Funding local government in Michigan: a broken system?

MLGMA 2013 Summer Workshop
July 24, 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?

- **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, budget priorities, etc.)
- Foster **academic research and teaching** on local government issues
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

• Era of Local Government Retrenchment

• A 2nd Retrenchment Looming?

• What Local Leaders Say Should Be Done
Challenge:
Declining Revenues and Rising Costs
A Decade of Funding Cuts

Revenue sharing cuts

~ $4.2 Billion
Declining Revenues

% of jurisdictions with declining property tax revenues

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Population Size

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

Years:
- 2009
- 2010
- 2011
- 2012

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Rising Costs

% of jurisdictions with rising health care costs
Rising Costs

% of jurisdictions with rising pension costs

![Bar chart showing the percentage of jurisdictions with rising pension costs across different population sizes from 2009 to 2012. The x-axis represents population size categories (< 1500, 1500-5000, 5001-10000, 10001-30000, > 30000), and the y-axis represents the percentage. The chart indicates a trend of increasing costs across all population sizes from 2009 to 2012.]
Response: Local Governments Take Action
Government Actions

% of jurisdictions increasing reliance on GF balance

![Bar chart showing the percentage of jurisdictions increasing reliance on GF balance over different population sizes from 2009 to 2012. The chart indicates that the reliance increased across all population size categories, with the highest increase observed in the population size category of 10001-30000.]
Government Actions
% of jurisdictions **cutting staff levels**

![Bar Chart showing population size vs. percentage of jurisdictions cutting staff levels over different years](chart.png)
Government Actions

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

![Bar chart showing the percentage of jurisdictions shifting health care costs to employees by population size from 2010 to 2012.](chart.png)
Government Actions

% of jurisdictions cutting *infrastructure* spending

[Bar chart showing the percentage of jurisdictions cutting infrastructure spending by population size (2009-2012).]

15% of jurisdictions cutting infrastructure spending

Population Size:
- < 1500
- 1500-5000
- 5001-10000
- 10001-30000
- > 30000

Years:
- 2009
- 2010
- 2011
- 2012

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% of jurisdictions increasing inter-gov’t cooperation

Population Size

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

2009

2010

2011

2012
Government Actions

% of jurisdictions increasing debt

![Bar chart showing the percentage of jurisdictions increasing debt by population size from 2009 to 2012.](chart)

- **< 1500**: 10% in 2009, 15% in 2010, 20% in 2011, 25% in 2012
- **1500-5000**: 20% in 2009, 25% in 2010, 30% in 2011, 35% in 2012
- **5001-10000**: 30% in 2009, 35% in 2010, 40% in 2011, 45% in 2012
- **10001-30000**: 40% in 2009, 45% in 2010, 50% in 2011, 55% in 2012
- **> 30000**: 50% in 2009, 55% in 2010, 60% in 2011, 65% in 2012
Government Actions

% of jurisdictions cutting service levels

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<td>10001-30000</td>
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<td>&gt; 30000</td>
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Result:
Some 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%
Status of Fiscal Health

**General fund balance levels in 2013**

![Graph showing the status of fiscal health by population size.](image-url)

- **< 1500**
  - Too High: 14%
  - About Right: 30%
  - Too Low: 21%
  - Don't Know: 11%
- **1500-5000**
  - Too High: 4%
  - About Right: 64%
  - Too Low: 22%
  - Don't Know: 11%
- **5001-10000**
  - Too High: 4%
  - About Right: 63%
  - Too Low: 22%
  - Don't Know: 11%
- **10001-30000**
  - Too High: 10%
  - About Right: 62%
  - Too Low: 24%
  - Don't Know: 4%
- **> 30000**
  - Too High: 9%
  - About Right: 54%
  - Too Low: 35%
  - Don't Know: 0%
Status of Fiscal Health

Cash flow in 2013

Population Size

- Not a problem at all
- Not much of a problem
- Somewhat of a problem
- A significant problem

