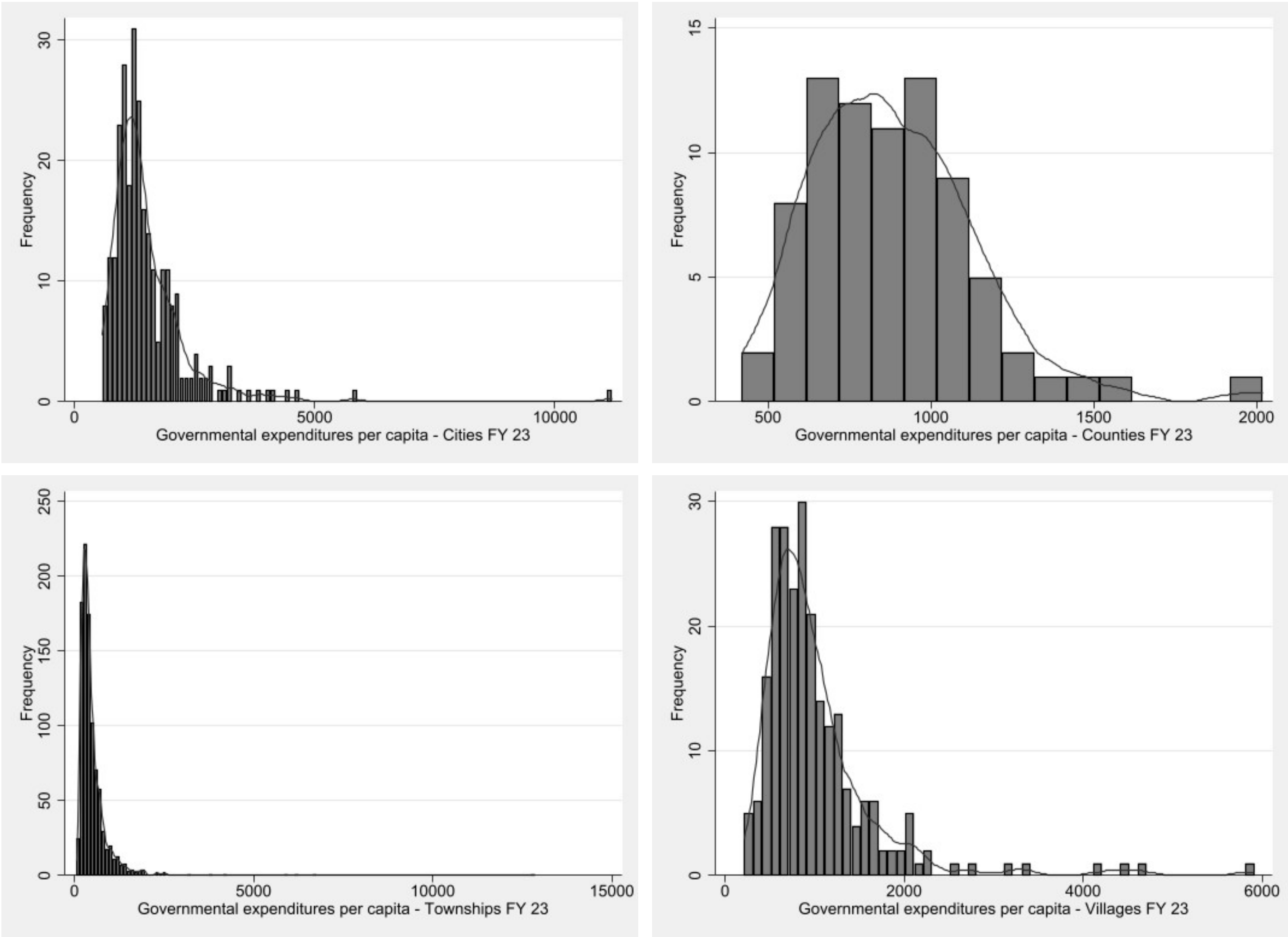
Compared to FY 2022, median spending for townships increased the most, growing by 22.7%, while the median for villages, cities, and counties grew by 9.1%, 7.4%, and 8.8%, respectively. However, these increases may reflect expenditures catching up to higher price levels after a period of inflation and do not necessarily reflect underlying increases in service provision.

