



Township Government: Saving Tax Dollars in Michigan and the Nation

The mantra coming out of Lansing is that Michigan must become more competitive, and government, including local government, must operate smarter and leaner if it wants to attract new business to our state. Fingers have been pointed at local government, often focusing on the number of local governments as being a detriment to making our state competitive. It is argued that Michigan's local government structure makes us inefficient and uncompetitive. However, no one has yet documented any numbers to justify this conclusion.

Maybe the reason why the critics of township government have not produced numbers to back up their argument is because the numbers actually paint a very different picture. In fact, the cost of providing local government services in Michigan is much lower than in other states. Michigan fares even better when compared only to the other states with significant population bases, similar to the population found in Michigan. The numbers indicate that Michigan citizens are saving \$3 billion per year because of Michigan's commitment to strong grassroots local government.

This paper will examine Michigan's state and local government spending as reported in the *Statistical Abstract of the United States: 2007*, recently released by the U.S. Census Bureau. Particular attention was paid to the State and Local Finance section of the abstract, which relies heavily on figures compiled from state and local government operations in 2002. The paper will review state and local spending, and compare our state to the other 49 states to see how competitive is Michigan and what is the impact of having a strong local government structure-such as found in Michigan-as compared to other states.

One of the most difficult features of trying to compare states on cost of local government operations is the broad diversity in local government structure across the nation. Even within our own state a particular service can be offered at the local, county and state level. In order to compare states for cost of local government, less attention was paid to *who* provided the service and instead the focus was placed on the *type* of service that was provided. It is important to note that the calculations were not based on how much was spent by local government or state government; instead, the calculations were based on how much was spent to provide a particular service regardless of what level of government actually provided the service.

In reviewing the categories within the census report on state and local government spending, most segregated themselves into areas where local municipal government is the

most likely provider of service and others where the state is most likely to make service level decisions and provide resources. For the purposes of this study Fire, Police, General Administration, Sewers, Utilities and Solid Waste programs were identified as local government programs. The General Administration category was included as a local government function because most states had a much higher ratio of full-time employees from the local government side of the ledger as compared to the state. It should be noted that the General Administration category includes a substantial state component, sometimes even the majority. Given the debate that too many units of government equals too much administration, this gave extra credence to placing this issue at the local level.

The categories that were included as state responsibilities include Public Welfare, Health and Hospitals, Corrections, Highways, Education and Retirement. Charts were developed that look at each category by itself as well as collectively as a group. It is important to evaluate each category on an individual basis, as well as looking at the overall numbers. While most would consider less government spending to be a positive attribute, some cost restraints may not be considered a positive. As an example: Is Michigan creating a better business environment by spending less money on roads than 47 other states?

To allow ready comparison between Michigan and other states, all spending has been converted and is reported on a per capita basis. Spending was based upon 2002 expenditures, the most recent data available through the Census Bureau, and the per capita calculations were based on the U.S. Census 2002 estimated populations of the states. Also, to give greater insight to spending levels, the results of the comparisons will not only be matched against the nation as a whole but also against a subgroup of those states similar to Michigan, those with a population of over five million citizens. Michigan ranks eighth in the nation based on its population of 10 million residents. There are 21 states that have populations that exceed five million.

U.S. Census numbers: Michigan State and Local Spending as a Whole

According to the census data, Michigan spent a total of \$6,052 per person in 2002 on the combination of state and local government operations. During the same time, the national average was \$6,026—a variance of less than one half of 1 percent compared to Michigan. As a whole, Michigan was very “middle of the road” on its spending for government operations. 31 states spent less than Michigan from the state and local perspective. Alaska spent the most on state and local services, leading the way at over double the national average, with New York coming in second, spending \$8,450. The lowest spending state was New Hampshire, spending less than \$5,000 per resident. When evaluating Michigan’s state and local spending compared to the largest states only, 13 of the 21 states spend less than Michigan for state and local government spending. However, breaking down spending between state-level services and local-level services shows a much different picture.

