Taking the Pulse of Local Government Leaders on Fiscal Health: Slow Recovery from the Great Recession Poses Concerns About the Future

February 25, 2020
Wolverine Caucus
Presentation Outline

- **Brief overview** of the Michigan Public Policy Survey
- **Challenges** facing local jurisdictions leading up to and through the Great Recession
- **Trends** in local government fiscal health over the past decade
- **Concerns about the future**
- **Broken system of funding**, and support for fixes
The Michigan Public Policy Survey (MPPS)

- **A census survey** – all 1,856 Michigan counties, cities, villages, & townships

- **Respondents** – chief elected & appointed officials

- **Wide Range of Topics** – examples include fiscal health, government operations and budget policies, energy, roads, poverty, public safety, economic development, intergovernmental cooperation, service privatization, employee policies, labor unions, housing, environmental sustainability, Great Lakes, citizen engagement, much more.
MPPS is not a typical opinion poll

- 70+% regular response rates

- **Transparency**
  - Questionnaires online
  - Pre-run data tables online
  - Sharing of (anonymized) datasets with other researchers

- **Research partnership with Michigan local government associations**
  - MAC, MML, & MTA
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Historical under-funding of local government

Constitutional, Statutory, and Unfunded State Revenue Sharing, FY1981 to FY2017

Source: Citizens Research Council
How have local governments coped?

- Reduced **number of employees**
- Reduced **pay and benefits**: shifted health care costs to employees; negotiated benefit reductions with employee unions
- Reduced **retiree benefits**
- Used up **rainy day funds**
- Delayed **infrastructure** maintenance
- Pursued **service sharing agreements** with other units
- Reduced public service provision
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What are local officials’ assessments of their current health?

Two MPPS survey measures for tracking local fiscal health:

1) SHORT TERM YEAR-OVER-YEAR CHANGE

Would you say that your unit of government is less able or better able to meet its financial needs in this fiscal year compared to the last fiscal year? … the next fiscal year compared to this one?

2) SNAPSHOT ASSESSMENT OF OVERALL CURRENT HEALTH (Fiscal Stress Index)

Thinking about the overall fiscal stress in your jurisdiction today and what you expect it to be down the road – including any future financial obligations it may have – on a scale from 1 to 10, where 1 is the best: perfect fiscal health and 10 is the worst: fiscal crisis, how would you rate your jurisdiction’s overall fiscal stress today? …as you expect it to be five years from now?
Improvement has stagnated in 2nd half of decade

Short term year-over-year change: better or less able to meet fiscal needs this year compared to the last fiscal year?
But reports of overall stress are relatively low

Fiscal Stress Index today:
1 = Perfect Fiscal Health, 10 = Fiscal Crisis

~ 130 jurisdictions

2019
Fiscal Stress Index Improvement in 2019

Net fiscal health:
Percentage of low stress jurisdictions – (medium + high stress jurisdictions)
Fiscal Stress Index improvement led by townships

Net fiscal health over time, by jurisdiction type

- County
- Township
- City
- Village
On the one hand, consistent (although marginal) rise in local property tax revenues:
Why mixed signals on local fiscal health?

On the other hand, employee wages continue to rise (as do other costs, too):
Why mixed signals on local fiscal health?

And plans for spending on services and infrastructure not keeping up with needs:

- Infrastructure needs greatly increased vs. previous FY
- Infrastructure needs somewhat increased vs. previous FY
- Plans to greatly increase infrastructure spending in coming FY
- Plans to somewhat increase infrastructure spending in coming FY
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Have locals recovered from the last recession?

Looking back, how would you rate your jurisdiction’s fiscal health today compared to where it was before the Great Recession of 2008-09?

- 34% significantly better off today
- 22% somewhat better off today
- 13% neither better nor worse off today than before the last recession
- 12% somewhat worse off today
- 5% significantly worse off today
- 14% don’t know
Have locals recovered from the last recession?

