

# Michigan's Local Finance Structural Deficit and Analysis of Proposed Solutions

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**Problem:** Michigan's cities and townships face continued financial hardships due to Constitutional revenue limitations and loss of statutory state revenue sharing, made worse by rapidly increasing legacy costs for employees.

**Solution Proposed by Policymakers:** Local units that increase their use of intergovernmental operating agreements become eligible for enhanced state revenue sharing as an inducement for local unit savings, presumably leading to an outcome of stabilized or improved local services.

**Hypothesis:** Urbanized regions of Michigan that increase their use of service mergers or service-sharing agreements will, with an added incentive of enhanced revenue sharing from the state, foster a fiscally-sustainable level of local services.

**Methodology:** Using four models of urbanized regions in Michigan (including thirty local governments), research compared regionalized local revenue trends with regionalized local unit legacy costs.

**Conclusion:** Using realistic assumptions for efficiency gains and revenue enhancement, balanced against assumptions of future legacy costs, the hypothesis holds for the near term but, absent other interventions, long-term fiscal sustainability is unlikely.

