Michigan local officials’ views on the next recession: timing, concerns, and actions taken

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This report presents the assessments of Michigan’s local government leaders regarding the next recession, including its expected timing and impacts, and whether their jurisdictions have taken action to prepare for it. These findings are based on statewide surveys of local government leaders in the Spring 2019 wave of the Michigan Public Policy Survey (MPPS).

Key Findings

- A majority of local leaders statewide (57%) are concerned about the potential impact of the next recession on their jurisdictions’ ability to deliver public services and maintain government operations.
  - More than three-quarters of officials from larger communities (with more than 10,000 residents) are concerned about the potential impacts on service provision.

- Although many local officials are concerned about the next recession, there is little immediate sense of urgency. Overall, 39% of local leaders don’t know when to expect the next recession will start (when asked in spring 2019), while 57% believe it is more than a year away, including 31% who say it is more than two years away. Meanwhile, just 3% think it will likely start within the next 12 months.

- Only 13% of local leaders believe their jurisdictions are very prepared for the next recession, although another 57% say they are at least somewhat prepared. Meanwhile, 20% report being either somewhat unprepared (16%) or very unprepared (4%) to deal with the next economic recession.
  - Local officials who say their jurisdictions are unprepared for the next recession are most likely to be from mid-sized jurisdictions and those in the Upper Peninsula, Southeast, and East Central regions. In addition, county officials are more likely than city, village, or township officials to say their jurisdictions are unprepared.

- Finally, just a quarter (26%) of local officials report their governments have taken specific actions to prepare for the next economic recession, although this includes over half (55%) of the state’s largest jurisdictions (those with more than 30,000 residents).
Background

Talk about the next recession has been increasing over the past year among economists looking both at the nation as a whole as well as those focusing on Michigan in particular. Michigan may be on the leading edge when the next recession hits, with one recent forecast identifying Michigan as the state with the highest risk of suffering recession in the near term. Michigan’s business leaders are also expressing heightened concerns, with nearly half (46.5%) in a recent survey predicting a downturn in the state economy in the next six to twelve months, a significant increase over earlier this year. However, pinpointing exactly when the next economic downturn will hit is always a challenge. Although some suggest a recession may have already begun, or predict it will begin by the end of next year, no one can be sure exactly when it will occur or how bad it might be. In fact, others such as Jerome Powell, chair of the Federal Reserve Board, argue that currently the national economy is strong and risk of recession is relatively low. Furthermore, the University of Michigan’s Research Seminar on Quantitative Economics (RSQE) which provides forecasts of both the U.S. national economy and the Michigan economy does not currently predict a major downturn for Michigan in the near term.

Statewide, Michigan has experienced 10 years of steady economic improvement since the end of the Great Recession in 2009. But despite the state’s overall recovery, there are reasons to believe it may be particularly vulnerable to the pain inflicted by a potential new economic recession. Even in recovery, Michigan’s trends in traditional economic indicators have been mixed. For example, Crain’s Detroit Business reported last year that while the state’s GDP per capita is up, at the same time household income is down, and while unemployment has improved, fewer Michiganders are actually working compared with levels before the Great Recession.

The state government’s ability to handle an economic downturn may be uncertain as well. George Mason University researchers analyzed states’ general and rainy day fund balances and found that Michigan may be ready to weather a mild recession, but not necessarily an extreme or even average one. And at the local level, not every Michigan community has shared in the economic improvements over the past decade, with many local governments reporting persistent fiscal stress.

To get a sense of whether local leaders believe their government is prepared for the next recession—whenever it may arrive—the Spring 2019 MPPS asked local officials when they think the next recession will begin, whether they are concerned about its potential impacts on government operations and service provision, how prepared they feel for it, and what preparatory actions, if any, they’ve taken.
A majority of jurisdictions statewide are concerned about the next recession’s potential impact on service delivery and government operations

Officials in more than half of Michigan’s local jurisdictions are concerned about the potential impact of the next economic downturn on their government’s ability to provide services (58%) and on their government’s own operations (57%). When it comes to the quality and/or amount of services provided by their government, 12% of local leaders are very concerned about the impact of the next recession, and another 46% are somewhat concerned (see Figure 1a). Local leaders are also anxious about the potential impacts of a new recession on their general government operations, with 15% indicating they are very concerned and another 42% somewhat concerned.

