

## Show Me the Money! MSU Study Reveals Shift of Assessing Duties to Counties 'Less Likely to Exhibit Cost Savings'

*Editor's Note: When House Bill 4780 and its companion bills were introduced in May, under the guise of saving taxpayer dollars by shifting election, tax collecting and assessing duties from townships to counties, the Michigan State University Extension State and Local Government Program undertook an analysis to determine if any cost savings would result from such a shift. The following article, authored by Eric Scorsone, PhD, takes a look at county demographics and interprets the findings that have emerged from this innovative study. Because of a lack of sufficient data on costs of providing elections and tax collecting, the report solely addresses findings related to property assessment. In all three areas, however, MTA believes it is clear that moving these responsibilities from townships to counties will NOT result in net savings, but rather would likely increase the burden to taxpayers, both financially as well as from a loss of service and convenience.*

Recent introduction of House Bills 4780 and its companion pieces of legislation (HBs 4781-4788) has raised a number of questions about the appropriate level of government to deliver services to Michigan residents. Essentially, under provisions contained in the bill, elections, tax collections and assessment functions would be transferred from "rural" townships to the county where the township is located. The bill defines a rural township as a township or charter township unit with population less than 10,000, or population between 10,000 and 20,000 but does not provide police and

fire on a 24-hour basis, and sewer and water services to more than 50 percent of its residents. The Michigan Townships Association (MTA) expects that 95 percent of Michigan townships would be subject to this legislation.

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The bill has elicited strong responses from both sides of the issue. Some newspaper editorial boards and policy think tanks across the state have positioned in favor of the bill, citing potential costs savings and a uniform service level. County and township boards statewide, conversely, have passed resolutions opposing HB 4780, and both MTA and the Michigan Association of Counties (MAC) have taken positions against the bill.<sup>1</sup> Those in opposition contend that smaller units of government can continue to provide these services more efficiently, economically, and at a better quality. Moving services to the higher-tier county government replaces existing service capacity at the township level and promotes less citizen access and accountability.

## What's At Stake?

House Bill 4780 and its companion bills:

- Shift all tax collection, election and assessing functions from township control to county control.
- Require townships to reimburse county for services that have been shifted.
- Do not impact cities or villages.
- Do not impact townships with a population over 20,000 but does impact "rural townships" with a population between 10,000 and 20,000.



Given the importance of this topic, Michigan State University's State and Local Government Program decided to undertake a financial analysis to determine the potential implications of the proposed policy change.<sup>2</sup> This article describes the process and findings from that research. The focus was placed on the financial impact of the policy and does not address other potential implications of the policy.

### CURRENT PROPERTY ASSESSMENT PROCESS IN MICHIGAN

The property assessment process has historically been assigned to the township and city governments in Michigan. An 1846 revised statute established the township supervisor as the chief assessor of the township. The township board, if the township supervisor does not have the appropriate credentials, has the right to hire assessors who would work for the township supervisor. The same law, from a 1958 revision, allows the township board to hire an independent firm to assist in the appraisal process. Under the General Property Tax (Public Act 206 of 1893), the state requires certain training and credentials for those who will undertake the assessment of property.

Thus, it is the responsibility of city and township assessors to determine individual parcel property values. The county and county boards of commissioners' current duties, via an equalization department, is in the area of property equalization. The equalization process is to determine the total value of classes of township and city property, and not individual parcel values. Each year, county equalization departments undertake sales and appraisal studies to assure property values for all cities and townships within the county are treated equally and uniformly. The equalization department undertakes this annual process to assist county boards of commissioners (pursuant to Section 34 of Michigan's General Property Tax Act) in determining whether each class of real and personal prop-

erty for each city and township located in the county is set at an average level of 50 percent of true cash value.

There are six classes of real property to be equalized by the county: agricultural, commercial, industrial, residential, timber-cutover and developmental, along with the personal property. During this process, any inequities between county jurisdictions arising from either an over- or underassessment of a property class are corrected.

