Funding local government in Michigan: a broken system?

Gerald R. Ford Presidential Museum
March 28, 2013
The Michigan Public Policy Survey

- **Census survey** – all counties, cities, townships, and villages (72% response rates); twice/year
- **Respondents** – chief elected and appointed officials
- **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.
Warning Signs

“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)
Warning Signs

“We cannot continue to do all things for all people like we have done in the past.

We tried doing more with less. That worked for a while.

Doing more with less has kind of reached its limits, and now we’re suggesting we’re going to do less with less.”

- David Hollister, former Mayor of Lansing, chair of blue ribbon committee on Lansing’s finances (Lansing State Journal, 3/15/2013)
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

[Bar chart showing declining revenues across different population sizes for the years 2009 to 2012.]
Declining Revenues

% of jurisdictions with **declining** property tax revenues

- Bar chart showing the percentage of jurisdictions with declining property tax revenues across different population size categories for the years 2009 to 2012. The chart compares the percentage of jurisdictions with declining revenues in each population size category for each year.
Rising Costs

% of jurisdictions with rising health care costs

![Bar chart showing the percentage of jurisdictions with rising health care costs from 2009 to 2012 for different population size categories. The chart indicates a trend of increasing costs across all population sizes over the years.]
Rising Costs

% of jurisdictions with rising pension costs

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<tbody>
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<td>&gt; 30000</td>
<td>50%</td>
<td>55%</td>
<td>60%</td>
<td>65%</td>
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</tbody>
</table>
Government Actions

% of jurisdictions increasing debt

Population Size

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

2009 2010 2011 2012
Government Actions

% of jurisdictions increasing reliance on GF balance

Population Size

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

Years:
- 2009
- 2010
- 2011
- 2012
Government Actions

% of jurisdictions cutting staff levels

![Bar chart showing the percentage of jurisdictions cutting staff levels across different population sizes (2009-2012).](chart)
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>
</tr>
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<tbody>
<tr>
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<td>20%</td>
<td>15%</td>
<td>10%</td>
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<tr>
<td>1500-5000</td>
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<td>20%</td>
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<td>40%</td>
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<tr>
<td>&gt; 30000</td>
<td>55%</td>
<td>50%</td>
<td>45%</td>
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</tbody>
</table>
Government Actions

% of jurisdictions increasing inter-gov't cooperation

[Bar chart showing the percentage of jurisdictions increasing inter-government cooperation over the years 2009 to 2012, categorized by population size (under 1500, 1500-5000, 5001-10000, 10001-30000, and over 30000).]
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
  - 23% say too low (41% in largest jurisdictions)

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

• **Package of Services**
  - 79% are very or somewhat satisfied with package of services still delivered today
Presentation Outline

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• A 2nd Retrenchment Looming?

• What Local Leaders Say Should Be Done
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>
</tr>
<tr>
<td>1500-5000</td>
<td>46%</td>
<td>21%</td>
<td>27%</td>
<td>6%</td>
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<td>44%</td>
<td>17%</td>
<td>37%</td>
<td>2%</td>
</tr>
<tr>
<td>10001-30000</td>
<td>38%</td>
<td>13%</td>
<td>48%</td>
<td>1%</td>
</tr>
<tr>
<td>&gt; 30000</td>
<td>22%</td>
<td>10%</td>
<td>67%</td>
<td>1%</td>
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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](chart.png)

- **2011**
- **2012**

- **Population Size**
  - < 1500
  - 1500-5000
  - 5001-10000
  - 10001-30000
  - > 30000
Concerns Going Forward

% of jurisdictions with increased public safety needs

![Bar chart showing public safety needs by population size and year.]

- 2011
- 2012

Population Size:
- < 1500
- 1500-5000
- 5001-10000
- 10001-30000
- > 30000
Concerns Going Forward
% of jurisdictions with increased infrastructure needs

Population Size

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

2011
2012
### 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>
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</thead>
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<td>25%</td>
<td>37%</td>
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<td>27%</td>
<td>38%</td>
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<td>46%</td>
<td>3%</td>
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<tr>
<td>10001-30000</td>
<td>21%</td>
<td>61%</td>
<td>17%</td>
<td>17%</td>
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<tr>
<td>&gt; 30000</td>
<td>14%</td>
<td>79%</td>
<td>6%</td>
<td>6%</td>
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Spreading Fiscal Problems

Able to **improve services**, by county

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

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• What Local Leaders Say Should Be Done
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>
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<tbody>
<tr>
<td>&lt; 1500</td>
<td>52%</td>
<td>23%</td>
<td>17%</td>
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<tr>
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<tr>
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<td>77%</td>
<td>13%</td>
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Support for Funding Reform

% that believe \textit{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

- Gas tax
  - Not Important at All: 6%
  - Somewhat Important: 35%
  - Very Important: 54%

- Sales tax
  - Not Important at All: 12%
  - Somewhat Important: 42%
  - Very Important: 41%

- Headlee Amendment
  - Not Important at All: 9%
  - Somewhat Important: 38%
  - Very Important: 44%

- Proposal A
  - Not Important at All: 8%
  - Somewhat Important: 36%
  - Very Important: 45%

- Constitutional revenue sharing
  - Not Important at All: 15%
  - Somewhat Important: 30%
  - Very Important: 50%

- Personal Property Tax (PPT)
  - Not Important at All: 15%
  - Somewhat Important: 37%
  - Very Important: 41%

- Economic Vitality Incentive Program
  - Not Important at All: 12%
  - Somewhat Important: 32%
  - Very Important: 32%

- Local income tax
  - Not Important at All: 37%
  - Somewhat Important: 27%
  - Very Important: 20%

- Regional taxation
  - Not Important at All: 29%
  - Somewhat Important: 26%
  - Very Important: 16%
Support for Funding Reform

Suggested reforms

- Property taxes:
  - Eliminate Headlee and Proposal A
  - Ease revenue caps
  - Lower/ease the automatic millage rollbacks
  - 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:
  o Increase the sales tax rate
  o Increase the sales tax base (add services, food, internet sales, etc.)
  o 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:**
  - Stop the cuts; provide more stability and predictability
  - Eliminate EVIP and move all funds into Constitutional program
  - Make more jurisdictions eligible for EVIP
  - Stop penalizing jurisdictions through EVIP that already took “best practices” actions

- **Personal Property Tax:**
  - Provide full replacement funding

- **Gas Tax:**
  - Base the tax on sales price, not volume
  - 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.
Funding local government in Michigan: a broken system?

Gerald R. Ford Presidential Museum
March 28, 2013

www.closup.umich.edu