Apprehension over how local governments and the services they provide might be affected by the next recession are particularly widespread among larger jurisdictions. This is understandable, since the larger the local government, the more likely it is to offer extensive services. In addition, prior MPPS research in the wake of the Great Recession found that fiscal health did indeed fall faster and farther among the state’s larger jurisdictions, compared with smaller ones. As shown in Figure 1b, more than a quarter (26%) of officials from the state’s largest jurisdictions—those with more than 30,000 residents—say they are very concerned and another 54% are somewhat concerned about potential impacts from the next recession. But that’s not to say that small communities are not worried. Even among leaders from the state’s smallest jurisdictions—those with fewer than 1,500 residents—around half express concerns about potential negative impacts from the next recession on service delivery.

When looking regionally, local officials from Southeast Michigan are the most likely to say they are very (20%) or somewhat (48%) concerned about potential impacts of a future recession on their ability to provide public services (see Figure 1c). By comparison, those from the Northern Lower Peninsula are the least likely to say the same.
Most local officials are uncertain about the start of the next recession, but few see it as imminent

Although local leaders have widespread concerns about the potential impacts of the next recession on public services and their government operations, relatively few expect the next recession will hit soon. Based on responses from April-June 2019, only 3% predict the next recession will mostly likely start within the next 12 months (see Figure 2a). Another 26% predict it will happen within one to two years, while 31% estimate it is more than two years away. Meanwhile, the largest segment (39%) of local officials simply don’t know when they think it will arrive.

Officials from smaller jurisdictions are the least likely to have particular beliefs about when the next recession will begin, with almost half (47%) from jurisdictions under 1,500 residents saying they “don’t know” (see Figure 2b). By contrast, most local leaders from larger jurisdictions do express views on its expected arrival, and among them only a small number believe a recession is on the near-term horizon. However, in larger communities with more than 10,000 residents, 45%-47% of local leaders believe there will be a new recession in under two years.
A majority of local leaders believe their jurisdictions are at least somewhat prepared for the next recession

Despite concerns about the potential impact of the next recession on public services and government operations, most local leaders believe their jurisdictions are at least somewhat prepared to deal with the impacts. When asked how prepared their jurisdiction’s government is today to deal with the next recession, 57% say they are somewhat prepared and another 13% say they are very prepared (see Figure 3a). Conversely, one in five (20%) local leaders believe that their jurisdictions are either very (4%) or somewhat (16%) unprepared. Another 10% are unsure.

Looking by jurisdiction size, officials from the state’s largest jurisdictions are the most likely to believe their governments are either very (15%) or somewhat prepared (64%) for the next recession (see Figure 3b). By contrast, medium-sized jurisdictions with between 10,001-30,000 residents are the most likely to report they are unprepared, with almost a quarter (23%) reporting they are very (3%) or somewhat (20%) unprepared.

As shown in Figure 3c, by region, local leaders from jurisdictions in the Upper Peninsula are the most likely to say they are unprepared for the next recession (25%), followed by those in the Southeast (23%) and East Central (23%) regions. However, the Southeast is also the region that reports the most jurisdictions that feel very prepared (16%).
By jurisdiction type, almost a third of local leaders from counties (32%) and over a quarter of those from villages (28%) and cities (27%) feel their governments are currently unprepared for the next recession (see Figure 3d). Meanwhile, township officials are twice as likely (16%) as leaders from other jurisdiction types to say they are very prepared for the next economic downturn.

Each year, the MPPS asks local leaders to rate their jurisdictions’ overall fiscal stress on a 1-10 scale. Jurisdictions are then sorted into low (1-4), medium (5-6), and high stress (7-10) categories. Among those jurisdictions in the low stress category, the vast majority say they are very (19%) or somewhat (61%) prepared, while only 12% report they are unprepared for the next recession (see Figure 3e). Not surprisingly, those with high stress today are among the most likely to say they are unprepared for the next recession. But even among those jurisdictions that report the highest levels of current fiscal stress, nearly a majority (48%) believe that their jurisdiction is very or somewhat prepared, and only 12% say they are very unprepared.
Just over a quarter of local governments report taking specific actions to prepare for recession

Perhaps due to the relative lack of concern that the next recession will arrive any time soon and because many feel relatively prepared already, few local leaders report specific actions being taken to prepare for the next economic recession. Just over a quarter (26%) of local leaders indicate their jurisdictions have taken any specific actions to prepare, while 62% say they have not, and 12% are unsure (see Figure 4a).

It is not surprising that officials from the state’s largest jurisdictions are the most likely to feel that their governments are either very or somewhat prepared for the next recession, because they are also the most likely to report having taken specific actions to get ready. Among officials from communities with more than 30,000 residents, 55% report their governments have taken specific actions to prepare for the next downturn (see Figure 4b). In addition, half (50%) of officials from jurisdictions with populations between 10,001-30,000 residents also say they are taking steps to prepare, while the same is true among only 16% of those from the state’s smallest jurisdictions.

