Trends in local fiscal health and funding local government in Michigan

Presented at the
What’s After Bankruptcy? Lessons in Governance Reform
Detroit Branch of the Federal Reserve Bank of Chicago
November 7, 2013
The Michigan Public Policy Survey

• **Census survey** – all counties, cities, villages, and townships

• **Respondents** – chief elected and appointed officials

• **Administered** – online and via hardcopy

• **Timing** – Spring and Fall each year

• **Topics** – wide range, such as fiscal health, budget priorities, economic development, intergovernmental cooperation, employee policies, labor unions, state relations, environmental sustainability, citizen engagement, much more.
MPPS is not a typical opinion poll

- 70+% response rates
- Census-style approach
- Transparency
  -- Questionnaires online
  -- Pre-run data tables online
  -- Sharing of (anonymized) datasets with other researchers
- Expert advisors on questionnaire content
- Borrow from other proven sources such as NLC and ICMA
- Quality control such as double blind coding of open-end responses
Presentation Outline

• Findings on fiscal trends and budgetary health from the Spring 2013 Wave of the MPPS
  ✓ Fiscal challenges facing Michigan’s local governments
  ✓ How local governments are responding

• Local officials’ concerns for the future
Challenge: Declining Revenues and Rising Costs
A Decade of Funding Cuts

Revenue sharing cuts

~ $4.2 Billion

House Fiscal Agency

9/22/2011
Declining Revenues

% of jurisdictions with declining state aid

Population Size

- < 1500
- 1500-5000
- 5001-10000
- 10001-30000
- > 30000

Years:
- 2009
- 2010
- 2011
- 2012
- 2013
Declining Revenues

% of jurisdictions with declining property tax revenues
Response: Local Governments Take Action
Government Actions

% of jurisdictions increasing reliance on GF balance
Government Actions

% of jurisdictions cutting staff levels
Government Actions

% of jurisdictions shifting *health care costs* to employees
Government Actions

% of jurisdictions increasing inter-gov’t cooperation
Government Actions

% of jurisdictions increasing debt

[Bar chart showing the percentage of jurisdictions increasing debt by population size and year (2009-2013).]
Government Actions

% of jurisdictions cutting service levels
Result:
Gradual Trend
Easing of Fiscal Stress
Spreading Fiscal Problems

2009: less able to meet fiscal needs, by county

Jurisdictions within County

Green: < 25%
Yellow: 25-50%
Red: > 50%
Spreading Fiscal Problems

2010: less able to meet fiscal needs, by county

Jurisdictions within County

Green: < 25%
Yellow: 25-50%
Red: > 50%
Easing Fiscal Problems

2011: less able to meet fiscal needs, by county

Jurisdictions within County

Green: < 25%
Yellow: 25-50%
Red: > 50%
Easing Fiscal Problems

2012: less able to meet fiscal needs, by county

Jurisdictions within County

- Green: < 25%
- Yellow: 25-50%
- Red: > 50%
Easing Fiscal Problems

2013: less able to meet fiscal needs, by county

Jurisdictions within County

- Green: < 25%
- Yellow: 25-50%
- Red: > 50%
Easing Fiscal Problems

net fiscal health change: percentage of jurisdictions with improving fiscal health minus percentage with declining health
Looking Ahead: Concerns about Michigan’s Current System of Local Government Funding
Concerns Going Forward
% that can **maintain services** in current system

- **Can Maintain**
  - < 1500: 46%
  - 1500-5000: 46%
  - 5001-10000: 44%
  - 10001-30000: 38%
  - > 30000: 22%
- **Neutral**
  - < 1500: 16%
  - 1500-5000: 21%
  - 5001-10000: 17%
  - 10001-30000: 13%
  - > 30000: 67%
- **Cannot Maintain**
  - < 1500: 30%
  - 1500-5000: 27%
  - 5001-10000: 37%
  - 10001-30000: 48%
  - > 30000: 10%
- **Don't Know**
  - < 1500: 8%
  - 1500-5000: 6%
  - 5001-10000: 2%
  - 10001-30000: 1%
  - > 30000: 1%
Concerns Going Forward

% of jurisdictions with increased infrastructure needs
Concerns Going Forward
% that can **improve services** in current system

