Local government fiscal health: Self-assessments vs. external evaluations

Presented at the MLGMA Summer Workshop
July 22, 2015
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, roads, environmental sustainability, citizen engagement, much more.
MPPS is not a typical opinion poll

- **70+% response rates**

- **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**
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
Local government fiscal health 2009 - 2015
Lag in Property Tax Revenues

Increased over previous FY
Decreased over previous FY

2009: 48% (27% increased, 26% decreased)
2010: 78% (8% increased, 70% decreased)
2011: 74% (12% increased, 62% decreased)
2012: 64% (16% increased, 48% decreased)
2013: 48% (27% increased, 21% decreased)
2014: 36% (38% increased, 22% decreased)
2015: 45% (26% increased, 19% decreased)
State Aid Stalling

<table>
<thead>
<tr>
<th>Year</th>
<th>Increased over previous FY</th>
<th>Decreased over previous FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3%</td>
<td>69%</td>
</tr>
<tr>
<td>2010</td>
<td>1%</td>
<td>86%</td>
</tr>
<tr>
<td>2011</td>
<td>9%</td>
<td>61%</td>
</tr>
<tr>
<td>2012</td>
<td>15%</td>
<td>45%</td>
</tr>
<tr>
<td>2013</td>
<td>17%</td>
<td>34%</td>
</tr>
<tr>
<td>2014</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>2015</td>
<td>28%</td>
<td>14%</td>
</tr>
</tbody>
</table>
Home Foreclosures Slowly Decreasing

<table>
<thead>
<tr>
<th>Year</th>
<th>Increased over previous FY</th>
<th>Decreased over previous FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>60%</td>
<td>16%</td>
</tr>
<tr>
<td>2011</td>
<td>56%</td>
<td>10%</td>
</tr>
<tr>
<td>2012</td>
<td>41%</td>
<td>17%</td>
</tr>
<tr>
<td>2013</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>2014</td>
<td>18%</td>
<td>31%</td>
</tr>
<tr>
<td>2015</td>
<td>15%</td>
<td>34%</td>
</tr>
</tbody>
</table>
Home Foreclosures in 2015
by Jurisdiction’s population size

- Increased over previous FY
- Decreased over previous FY

<table>
<thead>
<tr>
<th>Population Size</th>
<th>Increased</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1,500</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>1,500 - 5,000</td>
<td>16%</td>
<td>34%</td>
</tr>
<tr>
<td>5,001 - 10,000</td>
<td>4%</td>
<td>43%</td>
</tr>
<tr>
<td>10,001 - 30,000</td>
<td>13%</td>
<td>57%</td>
</tr>
<tr>
<td>&gt;30,000</td>
<td>0%</td>
<td>63%</td>
</tr>
</tbody>
</table>
Infrastructure Needs Remain High

<table>
<thead>
<tr>
<th>Year</th>
<th>Increased over previous FY</th>
<th>Decreased over previous FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>55%</td>
<td>12%</td>
</tr>
<tr>
<td>2010</td>
<td>47%</td>
<td>7%</td>
</tr>
<tr>
<td>2011</td>
<td>43%</td>
<td>5%</td>
</tr>
<tr>
<td>2012</td>
<td>45%</td>
<td>5%</td>
</tr>
<tr>
<td>2013</td>
<td>50%</td>
<td>3%</td>
</tr>
<tr>
<td>2014</td>
<td>54%</td>
<td>2%</td>
</tr>
<tr>
<td>2015</td>
<td>52%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Result:
Gradual increase in ability to meet financial needs
Slowly Improving Fiscal Health

% of jurisdictions **better or less able** to meet fiscal needs

<table>
<thead>
<tr>
<th>Year</th>
<th>Better able</th>
<th>Less able</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>11%</td>
<td>52%</td>
</tr>
<tr>
<td>2010</td>
<td>9%</td>
<td>61%</td>
</tr>
<tr>
<td>2011</td>
<td>16%</td>
<td>48%</td>
</tr>
<tr>
<td>2012</td>
<td>24%</td>
<td>34%</td>
</tr>
<tr>
<td>2013</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>2014</td>
<td>36%</td>
<td>24%</td>
</tr>
<tr>
<td>2015</td>
<td>38%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Spread and Easing of Fiscal Problems, by County

**Net fiscal health:**
% of local jurisdictions reporting better able to meet needs minus % reporting less able to meet needs
Spread and Easing of Fiscal Problems, by County