Local Service Costs

Fire Service Costs

In 2002, just under \$26 billion was spent nationally on providing fire protection. This equates to just over \$90 per citizen. Michigan came in at \$68 per resident, 25 percent below the national average. One explanation for the large difference is the extensive use of paid on-call firefighters often referred to as volunteer fire departments in Michigan. This is further evidenced by the fact that Michigan has almost one third fewer full time firefighters per 10,000 residents compared to the national average.

Only 17 states spend less money on a per capita basis than Michigan. This advantage becomes even more pronounced when looking at the largest states. Of the 21 states with a population over five million in the union, only two spend less money on a per capita basis than Michigan does on fire protection.

Police Protection

Michigan also compares very favorably to other states when examining the cost of police protection. At \$197 per resident, Michigan police costs are approximately 12 percent below the national average of \$224 per resident. Michigan comes in ninth lowest in average overall expenditures for police in the large states and 27th nationally. The figures include all local, county and state police costs for each state.

General Administration

Michigan again fares well when comparing the cost of administering state and local government operations. While this figure includes all state general administrative costs, it would also include the costs of running elections, assessing, collecting local taxes and other local government functions. In this case, Michigan operates at 12 percent below the national level, at \$285 per person as compared to the national cost of \$322. Only 12 other states have a lower administrative cost than Michigan and only six of the largest states in the nation can boast greater efficiency. Only 10 states in the nation administer state and local government operations with fewer full time employees when adjusted for the population that is served.

Sewers and Utilities

Michigan's cost of sewer service as reported by the Census Bureau is very high at \$142 per person as compared to the national average of \$108. In fact only three other states report a higher figure. However, this seems to be more of a reflection of reporting based on government structure as opposed to actual cost issues. In many states sewers are run through authorities and therefore the cost is likely reported in the utility category for census purposes.

For utility expenditures, Michigan spends \$277 per person as compared to a national average of \$500 per person. If sewers and utilities are combined, Michigan spends \$419 per person as compared to \$608 for the nation-31 percent below national average.

Twenty-one states spend less than Michigan on a per person basis for the combined functions, but only five of the most populous states operate on a smaller sum than Michigan.

Solid Waste

Michigan's solid waste costs are 18 percent below the national average at \$54 per person with a national average of \$66 per person. Nineteen states spend less on solid waste management in the United States, but only six of the most populous states spend less.

Total Local Service Spending

In total, Michigan is spending \$1,022 per year for Fire, Police, General Administration, Sewers and Utilities. This compares to a national average of \$1,310 per person. The average for states with populations over five million is even higher at \$1,365 per person. Restated, Michigan is providing local government services at 22 percent *below* the national average and 25 percent below the cost of the other states similar to Michigan, often our state's chief economic rivals. Only five of the largest states have expenditures below the level of Michigan-and only one has expenditures that are more than 2 percent lower than our state's.

Michigan's Local Government Structure: Providing \$3 Billion per Year in Savings

Michigan is spending nearly \$300 per person less per year on local government services. Compared to the rest of the nation, this equates to a savings of nearly \$3 billion per year for the citizens of this state. If Michigan were operating "just like everyone else," Michigan would not be saving money; it would be spending more. In some cases, local governments may just perform a particular service in a more cost-efficient basis. In other situations, the local government chooses not to provide a certain service or provide it at a much reduced level. Our strong local government structure allows us to provide service based on the needs and desires of their community, instead of a one-size-fits-all approach found in other parts of the nation. Michigan's local government structure which allows government to better match services with needs-is a definite asset in keeping the cost of local government services lower than the rest of the nation.

State Service Costs

Welfare

Michigan's expenditures for welfare services are very middle of the road. Michigan spends less than 1 percent over the national average on welfare services at \$980 per citizen compared to the national average of \$971. Twenty states spend more on welfare programs than does Michigan, but only eight of the large states spend more on welfare.

Health Care and Hospitals

Again, Michigan is slightly above average on health care spending at \$533 per person compared to the national average of \$508 in 2002. This places Michigan at 5 percent above the national average. Fourteen states have spending above Michigan's level and six of the states with populations in excess of five million residents have spending above Michigan's level.