<table>
<thead>
<tr>
<th>Population Size</th>
<th>Can Improve</th>
<th>Neutral</th>
<th>Cannot Improve</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1500</td>
<td>37%</td>
<td>12%</td>
<td>26%</td>
<td>12%</td>
</tr>
<tr>
<td>1500-5000</td>
<td>38%</td>
<td>9%</td>
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<td>10%</td>
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<tr>
<td>5001-10000</td>
<td>46%</td>
<td>3%</td>
<td>24%</td>
<td>13%</td>
</tr>
<tr>
<td>10001-30000</td>
<td>61%</td>
<td>1%</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>&gt; 30000</td>
<td>79%</td>
<td>1%</td>
<td>6%</td>
<td>8%</td>
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</table>
Support for Funding Reform

% that believe significant reform is needed

<table>
<thead>
<tr>
<th>Population Size</th>
<th>Reform needed</th>
<th>Neutral</th>
<th>Reform not needed</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1500</td>
<td>52%</td>
<td>23%</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>1500-5000</td>
<td>56%</td>
<td>22%</td>
<td>16%</td>
<td>6%</td>
</tr>
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<td>19%</td>
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<td>3%</td>
</tr>
<tr>
<td>10001-30000</td>
<td>70%</td>
<td>15%</td>
<td>14%</td>
<td>1%</td>
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<tr>
<td>&gt; 30000</td>
<td>77%</td>
<td>13%</td>
<td>10%</td>
<td>0%</td>
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Support for Funding Reform

% that believe **significant reform** is needed

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<thead>
<tr>
<th></th>
<th>Republicans</th>
<th>Independents</th>
<th>Democrats</th>
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</thead>
<tbody>
<tr>
<td>Reform needed</td>
<td>55%</td>
<td>63%</td>
<td>62%</td>
</tr>
<tr>
<td>Neutral</td>
<td>22%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Reform not needed</td>
<td>18%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Don't know</td>
<td>5%</td>
<td>7%</td>
<td>5%</td>
</tr>
</tbody>
</table>
Support for Funding Reform

% that would target **specific funding elements** to reform

- Gas tax
- Sales tax
- Headlee Amendment
- Proposal A
- Constitutional revenue sharing
- Personal Property Tax (PPT)
- Economic Vitality Incentive Program
- Local income tax
- Regional taxation

<table>
<thead>
<tr>
<th>Category</th>
<th>Not Important at All</th>
<th>Somewhat Important</th>
<th>Very Important</th>
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</thead>
<tbody>
<tr>
<td>Gas tax</td>
<td>6%</td>
<td>35%</td>
<td>54%</td>
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<tr>
<td>Sales tax</td>
<td>12%</td>
<td>42%</td>
<td>41%</td>
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<tr>
<td>Headlee Amendment</td>
<td>9%</td>
<td>38%</td>
<td>44%</td>
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<tr>
<td>Proposal A</td>
<td>8%</td>
<td>36%</td>
<td>45%</td>
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<td>Constitutional revenue sharing</td>
<td>15%</td>
<td>30%</td>
<td>50%</td>
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<tr>
<td>Personal Property Tax (PPT)</td>
<td>15%</td>
<td>37%</td>
<td>41%</td>
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<tr>
<td>Economic Vitality Incentive Program</td>
<td>12%</td>
<td>32%</td>
<td>32%</td>
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<tr>
<td>Local income tax</td>
<td>37%</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Regional taxation</td>
<td>29%</td>
<td>26%</td>
<td>16%</td>
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Not Important at All  | Somewhat Important  | Very Important
Trends
key findings

• Long period of fiscal squeeze: falling revenues and rising costs.

• Local governments fiscal were very active in responding: have largely preserved health and tried to protect services.

• As of 2013, 29% of Michigan jurisdictions say they are better able to meet their financial needs this year, while another 29% say they are less able to do so.

• However, only 43% believe current system of funding will allow them to maintain their current package of services in the future; only 26% think it will allow improvements or provision of new services.

• 58% say significant reform is needed. Among them, overwhelming percentages say each major piece of the system needs reform.
www.closup.umich.edu
closup-mpps@umich.edu