Looking by region, officials from Southeast Michigan (41%) are by far the most likely to report their local governments are taking action to prepare for the next recession (see Figure 4c). By contrast, just 17% of leaders from the Northern Lower Peninsula region say they’ve taken some specific action.

Meanwhile, despite jurisdictions in high fiscal stress feeling much less prepared for the next recession, there are essentially no differences in the percentages taking action among jurisdictions reporting low fiscal stress (28%), medium stress (24%), and high stress (25%). It may be that these places under high stress today simply have too many immediate and costly priorities to deal with, and simply don’t have the time or capacity to prepare for something further down the road.
Finally, the MPPS also asked local leaders to share specific examples of actions they have taken to prepare for the next recession through an open-ended question. From among the 26% of jurisdictions that indicate they have taken specific actions, over 230 local officials offered examples of policies or practices they are putting in place to prepare. Many highlight efforts that include:

- paying down debt, including making extra payments toward pension and OPEB obligations
- increasing the margin on the overall General Fund balance
- establishing reserve/sinking/“rainy-day” funds (particularly for large future infrastructure needs)
- taking advantage of State of Michigan and private grant opportunities
- being more conservative with spending than in the past

Voices Across Michigan

Quotes from local leaders regarding actions their jurisdictions are taking to prepare for the next recession

“We have been updating our infrastructure on a yearly basis with a goal of having a longer life span for our roads. We have been maintaining a ‘future investment’ fund so that we are using the previous year’s savings to fund those projects.”

“We have not restored employees from the first recession. Reworked health care and pension funds with unions. Stopped providing certain services.”

“As a response to the Great Recession we created a hybrid public-private system of delivering services for the Building, Engineering and Planning Departments. If service needs decrease, then we have less consultant activity.”

“Maintaining a higher level of Unassigned Fund Balance than policy requires. Maintaining additional funding in our budget stabilization fund. Proposing a fiscally responsible 5-year budget. Development of a strategic plan that focuses our efforts.”

“Negotiated union contracts to remove healthcare for new hires and shifted to a health savings plan. Paid [substantial] unfunded liability off for the Police Departments MERS. Implemented cost-sharing premiums for all personnel related to healthcare. Established a threshold for unreserved fund balance at 50% of expenditures. Established Capital Improvement Plans for major expenditures. Bridged the Police Departments MERS benefits from a [higher] multiplier to [a lower one]; raised minimum retirement age ...”

“Our Board has been proactive with our Sewer system, Road program, Park system and is working on a CIP for all Township infrastructure. Over the past four years the Board has been reviewing options for Legacy cost and have made some changes to our Employee and Retiree Health and Retirement Plans.”

“We are looking at longer term budgeting, also alternative ways to fund large expenditures, i.e., grants, special millage, etc.”

“Our township has prepared for projects by saving in special bank accounts for special infrastructure improvements in the future. We do not want to incur debt and could use those funds by resolution in case of a slowing economy. Cash is our motto.”
Conclusion

Although most of Michigan’s local governments report slow but steady improvement in fiscal health over the decade since the Great Recession, many local leaders express concerns about weathering the next recession, whenever it arrives. In fact, a majority statewide (57%) are somewhat or very concerned about their jurisdiction’s ability to maintain quality services and government operations during the next recession. Furthermore, one in five (20%) report being either somewhat unprepared (16%) or very unprepared (4%) to deal with the next economic recession.

Some local leaders may be uncertain about whether planning for the next recession should be a priority for their local government. When asked for their best guess about when the next recession will hit, 39% of local leaders could not predict, while 57% believe it is more than a year away, including 31% who believe it is more than two years away. Meanwhile, just 3% of local leaders say the next recession will likely start within the next 12 months.

This lack of current urgency is also reflected by reports from local officials that only a quarter (26%) of their governments have already taken specific actions to prepare for the next economic recession. It’s important to note, however, that this includes over half (55%) of the state’s largest jurisdictions.

Notes


The Center for Local, State, and Urban Policy


**Survey Background and Methodology**

The MPPS is an ongoing survey program, interviewing the leaders of Michigan’s 1,856 units of general purpose local government. Surveys are conducted each spring (and prior to 2018, were also conducted each fall). The program has covered a wide range of policy topics, and includes longitudinal tracking data on “core” fiscal, budgetary, and operational policies designed to build-up a multi-year time-series.