- < 1500: 63% Not a problem at all, 26% Not much of a problem, 9% Somewhat of a problem, 9% A significant problem
- 1500-5000: 70% Not a problem at all, 21% Not much of a problem, 5% Somewhat of a problem, 9% A significant problem
- 5001-10000: 70% Not a problem at all, 28% Not much of a problem, 5% Somewhat of a problem, 9% A significant problem
- 10001-30000: 59% Not a problem at all, 23% Not much of a problem, 4% Somewhat of a problem, 9% A significant problem
- > 30000: 54% Not a problem at all, 35% Not much of a problem, 9% Somewhat of a problem, 9% A significant 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%
Presentation Outline

- Era of Local Government Retrenchment
- A 2nd Retrenchment Looming?
- What Local Leaders Say Should Be Done
Concerns Going Forward
% that can maintain services in current system

Population Size

- < 1500: 8% Can Maintain, 30% Neutral, 2% Cannot Maintain, 1% Don't Know
- 1500-5000: 6% Can Maintain, 27% Neutral, 6% Cannot Maintain, 1% Don't Know
- 5001-10000: 2% Can Maintain, 37% Neutral, 17% Cannot Maintain, 1% Don't Know
- 10001-30000: 1% Can Maintain, 48% Neutral, 13% Cannot Maintain, 1% Don't Know
- > 30000: 10% Can Maintain, 67% Neutral, 22% Cannot Maintain, 1% Don't Know

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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 distribution across different population ranges with increased human service needs.](chart.png)
Concerns Going Forward

% of jurisdictions with increased public safety needs
Concerns Going Forward

% of jurisdictions with increased infrastructure needs

[Bar chart showing the percentage of jurisdictions with increased infrastructure needs across different population size categories for 2011 and 2012. The categories are: < 1500, 1500-5000, 5001-10000, 10001-30000, > 30000. The chart indicates a higher percentage of jurisdictions with increased needs in 2012 compared to 2011.]
Concerns Going Forward
% that can improve services in current system

![Bar chart showing percentage of people who can improve services in different population sizes.](chart.png)
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

![Bar chart showing support for funding reform by population size](chart.png)

- **Reform needed**
- **Neutral**
- **Reform not needed**
- **Don't know**

**Population Size**

- < 1500: 52% Reform needed, 23% Neutral, 17% Reform not needed, 9% Don't know
- 1500-5000: 56% Reform needed, 22% Neutral, 16% Reform not needed, 6% Don't know
- 5001-10000: 61% Reform needed, 19% Neutral, 17% Reform not needed, 3% Don't know
- 10001-30000: 70% Reform needed, 15% Neutral, 14% Reform not needed, 1% Don't know
- > 30000: 77% Reform needed, 13% Neutral, 13% Reform not needed, 10% Don't know
Support for Funding Reform

% that believe significant reform is needed

Republicans: 55% Reform needed, 22% Neutral, 18% Reform not needed, 5% Don't know

Independents: 63% Reform needed, 18% Neutral, 12% Reform not needed, 7% Don't know

Democrats: 62% Reform needed, 19% Neutral, 14% Reform not needed, 5% Don't know
Support for Funding Reform

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

<table>
<thead>
<tr>
<th>Tax/Program</th>
<th>Not Important at All</th>
<th>Somewhat Important</th>
<th>Very Important</th>
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<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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<tr>
<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>
</tr>
<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>
</tr>
</tbody>
</table>

Not Important at All □ Somewhat Important □ Very Important
Support for Funding Reform
Suggested reforms to Property Taxes

- Eliminate Headlee and Proposal A
- Ease revenue caps
- Lower/ease the automatic millage rollbacks
- Allow automatic millage rollups

"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 to 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

“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 to Revenue Sharing, PPT, and the Gas Tax

• 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 in the past

• 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
“The legislature has shown a willingness over the last decade to de-fund statutory revenue sharing in order to balance the state’s budget. There is an implicit assumption that local governments are inefficient in their use of resources, hence the structure of EVIP. The result is the creation of a system of hurdles that government administrators must cross in order to qualify for a level of funding inadequate to accomplish what it needs.”
A Broken Funding System?
key findings

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

• Local governments 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?