Trends in local fiscal health and funding local government in Michigan

Presented at the MML Capital Conference
April 10, 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.
What does the MPPS aim to do?

- **Improve understanding** of local government to help improve policymaking and quality of life
- **Inform local leaders** about peers across the state: challenges and responses
- **Inform state policymakers** and other stakeholders with data about local level challenges and responses not available from any other source
- **Build a longitudinal data archive** to allow tracking of fundamental changes (such as the economic transition, aging population, etc.)
- **Foster academic research and teaching** on local government issues
MPPS is not a typical opinion poll

• Census-style approach

• 72% response rates

• Transparency
  -- Questionnaires online
  -- Pre-run data tables online
  -- Sharing of datasets with other researchers

• Technical memos for quality control analysis

• Expert advisors on questionnaire content

• Borrow from other proven sources such as NLC and ICMA

• Double blind coding of open-end responses
Presentation Outline

• Era of Local Government Retrenchment

• A 2nd Retrenchment Looming?

• What Local Leaders Say Should Be Done
A Decade of Funding Cuts

Revenue sharing cuts

~ $4.2 Billion
Declining Revenues
% of jurisdictions with declining state aid

Population Size

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

Year
- 2009
- 2010
- 2011
- 2012
Declining Revenues

% of jurisdictions with declining property tax revenues

[Bar chart showing the percentage of jurisdictions with declining property tax revenues by population size and year.]
Rising Costs

% of jurisdictions with rising health care costs

Population Size

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

- 2009
- 2010
- 2011
- 2012

- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%
Rising Costs

% of jurisdictions with rising pension costs

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Government Actions

% of jurisdictions **increasing debt**

![Graph showing percentage of jurisdictions increasing debt by population size from 2009 to 2012.](image)
Government Actions

% of jurisdictions increasing reliance on GF balance

![Chart showing the percentage of jurisdictions increasing reliance on GF balance over different population sizes from 2009 to 2012.](chart.png)
Government Actions

% of jurisdictions cutting staff levels
Government Actions

% of jurisdictions shifting health care costs to employees

<table>
<thead>
<tr>
<th>Population Size</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
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<td>&lt; 1500</td>
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</table>
Government Actions

% of jurisdictions increasing inter-gov’t cooperation

![Graph showing the percentage of jurisdictions increasing inter-gov’t cooperation by population size and year from 2009 to 2012. The graph illustrates the trend across different population size categories.](graph.png)

[Image]
Government Actions
% of jurisdictions cutting service levels
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%
Status of Fiscal Health Today

• **General Fund Balance**
  
  - 66% say levels are about right or even too high  
    (41% in largest jurisdictions say it's too low)

• **Cash Flow**
  
  - 91% say not much of a problem or not a problem at all  
    (18% in largest jurisdictions say somewhat of a problem)
Services Still Delivered

Satisfaction with **package of services** in 2012

Among all jurisdictions

- **Very satisfied**: 39%
- **Somewhat satisfied**: 39%
- **Neither**: 10%
- **Somewhat dissatisfied**: 9%
- **Very dissatisfied**: 2%
- **Don’t know**: 1%

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CLOSUP
Center for Local, State, and Urban Policy

Gerald R. Ford School of Public Policy
Presentation Outline

• Era of Local Government Retrenchment

• A 2nd Retrenchment Looming?

• What Local Leaders Say Should Be Done
Looking Ahead

“Within five years all of our urban cores are going to be where Flint is at today, unless some significant changes are made.

The way we finance cities today is broken.”

