

Evaluating the Potential Impacts on Pentwater Township if Pentwater Village Incorporates as a City

Residents in Pentwater Village are exploring the possibility of incorporating it as a city. The question rests with residents of the village, but what they decide will have consequences for Pentwater Township. Villages are parts of townships, so decisions to incorporate and become independent units of government affect the finances and service delivery models of the townships.

Cities and townships provide both services required by state law – including, 1.) assessing property as a basis of state, county, and school taxes; 2.) collecting taxes for the state, counties, and schools; and 3.) conducting county, state, and national elections – and optional services, such as fire protection, police protection, water supply, sewage disposal, zoning, public health, etc. The entire state is divided into non-overlapping cities and townships, to which the legally required duties are assigned. If Pentwater Village becomes an incorporated city, the geographic footprint would be withdrawn from Pentwater Township for all governmental purposes and the new city would become responsible for all services itself.

About the Township/Village

- Pentwater Township has enjoyed modest growth over the past 40 years while the village has lost residents.
- More than 80 percent of the township residents lived in the village in 1980, but only 54 percent lived in the village in 2020.
- The median age of the township and village is significantly older than the statewide median age. This suggests that future growth is going to have to come from migration from other parts of the state or elsewhere.
- The township is relatively wealthy compared to the rest of the state as measured by median household income, suggesting a capacity to fund government services at whatever level the collective community decides upon.

Tax Base and Rate

Local governments typically seek diverse property tax bases. The Pentwater Township and Village tax bases have little diversity, with residential properties contributing nearly all of the value. A decision for the village to incorporate as a city would leave the township property tax base composed almost solely of residential property.

For its size, Pentwater Township outside of the village has a lot of advantages relative to other townships with similar populations and neighboring townships. Its relatively rich tax base is driven largely by the lakeside location and its attractiveness for the second homes that make up a large segment of the residential property tax base.

Pentwater Township's operating millage is levied at a rate similar to peer townships, but by levying it on a relatively rich tax base it yields more revenue than the peer townships receive. Pentwater Township residents have been willing to tax themselves to pay for township services, especially the dedicated millages for fire protection, the library, roads, and the cemetery.

Township Budget

To estimate the impact on the Pentwater Township budget that the village incorporating as a city would have, expenditures made in the recently completed township 2022-23 fiscal year were adjusted to reflect a smaller tax base, as well as to estimate a level of township expenditures to maintain a semblance of current township operations given the available resources.

This non-binding exercise was performed to assess the potential fiscal impact of the village becoming a city. For this exercise, it was assumed that the village could flip a switch and become a city immediately. In fact, it will take a few years if village leadership and residents opt to pursue this path. If the actions lead to cityhood, the township board will repeat this exercise to adjust the budget with binding actions.

Pentwater Township collects more than \$4 million in property tax revenue from township property owners annually. However, only 13.7 percent, \$520,035, of that revenue is used for township services. The remaining \$3.8 million is collected on behalf of, and remitted to, the county, the school district, the intermediate school district, and the state.

The township levies a total of 4.4340 mills on eligible property (The tax rate is referred to as a mill. A mill is equal to \$1 of tax for every \$1,000 of taxable value).

The township general fund budget received \$558,449 in revenues during the 2022-23 fiscal year. Of the total revenue, 57 percent came from property taxes, 15 percent

from administrative fees, and 17 percent from state revenue sharing. The other 11 percent was derived from minor taxes, charges, and other sources.

If the village incorporates as a city, Pentwater Township revenues would be expected to decrease by 35 percent as a result of the loss of the tax base and other assumed changes. Reductions in property tax revenue, administrative fees, and delinquent taxes would comprise most of the decrease because the village's tax base currently accounts for 45 percent of the township's tax base.

Some costs could be reduced because the services primarily serve village properties. Still, most costs would remain. The township would have to increase the tax rate by 1.4 mills to maintain the present level of services. To estimate Pentwater Township's ability to maintain a service package similar to what residents currently receive, appropriations were assumed to reduce in a number of the budget items to reflect lesser revenue, fewer parcels being served, and/or a smaller population served. Nonetheless, revenues would not be sufficient to cover expenditures even after conducting this cost cutting exercise. A tax increase of 0.3 mills or deeper cost cutting would be necessary.

Township Facilities and Services

Other facilities and services would be affected by the village's actions.

The Pentwater Township Hall currently is physically located within the village limits. Michigan law would not require the township to move its main government building, but it would be desirable to have the township hall easily accessible to the township residents.

Elections costs might seem a candidate for reduction with fewer people in the township, but minimal savings are possible because the hours of operation would not be changed (and are required to increase under the 2022 constitutional amendment).

Pentwater Township levies a 0.4953 mill property tax for road funding to support the Oceana County Road Commission's efforts. If the village were to become a city, the township would have to reduce the amount of road improvements that could be undertaken each year.

Pentwater Township operates a fire department to protect the properties in the township, including those in the village. The township levies a 0.4953 mill tax to fund the needed firefighting apparatus and a 0.9837 mill tax to fund operations of the department. The fire station is physically located within the village. Some legal changes would be necessary, but state law is accommodating for local governments to collaborate in the provision of fire protection services. Residents would notice little change.

Pentwater Township levies a 0.8133 mill tax to support the Pentwater Township Library building and operations. If the village were to become a city, 45 percent of the township's contribution to funding for the Pentwater Library would be eliminated. This can be addressed by utilizing one of several state laws that are accommodating for local governments to collaborate in the provision of library services.

Pentwater Township operates a cemetery that also serves village residents (as township residents). The issue if the village incorporates as a city is whether changes should be made to the governance and financing of the cemetery to reflect its benefit. Otherwise, village residents will be charged higher rates for all cemetery services. Michigan law does not provide explicit authority for intergovernmental collaboration in the provision of a cemetery, but the Urban Cooperation Act provides for the joint exercise of any power, privilege, or authority that each public agency has the power to exercise separately. Both townships and cities have the authority to provide a cemetery individually, so they could do it jointly.

Current data support near equal usage of the transfer station by both village and township residents. If the city chooses not to support the transfer station, hours of operation would likely be reduced to reflect a less tax support.

Of all the recreation facilities funded through the township budget, Park Place is the only one for which exclusion is possible. It is assumed that fees would be charged for its use. The Recreation and Playgrounds Act could be used to share the cost of other recreation amenities.

Annexation

Whether it is a village or a city aspiring to annex territory, ultimately the decision of whether annexation should occur rests with an entity outside of Pentwater. Depending on where one sits – annexations often have proponents and opponents – the city process affords those affected the ability to petition for a referendum on the question.

Conclusion

Because Pentwater Township has a relatively rich property tax base and levies taxes at relatively high rates, it will have more resources than similarly sized or surrounding townships. It may be necessary for some services and operations to be scaled back. Additionally, several Michigan laws could be utilized to provide services such as elections, fire protection, the library, the cemetery, refuse transfer site, and recreation facilities in collaboration with the city or surrounding townships.