Table 6
Service Solvency Indicators (medians), by jurisdiction type and year

	Median governmental expenditures per capita		Median governmental assets per capita	
	2022	**2023**	**2022**	**2023**
Counties	$803.21	$873.84	$399.19	$415.24
Cities	$1,212.19	$1,302.15	$1,651.24	$2,229.74
Villages	$776.17	$847.03	$1,158.21	$1,404.25
Townships	$310.11	$380.46	$183.92	$292.44

Figure 3 provides further detail on the full distribution of governmental expenditures per capita for each jurisdiction type. The distribution for each jurisdiction type follows a right-skewed pattern, with a small number of high-spending outliers.

Figure 3
Governmental expenditures per capita, by jurisdiction type



Governmental Assets Per Capita

While expenditures per capita provide insight into current spending levels, governmental assets per capita is a better measure of long-term capacity for service delivery. Local government assets primarily consist of roads and other infrastructure, but they can also include buildings, land, vehicles, or other equipment governments use to deliver services (Note: this ratio does not include assets in enterprise funds, such as water or sewer infrastructure). Growth in assets per capita is a sign that governments are investing in their ability to deliver services.

From FY 2022 to FY 2023, the median governmental assets per capita increased for each jurisdiction type (see *Table 6* above). The median city had the largest assets per capita, $2,239, a 35% increase from FY 2022. The median township, while having lower assets per capita than other types of jurisdictions ($292), saw the largest year-over-year increase at 59%. The median county has $415 in assets per capita, a 4% increase since FY 2022, and the median village has $1,404 in assets per capita, a 21% increase since FY 2022.

Public Safety as a Share of General Fund Spending

To fulfill their obligations to protect the physical safety and well-being of residents, municipalities often allocate the largest portion of their general fund budgets to public safety services. Consistent with prior years, the median city spends about 39.8% of its budget towards public safety, while the median county spends 30.4% (see *Table 7* below).

Table 7
Service Solvency Indicators (medians), by jurisdiction type and year

	Median public safety share of general fund spending	
	2022	**2023**
Counties	0.32	0.30
Cities	0.40	0.40

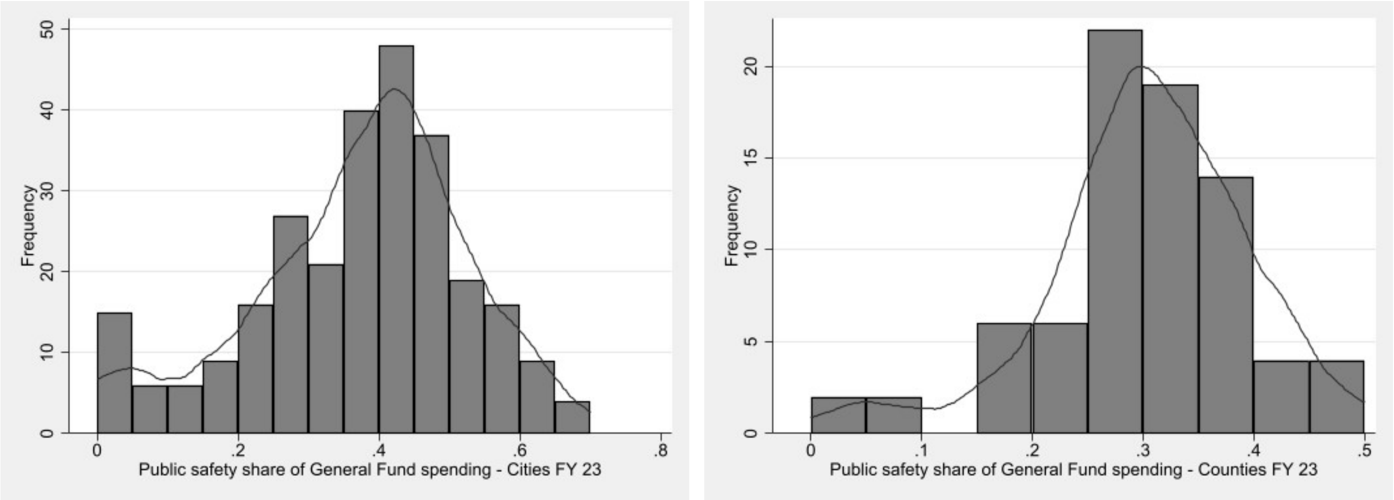
Local government officials say:

Among the half of Michigan local governments that are either directly or indirectly involved with the provision of law enforcement services in their jurisdiction (i.e., those that appropriate funding), two-thirds (66%) say they appropriate about the right amount for law enforcement, while 19% say they appropriate too little, and 11% say they appropriate too much.

However, jurisdictions that are experiencing medium or high levels of fiscal stress are more likely to say they appropriate too little funding for their primary law enforcement agency. Among jurisdictions reporting low fiscal stress, 16% say they appropriate too little. However, among jurisdictions experiencing medium levels of fiscal stress, 24% say they appropriate too little. In jurisdictions experiencing high levels of fiscal stress, 28% say they appropriate too little.[9]

Figure 4 provides a more detailed illustration of the range of public safety spending for cities and counties. Consistent with prior years, there is a wide range in how much cities spend on public safety, likely reflecting differing community needs, preferences, and resources.

Figure 4
Public safety spending as a share of total general fund spending, by jurisdiction type



Reliance on Property Taxes

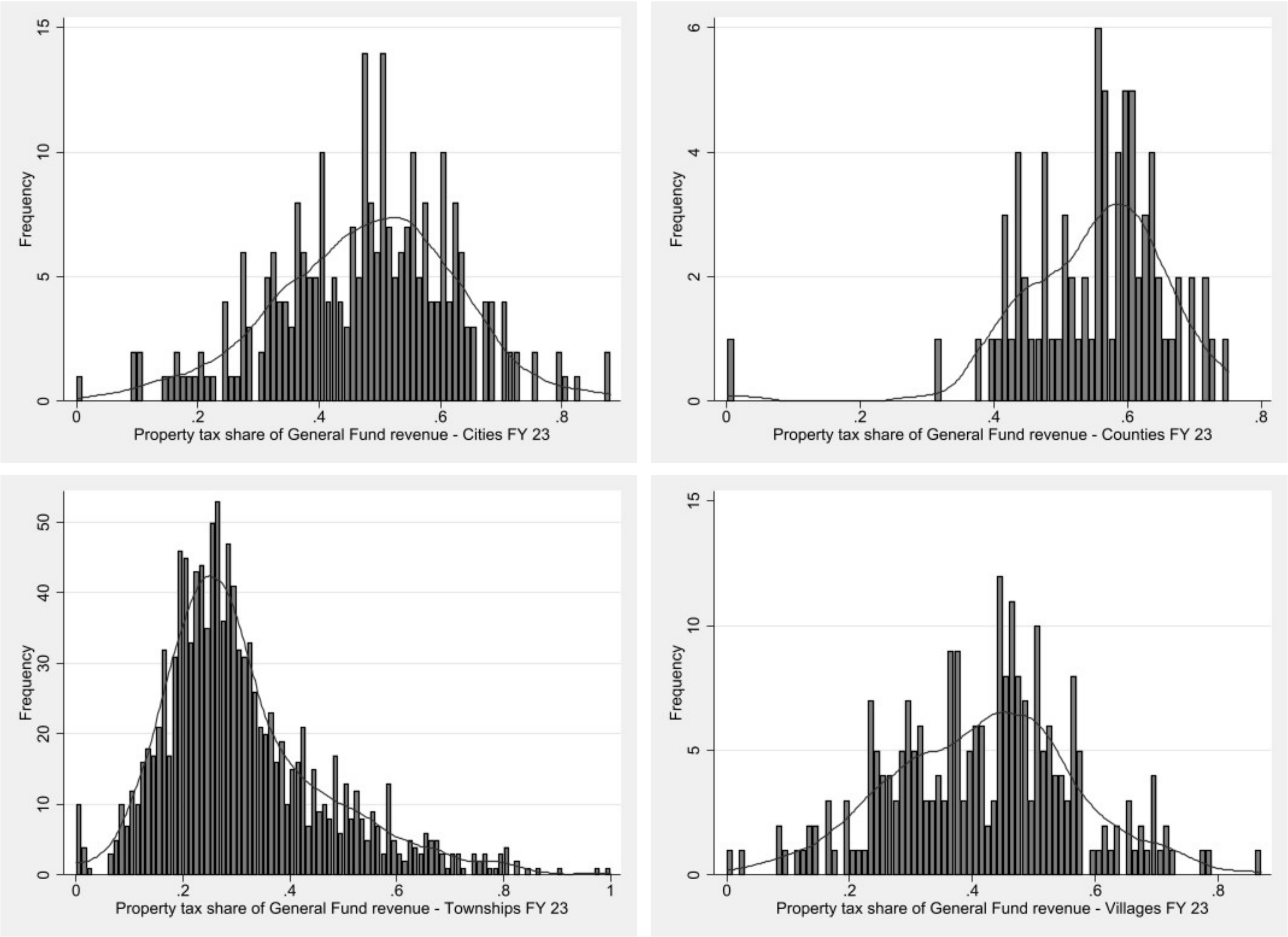
For most local governments, property taxes are the single largest source of general revenue. While typically a reliable and consistent revenue from year to year, property taxes have restrictions that make it difficult for local governments to grow revenues in response to increases in cost and demand for services.[10] As a result, over-reliance on property tax revenue puts local governments at risk of fiscal stress.