If, in determining the total value of a property class, the county assessed value—as determined by the equalization department—differs from local city or township assessed value, the county applies an equalization factor against that class of property. A separate county equalization factor is determined for each of the seven classes of property. A county equalization factor of 1.00 indicates that the value of a class of property within a township or city is equal to 50 percent of true cash value. A factor less than 1.00 deducts value from the class, while a factor greater than 1.00 will add value to the property class. When multiplied against the assessed value determined by the city or township assessor, the equalization factor will add or deduct from the value of a class of property.

The system acts as a check-and-balances system regarding the process of assessment and equalization. In some instances, county equalization staff may perform assessment functions under contract for a township or city located within the county if asked to do so.

The state also computes what it believes are the assessed values for each class of property within a county. Like the county equalization of township and city property classes, the purpose of state equalization is to assure that counties across the state have their assessments set at 50 percent of true cash value. If the state equalized values are different than the county assessed values, the State Tax Commission may also impose factors on the county assessed value. The county board may appeal this decision.



**If economies of scale and cost savings are the target, ... savings seem elusive within this particular [assessing] service area.**

Within this complex web of local city or township, county and state level assessment and equalization, the individual property owner does have a chance to appeal their assessed property value. Although the first avenue for a property owner to appeal is the local assessor (where board or council resolution permits), the appeals process may ultimately be handled through the township or city board of review. The board of review offers an avenue for an individual property owner to appeal an assessment. Most city charters or resolutions will dictate board of review composition and meeting times, whereas townships must look to state legislation for these details.

**ECONOMICS OF PROPERTY ASSESSMENT**

At the heart of this debate are several important issues. Among the most important is the issue of the economies of scale associated with the cost and quality of local government services. Economies of scale refers to the relationship between the production of government services and cost. The cost of providing certain governmental functions should decrease as the service is spread across more users. However, research demonstrates this relationship generally exists for capital-intense, but not labor-intense governmental services. Therefore, the least cost size for providing police

is generally smaller than the size needed to provide sewer and water services.

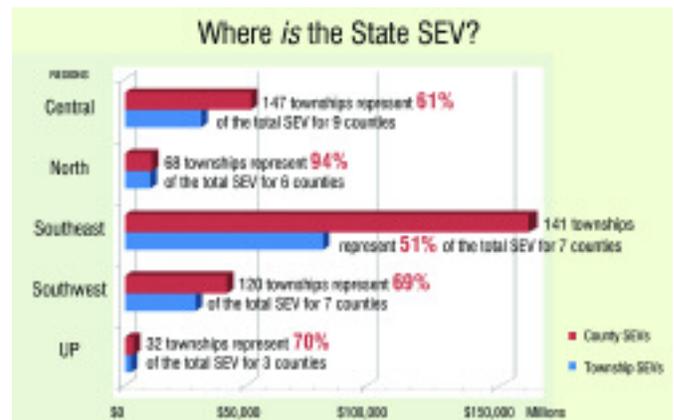
Consequently for HB 4780, a determination of cost and quality implications should assist policymakers in understanding the potential implications of transferring elections, tax collection, and property assessment from township to county governments.

The current analysis only focuses on the issue of property assessment and potential cost savings due to a transfer of functions. The service areas of tax collection and elections are not addressed in this article. This omission is due to the fact that we were unable to compile sufficient data on the cost of provision of these service areas.

For a service such as property assessment, several factors are critical in determining whether economies of scale and subsequent cost savings exist. A major question of the capacity of county governments to absorb new employees and equipment is necessary to answer. If excess capacity in facilities and personnel does not exist, new costs must be absorbed by county governments in order to undertake this function.

To assist in this discussion, the State and Local Government Program at Michigan State University sent a questionnaire to county equalization departments across Michigan. The survey was designed to elicit responses on the county capacity to extend assessment services to qualified townships, as well as provide estimated costs of such action. The equalization departments were also asked to share any perceived benefits and drawbacks of proposed legislation. It is hoped these results will shed light on one area of concern in HB 4780 as state and local leaders continue to debate this issue.

The current service provision landscape includes a range of options that townships have selected. These options include providing assessment services in-house, contracting with a private pro- ▶



**Table 1**



**Table 2**

vider or using the county government. A 2005 survey of local governments by the Citizens Research Council of Michigan revealed the following pattern of assessment service delivery:

- 69 percent of townships reported directly providing the assessment service in-house
- 10 percent reported using the county government for the service
- 19 percent reported using a private provider

Thus, township governments have already examined the delivery of the assessment service and decided that other options such as county or private provision may be more economical.