- Significantly better off today: 13%
- Somewhat better off today: 14%
- Neither better nor worse off today than before the last recession: 25%
- Somewhat worse off today: 26%
- Significantly worse off today: 16%
- Don't know: 11%

By location:
- County:
  - Significantly better off today: 9%
  - Somewhat better off today: 26%
  - Neither better nor worse off today than before the last recession: 16%
  - Somewhat worse off today: 8%
  - Significantly worse off today: 11%
  - Don't know: 15%
- Township:
  - Significantly better off today: 13%
  - Somewhat better off today: 35%
  - Neither better nor worse off today than before the last recession: 25%
  - Somewhat worse off today: 26%
  - Significantly worse off today: 11%
  - Don't know: 15%
- City:
  - Significantly better off today: 13%
  - Somewhat better off today: 34%
  - Neither better nor worse off today than before the last recession: 25%
  - Somewhat worse off today: 26%
  - Significantly worse off today: 11%
  - Don't know: 15%
- Village:
  - Significantly better off today: 13%
  - Somewhat better off today: 34%
  - Neither better nor worse off today than before the last recession: 25%
  - Somewhat worse off today: 26%
  - Significantly worse off today: 11%
  - Don't know: 15%
Are they concerned about the next recession?

How concerned are you, if at all, about the potential impact of the next recession on your jurisdiction’s quality and/or amount of services provided?
Increasing doubts looking ahead

Short term year-over-year change: **better or less able** to meet fiscal needs **next year** compared to this one?

![Bar chart showing the percentage of respondents who feel better or less able to meet fiscal needs in the coming year from 2009 to 2018.](image-url)
Increasing doubts looking ahead

Fiscal Stress Index in five years:
1 = Perfect Fiscal Health, 10 = Fiscal Crisis

[Categorical data chart showing current and predicted fiscal stress levels across different district sizes, ranging from 3% to 16% in various categories: current, predicted in 5 years, total statewide, <1,500, 1,500-5,000, 5,001-10,000, 10,001-30,000, and >30,000. The chart highlights different levels of fiscal stress with color coding: high fiscal stress (FSI 7-10), medium fiscal stress (FSI 5-6), low fiscal stress (FSI 1-4), and don't know.]
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Key elements of Michigan’s System of Funding Local Government

- **Property taxes**: capped by Constitutional Amendment (Headlee; Proposal A)

- **State revenue sharing**: sales taxes collected at state level and disbursed as revenue sharing, underfunded since 2001

- **Other local revenue options**: among the most restrictive nationwide

- Plus **other cost drivers**: unfunded mandates and other costs imposed by state laws
Local leaders believe system of funding is broken

Percentage of local leaders that believe the system of funding local government in Michigan is broken and needs significant reform

- 28% Strongly agree
- 18% Somewhat agree
- 9% Neither agree nor disagree
- 5% Somewhat disagree
- 3% Strongly disagree
- 9% Don’t know
Belief that the system of funding is broken, by population size

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree
- Don't know

Population Size categories:
- < 1,500
- 1,500-5,000
- 5,001-10,000
- 10,001-30,000
- > 30,000

Graph showing distribution of belief across population sizes.
Local leaders predict struggle to preserve services

Whether the system of funding will allow local governments to maintain services, and/or to improve them (assuming an improving economy)

Will be able to maintain services
- Strongly agree: 6%
- Somewhat agree: 34%
- Somewhat disagree: 23%
- Strongly disagree: 14%

Will be able to improve services
- Strongly agree: 3%
- Somewhat agree: 20%
- Somewhat disagree: 23%
- Strongly disagree: 23%
What do they think needs to change?