In the Spring 2019 iteration, surveys were sent by the Center for Local, State, and Urban Policy (CLOSUP) via the internet and hardcopy to top elected and appointed officials (including county administrators and board chairs; city mayors and managers; village presidents, clerks, and managers; and township supervisors, clerks, and managers) from all 83 counties, 280 cities, 253 villages, and 1,240 townships in the state of Michigan.

The Spring 2019 wave was conducted from April 8 – June 10, 2019. A total of 1,364 jurisdictions in the Spring 2019 wave returned valid surveys (68 counties, 225 cities, 186 villages, and 885 townships), resulting in a 73% response rate by unit. The margin of error for the survey as a whole is +/- 1.37%.

The key relationships discussed in the above report are statistically significant at the p<.05 level or below, unless otherwise specified. Missing responses are not included in the tabulations, unless otherwise specified. Some report figures may not add to 100% due to rounding within response categories. Quantitative data are weighted to account for non-response. “Voices Across Michigan” verbatim responses, when included, may have been edited for clarity and brevity. Contact CLOSUP staff for more information.

Detailed tables of the data analyzed in this report broken down three ways—by jurisdiction type (county, city, township, or village); by population size of the respondent’s community, and by the region of the respondent’s jurisdiction—are available online at the MPPS homepage: http://closup.umich.edu/mpps.php.

*The survey responses presented here are those of local Michigan officials, while further analysis represents the views of the authors. Neither necessarily reflects the views of the University of Michigan, or of other partners in the MPPS.*
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Michigan local government preparations and concerns regarding the 2020 U.S. Census (September 2019)
New Governor, new evaluations of the direction Michigan is headed among local leaders (August 2019)
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Local leaders more likely to support than oppose Michigan’s Emergency Manager law, but strongly favor reforms (February 2017)
Local government leaders’ views on drinking water and water supply infrastructure in Michigan communities (November 2016)
Michigan local leaders say property tax appeals are common, disagree with ‘dark stores’ assessing (October 2016)
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Few Michigan jurisdictions have adopted Complete Streets policies, though many see potential benefits (June 2015)
Michigan local leaders have positive views on relationships with county road agencies, despite some concerns (May 2015)
Michigan local government leaders say transit services are important, but lack of funding discourages their development (April 2015)
Michigan local leaders see need for state and local ethics reform (March 2015)
Local leaders say Michigan road funding needs major increase, but lack consensus on options that would raise the most revenue (February 2015)
Michigan local government leaders’ views on employee pay and benefits (January 2015)
Despite increasingly formal financial management, relatively few Michigan local governments have adopted recommended policies (December 2014)
Most Michigan local officials are satisfied with their privatized services, but few seek to expand further (November 2014)
Michigan local governments finally pass fiscal health tipping point overall, but one in four still report decline (October 2014)

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Citizen engagement in the view of Michigan’s local government leaders (May 2013)

Beyond trust in government: government trust in citizens? (March 2013)

Local leaders support reforming Michigan’s system of funding local government (January 2013)

Local leaders support eliminating Michigan’s Personal Property Tax if funds are replaced, but distrust state follow-through (November 2012)

Michigan’s local leaders satisfied with union negotiations (October 2012)

Michigan’s local leaders are divided over the state’s emergency manager law (September 2012)

Fiscal stress continues for hundreds of Michigan jurisdictions, but conditions trend in positive direction overall (September 2012)

Michigan’s local leaders more positive about Governor Snyder’s performance, more optimistic about the state’s direction (July 2012)

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State funding incentives increase local collaboration, but also raise concerns (March 2012)

Local officials react to state policy innovation tying revenue sharing to dashboards and incentive funding (January 2012)

MPPS finds fiscal health continues to decline across the state, though some negative trends eased in 2011 (October 2011)

Public sector unions in Michigan: their presence and impact according to local government leaders (August 2011)

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Local government and environmental leadership: views of Michigan’s local leaders (July 2011)

Local leaders are mostly positive about intergovernmental cooperation and look to expand efforts (March 2011)

Local government leaders say most employees are not overpaid, though some benefits may be too generous (February 2011)

Local government leaders say economic gardening can help grow their economies (November 2010)

Local governments struggle to cope with fiscal, service, and staffing pressures (August 2010)

Michigan local governments actively promote U.S. Census participation (August 2010)

Fiscal stimulus package mostly ineffective for local economies (May 2010)

Fall 2009 key findings report: educational, economic, and workforce development issues at the local level (April 2010)

Local government officials give low marks to the performance of state officials and report low trust in Lansing (March 2010)

Local government fiscal and economic development issues (October 2009)

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