**SURVEY RESPONSE DEMOGRAPHICS**

Thirty-two, or roughly 39 percent, of Michigan counties responded to the survey, accounting for 508 township governments. This sample represents nearly 60 percent of total state equalized value (SEV) across Michigan and approximately 58 percent of township SEV. Survey coverage also includes all geographic, economic and demographic regions in Michigan (see Table 1 on page 19). For purposes of this study, the coverage is more than adequate for a comprehensive examination of the assessment issue.

In general, the complexity of assessment services increases as

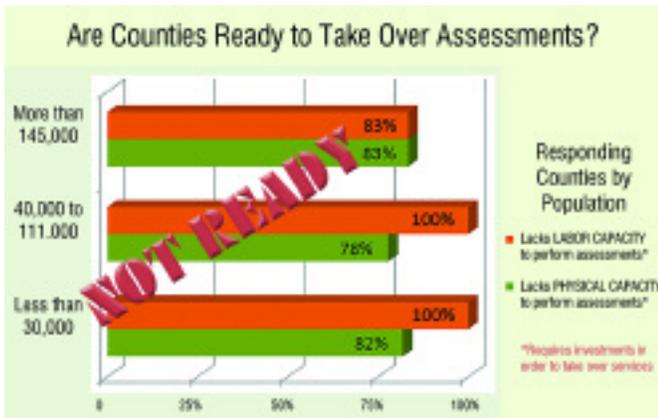
a county becomes more populated. Mandated functions and service expectations in heavier populated areas increase staffing levels and push spending higher than the more sparsely populated counties. Therefore, it is sensible to group and examine the survey results based on county population. Three groups were created: counties with (1) population less than 30,000, (2) population between 40,000 and 111,000, (3) and population greater than 145,000.

Counties were also asked to provide information on the size and operation of equalization departments (see Table 2 at left). As expected, the number of employees and costs rise as the size of the county rises. The average salaries rise due to the complexity of equalization tasks necessary. This information provided a useful benchmark in determining the potential impact of the policy change.

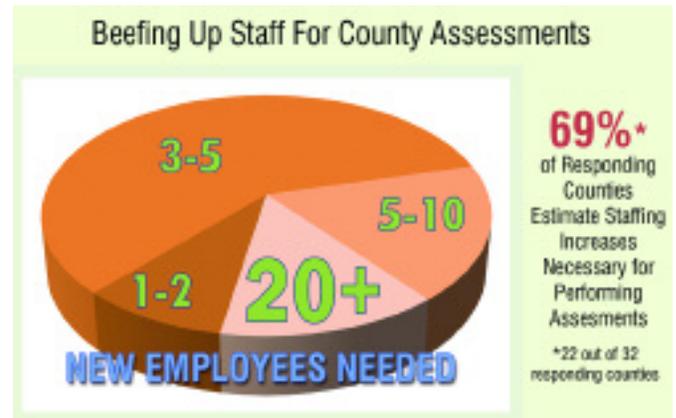
**FINANCIAL ANALYSIS AND PROJECTED COSTS**

Our analysis focused on the cost of providing the property assessment function. Some perspective is required in order to place the economics of property assessment in its appropriate context. Property assessment consumes a very small portion of local government budgets. Generally, it is in the range of 2 to 4 percent of the total local government budget. This is far below the resources expended on service areas such as police and fire protection, water and sewer service, jails and human services. At the same time, property assessment is a critical function that provides the basis for the majority of local government taxes collected.