Table 8
Service Solvency Indicators - Revenue (medians), by jurisdiction type and year

	Median property tax share of general fund revenue		Median charges/fees share of general fund revenue		Median revenue sharing share of general fund revenue	
	2022	2023	2022	2023	2022	2023
Counties	0.57	0.56	0.05	0.05	0.10	0.09
Cities	0.52	0.49	0.17	0.16	0.08	0.08
Villages	0.43	0.43	0.24	0.22	0.05	0.04
Townships	0.30	0.28	0.46	0.42	0.03	0.02

Table 8 shows property taxes as a percentage of general fund revenue for the median jurisdiction in each category for both FY 2022 and FY 2023, and *Figure 5* shows the full distributions. Compared to other jurisdiction types, counties are typically most reliant on property taxes. For the median county, about 56% of general fund revenue comes from property taxes, with most counties in the 40 to 70% range. Except for the median village, which slightly increased reliance on property taxes, the median county, city, and township decreased their reliance on property taxes between FY 2022 and FY 2023.

Figure 5
Property tax revenue as a percentage of general fund revenue, by jurisdiction type



Reliance on Revenue Sharing

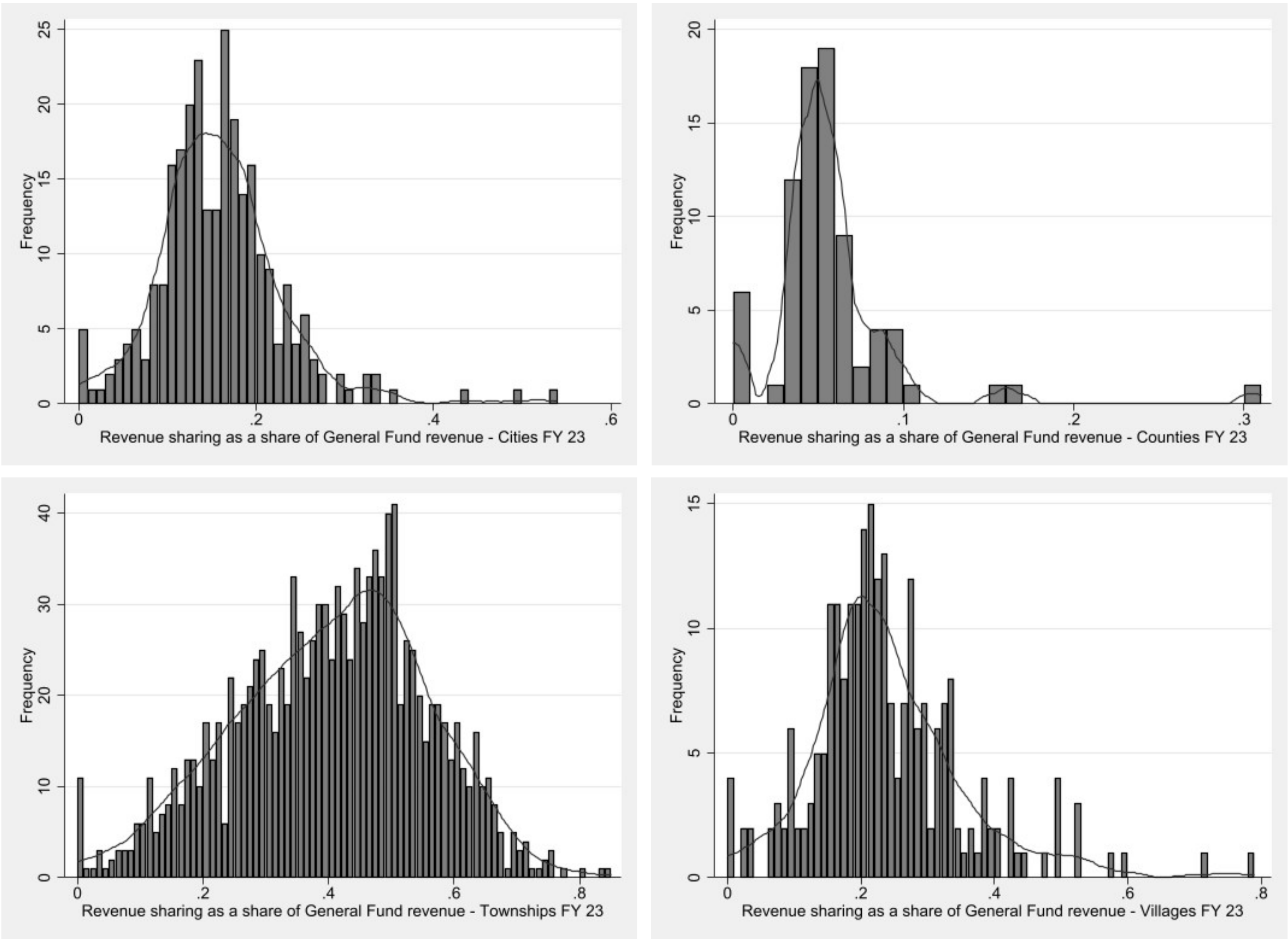
The next most important source of revenue for Michigan local governments is state revenue sharing, in which a portion of state sales tax collections are distributed to local governments largely on a per capita basis as unrestricted aid.[11] All else being equal, more unrestricted revenue can help support services, but local governments should not be too dependent on state aid because they have no control over the payments. Not only are revenue-sharing payments subject to volatile sales tax collections, but for cities, villages, and townships, they are also dependent on legislative discretion to make annual statutory appropriations.

Table 8 shows median revenue sharing as a percentage of general fund revenues for each jurisdiction type. Reliance on revenue sharing slightly decreased for the median jurisdictions in each jurisdiction type. Townships continue to be the most reliant on revenue sharing, but the median fell from 46% of general fund revenues in FY 2022 to 41.5% in FY 2023. Counties are the least reliant, with a median of only about 5%. The median city's reliance on revenue sharing fell from about 17% to 15% of general fund revenues, and the median village fell from 24% to 22%.

Figure 6 gives more detail on the wide variability in how much different jurisdictions depend on revenue sharing. Despite a decline in the median township's reliance on revenue sharing, the percentage of townships that are highly reliant on revenue sharing (exceeding 65% of general fund revenue) grew from 8% (83 townships) to 11% (127 townships).