Percentage that support/oppose **11 possible changes** to system of funding

<table>
<thead>
<tr>
<th>Change</th>
<th>Strongly oppose</th>
<th>Somewhat oppose</th>
<th>Neither support nor oppose, or don't know</th>
<th>Strongly support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compel the State to pay for “unfunded mandates” imposed on local governments</td>
<td>16%</td>
<td>22%</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Restore full statutory revenue sharing (i.e., reverse cuts that began in early 2000s)</td>
<td>1%</td>
<td>2%</td>
<td>97%</td>
<td></td>
</tr>
<tr>
<td>Reform Headlee Amendment to eliminate or limit millage rate roll-backs</td>
<td>21%</td>
<td>27%</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>Establish automatic millage rate “roll-ups” (increases up to the maximum authorized millage rate when tax base grows slower than inflation)</td>
<td>7%</td>
<td>31%</td>
<td>28%</td>
<td>16%</td>
</tr>
<tr>
<td>Reform Proposal A to allow more taxable value growth for individual properties</td>
<td>9%</td>
<td>13%</td>
<td>34%</td>
<td>27%</td>
</tr>
<tr>
<td>Increase maximum allowable local millage rates</td>
<td>6%</td>
<td>10%</td>
<td>41%</td>
<td>28%</td>
</tr>
<tr>
<td>Increase rates on state taxes with revenue-sharing components (e.g., sales, gas)</td>
<td>10%</td>
<td>14%</td>
<td>38%</td>
<td>27%</td>
</tr>
<tr>
<td>Add services that are not currently taxed to the state sales tax base</td>
<td>11%</td>
<td>15%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Allow local governments to raise revenues through local-option taxes (e.g., sales, gas, hotel)</td>
<td>11%</td>
<td>15%</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>Reform tax increment financing/tax captures (e.g., DDAs, TIFs, LDFAs) to limit impact on general government revenues</td>
<td>6%</td>
<td>9%</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Enable regional tax-base sharing among local units</td>
<td>11%</td>
<td>13%</td>
<td>51%</td>
<td></td>
</tr>
</tbody>
</table>
What local revenue options would they support?

If given **new authority to raise local revenues**, which types would local officials support?

<table>
<thead>
<tr>
<th>Revenue Option</th>
<th>Strongly Oppose</th>
<th>Somewhat Oppose</th>
<th>Neither Support nor Oppose, or Don't Know</th>
<th>Somewhat Support</th>
<th>Strongly Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local property tax millage rates</td>
<td>15%</td>
<td>17%</td>
<td>28%</td>
<td>32%</td>
<td>8%</td>
</tr>
<tr>
<td>Local sales tax on alcohol, tobacco, etc.</td>
<td>25%</td>
<td>16%</td>
<td>27%</td>
<td>23%</td>
<td>9%</td>
</tr>
<tr>
<td>Local hotel / tourism tax</td>
<td>18%</td>
<td>16%</td>
<td>42%</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>Local public utility taxes / fees</td>
<td>21%</td>
<td>19%</td>
<td>37%</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>Regional tax-base sharing</td>
<td>20%</td>
<td>14%</td>
<td>44%</td>
<td>18%</td>
<td>4%</td>
</tr>
<tr>
<td>Local sales tax</td>
<td>35%</td>
<td>19%</td>
<td>29%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>Local gas tax</td>
<td>35%</td>
<td>22%</td>
<td>29%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Local motor vehicle license / registration fees</td>
<td>29%</td>
<td>23%</td>
<td>34%</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>Local income tax</td>
<td>37%</td>
<td>22%</td>
<td>30%</td>
<td>9%</td>
<td>3%</td>
</tr>
</tbody>
</table>
How many of the options would they support?

If given **new authority to raise local revenues**, how many would local officials support?

~ 31% of jurisdictions
Summary

- **A slow, halting recovery** from the Great Recession, with recent stagnation.

- **Growing concerns** about fiscal health and ability to provide services in the future.

- Belief that the **system of funding local government is broken** in Michigan, and should be fixed at the state level. If the state won’t do that, it’s worth looking into more authority to raise more revenue at the local level.
The Michigan Public Policy Survey (MPPS)

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