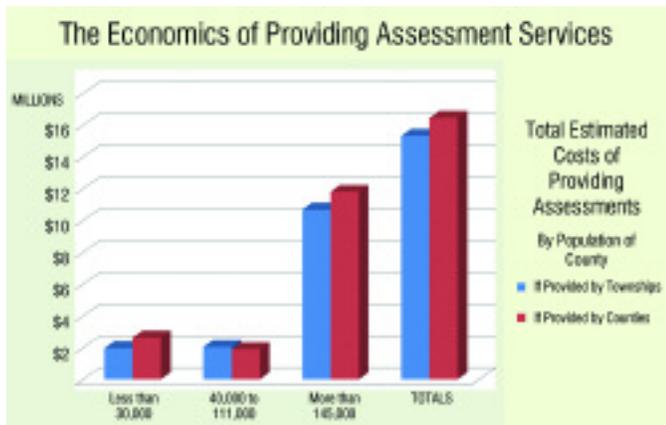
As discussed in a previous section, the economics of property assessment transfers will be partly determined by the existence of excess labor and physical capacity. Tables 3a and 3b (below), based on the survey, reveal that the majority of counties indicated they would not have the physical or labor capacity to respond to the need to provide the new assessment service. In the labor capacity arena, only two counties in the largest size category indi-



**Table 3a**



**Table 3b**



**Table 4**

cated they would have adequate staffing. In the physical capacity area, which would include office space, the vast majority of counties reported they did not have the capacity for the potential new assessment services. These results point toward the potential difficulty in achieving large cost savings from the shift of functions from township to county government.

In Table 4 (above), the financial results of the analysis are presented. The township cost calculations are based on a fiscal database collected by the Michigan Department of Treasury for township government costs. The total county costs are based on the county’s response to the administered survey. For the financial analysis, the results reflect the response of 19 counties. Not all counties provided estimates of the costs of providing the assessment function for township government. Despite the smaller sample size, it is still believed that these estimates provide policymakers with a benchmark from which to gauge the potential implications of the proposed policy change.

In two of the three categories, county government would be unable to provide property assessment functions at a lower cost than township governments. In the middle category, the cost estimates indicate essentially a cost-neutral impact. In total, assessment costs in this sample would rise nearly 10 percent or to the

figure of \$16.4 million. This provides preliminary evidence for the hypothesis that labor-intensive services such as property assessment are less likely to exhibit cost savings as the size of government responsible for the function changes.

This cost analysis does not address several important issues such as the inclusion of capital costs including equipment, office furniture and computers.

**‘UNLIKENESS OF SIGNIFICANT COST SAVINGS’**

Relative to the property assessment function, several arguments have been put forward by some proponents of regionalized government as to why such a function might be better located at the county level. The first argument is that there are cost savings to be uncovered due to the economies of scale associated with such a function. A larger government with a broader jurisdictional base can undertake the function at a lower cost. The second argument is that the “quality” of assessment services can be better and more uniformly provided at the county level as opposed to the township level.

**In total, assessment costs in this sample would rise nearly 10 percent or to the figure of \$16.4 million.**

The findings of this research indicate that the evidence is weighted toward the unlikelihood of significant cost savings from the implementation of HB 4780 as currently written, based on responses from a sample of Michigan counties. This does not imply that cost savings are not feasible in the property assessment service area. In some communities, townships may be able to transfer the property assessment function to county government or even ►



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another government entity. Some townships have already chosen this route or are working with private providers. These communities have uncovered cost savings or better service through this type of arrangement. We also recognize that other arguments related to the “quality” of property assessments have been put forward and we make no claim to have assessed the evidence supporting or opposing such claims.

Our research points to several important factors that policymakers should consider in determining the course of HB 4780 and associated legislation. In the first instance, if economies of scale and cost savings are the target, such savings seem elusive within this particular service area. MSU and other public finance research has been put forward citing the possible cost savings from cooperation in capital-intensive and high-skill intensive areas such as fire protection, water and sewer provision, road construction and information technology.

At the same time, such research reveals that a voluntary, incentive-based approach is likely to yield better results than a mandated approach. While mandates have an appropriate use, in many cases they force many communities to undertake changes in service provision that are neither economical nor equitable. Note the increasing use of incentives and information in the environmental

regulation arena rather than mandates. Public finance economics points to incentives, as opposed to mandates, as a better tool to achieve the same ends.

*For more insights on this study, turn to “Local View” on page 3.*

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### Endnotes

<sup>1</sup> Although the MAC Board has officially opposed the legislation, they continue to examine provisions of the bill in individual workgroups. They seek to introduce flexibility into the legislation by making portions optional or incentive-driven.

<sup>2</sup> The MSU State and Local Government Program holds an official neutral position with regards to the proposed legislation.