Figure 6

Revenue sharing as a percentage of general fund revenues, by jurisdiction type



Reliance on Changes

Governments charge fees for services like permits and parks, but legal restrictions require they be voluntary, proportionate, and serve a regulatory purpose (i.e., the primary purpose should not be revenue generation). While fees can help fund local services, heavy reliance may signal fiscal strain and raise equity concerns, as they tend to disproportionately impact lower-income residents.

General fund reliance on charges by jurisdiction type is shown in *Table 8*. Reliance on charges decreased between FY 2022 and FY 2023 for the median county and village from 10% to 8.7% and 5.3% to 3.7%, respectively, yet stayed similar for the median city and township.

A closer look at the distribution of values for this ratio (not shown) reveals that while there remain some outlier jurisdictions highly-reliant on charges and fees for 25% or more of general fund revenue, the number of those outliers has decreased, particularly for cities (which went from 25 to 12) and villages (which went from 29 to 14).

Overall Service Solvency

Michigan's local governments continue to balance service demands with financial constraints, as seen in shifts in expenditures, assets, and revenue sources. While per capita spending and assets have generally increased, these trends may be influenced by inflation rather than just expanded service provision. Public safety remains a major budget priority, particularly for cities and counties, though spending levels vary widely. Meanwhile, reliance on property taxes and state revenue sharing has slightly declined for the median jurisdiction, though some townships remain highly dependent on state aid. The decreasing reliance on service charges in some jurisdictions suggests a shift in funding strategies, potentially alleviating equity concerns. Across all three major revenue sources, median jurisdictions reduced their dependence on all three, perhaps indicating that local governments are making efforts to diversify their revenue sources. Moving forward, continued tracking of expenditure and revenue trends will help us understand how local governments are navigating these economic changes and uncertainty to maintain service delivery and financial stability.

Key findings:

- For many jurisdictions, expenditures and governmental assets per capita increased in the past year, often substantially. However, some portion of these increases likely reflect higher price levels rather than expanded service provision.
- Most counties and cities continue to rely on property taxes for at least half of their revenues.
- State revenue sharing continues to make up just over 40% of township revenues, although reliance on revenue sharing may be falling for many jurisdictions of all types.
- Counties and villages have decreased their reliance on service charges, showing a possible shift in revenue strategies.

Conclusion

Overall, Michigan's local governments demonstrate varying degrees of fiscal strength, with notable differences across jurisdiction types. Cash and budgetary solvency indicators suggest generally strong financial conditions in the short term, though a significant share of local governments struggle with low fund balances and/or general fund deficits. In the long term, pension and OPEB obligations will remain a significant challenge.

Service solvency indicators also suggest areas of strength and weakness. Expenditures and government assets per capita have increased, but there is wide variation between local governments, and it is difficult to tell how much of the increases are attributable to inflation versus expanded services. On the revenue side, most results show median reliance on property taxes and revenue sharing falling slightly.

Moving forward, local governments must remain proactive in addressing financial vulnerabilities, balancing fiscal responsibility with the need to provide essential services to Michigan's residents. Continued monitoring of fiscal indicators and trends is essential to identifying warning signs of fiscal stress.

Local government officials say:

Despite many positive indicators, the Spring 2024 Michigan Public Policy Survey identified early warning signs about local government fiscal health going forward. While overall ratings of fiscal stress remain low, looking ahead, 28% of local governments predicted being "less able" to meet their financial needs in the next year,[13] up from 22% in 2023[14]. Meanwhile, the percentage predicting they will be "better able" next year than this year dropped from 30% in 2023 to 26% in 2024. Excluding spring 2020 in the early months of the COVID-19 crisis, this is the first year since 2013 where more local governments predicted being "less able" to meet their needs than predicted being "better able."