Corrections

Michigan spends approximately 10 percent more than the national average on corrections, spending approximately \$210 per person compared to the national average of \$190. Only nine states have an average spending rate that exceeds Michigan's and only four of the largest states in the nation spend at a greater rate than Michigan.

Human Services: Subtotal

Subtotaling Welfare, Health and Corrections spending indicates that Michigan is spending \$1,722 per person compared to the national average of \$1,669, which is just over a 3 percent variance. Fifteen states in the nation spend a larger amount on these services and seven of the most populous states exceed Michigan's level.

Highways

According to Census information, Michigan's expenditures on roads rank among the bottom in the nation. Michigan is spending 20 percent less per person than the national average. Only two states in the nation spend less on roads on a per capita basis than Michigan-Tennessee and Rhode Island. While the nation spends on average \$400 per person to maintain a road system, Michigan spends only \$320.

Retirement Costs

While much emphasis has been placed on the cost of providing retirement benefits to Michigan's public employees, the Census information indicates that Michigan's cost is exactly the same as the national average at \$396 per resident. Sixteen states have retirement costs that exceed Michigan's, including nine of the 21 of the most populated states in the nation.

Education

The largest category examined by the Census data is for education, which would include both K-12 and college expenditures. Michigan ranked 15 percent above the national average at \$2,365 per resident compared to the national average of \$2,065. Only five states in the nation committed more money on a per capita basis than did Michigan. Of the 21 most populous states, only New York and New Jersey dedicated more money to education than did Michigan.

General Observations on State Expenditures

Outside of Michigan being very close to the bottom in the nation on transportation spending and very near the top on education spending, all other spending categories listed by the Census Bureau places Michigan just slightly over the national average for expenditures.

Townships: The Key to Making Michigan Competitive

Michigan is providing local government services at a cost much below the national average. Township government is a key factor in keeping these costs low. It is the work of township officials who are making sure that those necessary services are available, and that other services that may be of marginal local value are provided at an appropriate level. No other area of activity better shows this than fire services. Ask local volunteer firefighters why they are on the job, and they will answer: "I'm here to help my community." It is township government that can best coordinate and funnel this desire shown by so many citizens to simply "help their community." This is one of the strengths that Michigan can use to build a better tomorrow.

States of the Northwest Territory

Some will be skeptical and argue that townships are not the reason that the cost of local government services is lower in Michigan. One way to confirm this conclusion is to review the spending patterns of the other states that originated in a similar manner, the area of our nation originally called the Northwest Territory. This area, formed by the Continental Congress prior to the establishment of our nation's constitution, was the birthplace of the township form of government. Six states were eventually carved out of the Northwest Territory, Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

Each of the Northwest Territory (NW) states have populations that exceed five million residents. For the purposes of discussion these "township states" will be compared as a whole with the other fifteen states in the nation that have populations that exceed five million residents.

Township States Pinch the Penny in Local Government Costs

As a group, the states of the Northwest Territory spend considerably less on local government services than do the states of the nation as a whole, and compare even better to the 15 largest states that were not part of the Northwest Territory. Of the 21 largest states, the NW states rank 9, 11, 12, 14, 16 and 20 in order of local service spending. At \$1,123 per person, they spend 9% less than the national average and 22% below the average of 15 large states that are not in the territory, which average \$1,436 per person. NW states save over \$300 compared to the other large population states.

The cost of providing local services in NW states is below that of the remaining states in fire protection, police protection, utility costs as well as solid waste costs. Sewer costs are above average, but as noted earlier, this seems to be more a reflection of reporting structure based on city and township administration as compared to the operation of authorities found in other states. Administrative costs, which include state level administrative costs, were higher for the NW states compared to the nation average by just over 3% and 4% over the large state average. Most of this was driven by the costs found in Minnesota and to a lesser extent Illinois. The other four states were below the national and large state average.

Each of the NW states has a uniform pattern of saving money at the local service delivery level. Critics of the township form of government would have everyone believe the exact opposite; that strong local grassroots government is a luxury that the citizens can no longer afford. In fact, government that is closest to the people is also the most cost effective way to administer and implement local government services.