- Ed Kurtz, Emergency Financial Manager, City of Flint (Michigan Radio, 1/30/2013)
Concerns Going Forward

% that can maintain services in current system

<table>
<thead>
<tr>
<th>Population Size</th>
<th>Can Maintain</th>
<th>Neutral</th>
<th>Cannot Maintain</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1500</td>
<td>46%</td>
<td>16%</td>
<td>30%</td>
<td>8%</td>
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<tr>
<td>1500-5000</td>
<td>46%</td>
<td>21%</td>
<td>27%</td>
<td>6%</td>
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<tr>
<td>5001-10000</td>
<td>44%</td>
<td>17%</td>
<td>37%</td>
<td>2%</td>
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<td>10001-30000</td>
<td>38%</td>
<td>13%</td>
<td>48%</td>
<td>1%</td>
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<tr>
<td>&gt; 30000</td>
<td>22%</td>
<td>10%</td>
<td>67%</td>
<td>1%</td>
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</table>
Spreading Fiscal Problems
Able to maintain services, by county

Jurisdictions within County
Red: < 50%
Green: > 50%
Concerns Going Forward

% of jurisdictions with increased human service needs

![Bar chart showing population size vs. percentage of jurisdictions with increased human service needs for years 2011 and 2012.](chart.png)
Concerns Going Forward
% of jurisdictions with increased public safety needs

![Bar chart showing population size vs. percentage of jurisdictions with increased public safety needs for 2011 and 2012.](chart_image)
Concerns Going Forward
% of jurisdictions with increased infrastructure needs

![Bar chart showing population size vs percentage of jurisdictions with increased infrastructure needs for 2011 and 2012.](chart.png)
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>
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<tbody>
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<td>&lt; 1500</td>
<td>25%</td>
<td>37%</td>
<td>9%</td>
<td>12%</td>
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<td>1500-5000</td>
<td>27%</td>
<td>38%</td>
<td>1%</td>
<td>9%</td>
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<td>46%</td>
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<td>&gt; 30000</td>
<td>14%</td>
<td>79%</td>
<td>1%</td>
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</table>
Spreading Fiscal Problems
Able to improve services, by county

Jurisdictions within County
Red: < 50%
Green: > 50%
Presentation Outline

• Era of Local Government Retrenchment
• A 2nd Retrenchment Looming?
• What Local Leaders Say Should Be Done
Support for Funding Reform

% that believe **significant reform** is needed
Support for Funding Reform

% that believe significant reform is needed

<table>
<thead>
<tr>
<th></th>
<th>Republicans</th>
<th>Independents</th>
<th>Democrats</th>
</tr>
</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>
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<tr>
<td>Don't know</td>
<td>5%</td>
<td>7%</td>
<td>5%</td>
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</table>

Republicans
Independents
Democrats
Support for Funding Reform

% that would target specific funding elements to reform

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

Not Important at All  Somewhat Important  Very Important
Support for Funding Reform

Suggested reforms

• Property taxes:
  o Eliminate Headlee and Proposal A
  o Ease revenue caps
  o Lower/ease the automatic millage rollbacks
  o Allow automatic millage rollups

Quote:

“I would revise Proposal A to get rid of the tax rate differences between homestead and non-homestead and eliminate the caps. I would revise the Headlee amendment so that millage rates could both be rolled back and rolled up without a vote of the people.”
Support for Funding Reform

Suggested reforms

- Sales taxes:
  - Increase the sales tax rate
  - Increase the sales tax base (add services, food, internet sales, etc.)
  - Allow local sales taxes, or local control of state sales tax

Quote:

“It’s a bit like a three-legged stool. Right now we only have the ability to collect revenues from one leg of the stool and as a result the whole system is unbalanced. Making it possible to levy a local sales tax – or easier to levy an income tax – would re-balance the stool and allow us to reduce property tax rates.”
Support for Funding Reform

Suggested reforms

• Revenue Sharing:
  o Stop the cuts; provide more stability and predictability
  o Eliminate EVIP and move all funds into Constitutional program
  o Make more jurisdictions eligible for EVIP
  o Stop penalizing jurisdictions through EVIP that already took “best practices” actions

• Personal Property Tax:
  o Provide full replacement funding

• Gas Tax:
  o Base the tax on sales price, not volume
  o Change distribution formulas among local governments
A Broken Funding System?

key findings

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

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

• 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.

• But there is no particular consensus on the fixes.

• It is time to discuss the system of funding local government.
Future waves of the Michigan Public Policy Survey:

• Types of questionnaire items? Other survey topics?

• Targeted analysis by subgroup or region?

• How should MPPS data and reports be distributed to reach the widest audience?

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