NOTES

1. Fitzpatrick, N., Horner, D., & Ivacko, T. (2024). *Survey of Michigan local leaders finds major short-term boost in financial aid doesn't change fundamentals of fiscal stress*. Retrieved from: https://closup.umich.edu/michigan-public-policy-survey/120/survey-michigan-local-leaders-finds-major-short-term-boost-financial-aid-doesnt

2. Center for Local, State, and Urban Policy (2022). Michigan Public Policy Survey (MPPS) Spring 2022, Question 13A. Retrieved from: https://closup.umich.edu/data-table/michigan-public-policy-survey-mpps/spring-2022-data/q13a

3. Burton, J., Ehrlich, G., Grimes, D., and McWilliams, M. (2023). *The Michigan Economic Outlook for 2023–2025*. Retrieved from: https://lsa.umich.edu/content/dam/econ-assets/Econdocs/RSQE%20PDFs/MI_Forecast_(2023.11).pdf

4. Sapotichne, J., Rosebrook, E., Scorsone, E., Kaminski, D., Doidge, M., and Taylor, T (2015). *Beyond State Takeovers: Reconsidering the Role of State Government in Local Financial Distress, with Important Lessons for Michigan and its Embattled Cities*. Retrieved from: http://www.ippsr.msu.edu/research/beyond-state-takeovers-reconsidering-role-state-government-local-financial-distress

5. State of Michigan (2023). Data.Michigan.Gov: F-65 Data Summaries. Retrieved from: https://data.michigan.gov/browse?q=f-65&sortBy=newest&utf8=%E2%9C%93

6. Center for Local, State, and Urban Policy (2023). Michigan Public Policy Survey (MPPS) Spring 2023, Question 06. Retrieved from https://closup.umich.edu/data-table/michigan-public-policy-survey-mpps/spring-2023-data/q06

7. Center for Local, State, and Urban Policy (2024). Michigan Public Policy Survey (MPPS) Spring 2024, Question 36. Retrieved from https://closup.umich.edu/data-table/michigan-public-policy-survey-mpps/spring-2024-data/q36

8. Center for Local, State, and Urban Policy (2024). Michigan Public Policy Survey (MPPS) Spring 2024, Question 37B. Retrieved from: https://closup.umich.edu/data-table/michigan-public-policy-survey-mpps/spring-2024-data/q37b

9. Horner, D., Fitzpatrick, N. (2025). *Half of Michigan local law enforcement agencies say they are underfunded, while most local governments are satisfied with their appropriations*. Retrieved from https://closup.umich.edu/michigan-public-policy-survey/129/mpps-half-michigan-local-law-enforcement-agencies-say-they-are-underfunded-while-most-local-govt-satisfied-with-appropriations

10. For more detail, see this three-part series from the MSU Extension https://www.canr.msu.edu/news/what_is_the_headlee_amendment_and_how_does_it_affect_local_taxes

11. For more detail about the history and design of Michigan's revenue sharing program, see: https://www.house.mi.gov/hfa/PDF/Briefings/State_Revenue_Sharing_Budget_Briefing_FY 2023-24.pdf

12. Michigan Municipal League (2017). *Fact Sheet: Bolt Refresher.* Retrieved from: https://www.mml.org/resources/publications/one_pagers/FS%20Bolt%20Refresher%20with%20Plus.pdf

13. Center for Local, State, and Urban Policy (2024). Michigan Public Policy Survey (MPPS) Spring 2024, Question 34B. Retrieved from: https://closup.umich.edu/data-table/michigan-public-policy-survey-mpps/spring-2024-data/q34b

14. Center for Local, State, and Urban Policy (2023). Michigan Public Policy Survey (MPPS) Spring 2023, Question 03B. Retrieved from: https://closup.umich.edu/data-table/michigan-public-policy-survey-mpps/spring-2023-data/q03b

University of Michigan
Center for Local, State, and Urban Policy
Gerald R. Ford School of Public Policy
Joan and Sanford Weill Hall
735 S. State Street, Suite 5310
Ann Arbor, MI 48109-3091

The Center for Local, State, and Urban Policy (CLOSUP), housed at the University of Michigan's Gerald R. Ford School of Public Policy, conducts and supports applied policy research designed to inform state, local, and urban policy issues. Through integrated research, teaching, and outreach involving academic researchers, students, policymakers and practitioners, CLOSUP seeks to foster understanding of today's state and local policy problems, and to find effective solutions to those problems.

web: www.closup.umich.edu
email: closup@umich.edu
phone: 734-647-4091