**Net fiscal health:**
% of local jurisdictions reporting better able to meet needs minus % reporting less able to meet needs
Spread and Easing of Fiscal Problems, by County

**Net fiscal health:**

% of local jurisdictions reporting better able to meet needs minus % reporting less able to meet needs

**Map:**

- **2011**
  - >50% net decline
  - 26-50% net decline
  - 0-25% net decline
  - 0-25% net improvement
  - 26-50% net improvement
  - >50% net improvement
Spread and Easing of Fiscal Problems, by County

**Net Fiscal Health**: % of local jurisdictions reporting better able to meet needs minus % reporting less able to meet needs

![Map of Michigan showing net fiscal health by county](image-url)
Spread and Easing of Fiscal Problems, by County

**Net fiscal health**: % of local jurisdictions reporting better able to meet needs minus % reporting less able to meet needs

- 2013
  - >50% net decline
  - 26-50% net decline
  - 0-25% net decline
  - 0-25 % net improvement
  - 26-50% net improvement
  - >50% net improvement
Spread and Easing of Fiscal Problems, by County

Net fiscal health: % of local jurisdictions reporting better able to meet needs minus % reporting less able to meet needs
Spread and Easing of Fiscal Problems, by County

**Net fiscal health**: % of local jurisdictions reporting better able to meet needs minus % reporting less able to meet needs
But does this equal Fiscal Health?
MPPS as a Secondary Check

- In 2013, MPPS introduced “fiscal stress index”
- 10 point scale: 1 = “perfect fiscal health” 10 = “fiscal crisis”
- Asks about today, and what it’s expected to be in 5 years
Audit-Based Fiscal Stress Indicators

- Origins in Michigan Dept. of Treasury
- A new version produced by Munetrix
- Index comprised of 10 categories; pass-fail
  - Population growth
  - Taxable value growth/decrease
  - General fund expenditures as % of taxable value
  - Current and prior general fund deficits
  - General fund balance
  - Long-term debt
- Scores range from 0 – 10
  - 0-4 = Low risk
  - 5-6 = Fiscal watch
  - 7-10 = High risk
Comparison of distribution

2013: using all data

Munetrix

MPPS
Comparing Munetrix and MPPS Fiscal Stress Scores
Distribution of scores

2013: using only matched pairs (835 js)

Munetrix

- Low risk: 98%
- Watch: 2%
- High risk: 0%

MPPS

- Low risk: 70%
- Watch: 20%
- High risk: 10%
Difference between scores

MPPS score (minus) Munetrix score – matched pairs

Exact match: 16%
Within +/-2: 65%

Munetrix shows higher stress
MPPS shows higher stress
Yearly volatility

matched pairs with 2 consecutive years of both Munetrix & MPPS scores (621 js)

Munetrix

MPPS

Exact: 73%
+/-2: 98%

Exact: 30%
+/-2: 84%
Why the differences?
Possible reasons for the differences

- Local officials treating 5 as “average” or other opinion research effects?

- Fluctuation in MPPS due to different respondent answering?

- Local officials naturally cautious?

- Local officials consider different factors than Munetrix, or assign different weight to these factors?
Explaining their self-assessment rating

Open-ended comments from 924 local officials

1. General fund expenditures (40%)
   - Especially road, infrastructure needs
   - Also public safety, employee wages/benefits

2. Taxable values
3. General fund deficits / Balanced budget
4. State policies (revenue sharing, mandates)
5. Long-term debt

6. General fund balance
7. Population growth / loss
The case for both self-assessments and audit-based evaluations
MPPS as a Secondary Check

- Two indices are better than one: any single index—objective or subjective—will likely be incomplete, or even flawed in some way.

<table>
<thead>
<tr>
<th>MPPS Data</th>
<th>Audit-based Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Accounts for special circumstances not captured on financial reports</td>
<td>▪ Allows for head-to-head comparison</td>
</tr>
<tr>
<td>▪ May account for future expectations; not bound to retrospective data</td>
<td>▪ Data are factual as opposed to being based on perception</td>
</tr>
<tr>
<td></td>
<td>▪ Ability to identify specific jurisdictions</td>
</tr>
</tbody>
</table>
MPPS finds pessimism about the future

J’s that answered both questions (1,016)

MPPS 2015 – current stress

- Low risk: 71%
- Watch: 23%
- High risk: 7%
- Average: 3.42

MPPS 2015 – future stress

- Low risk: 66%
- Watch: 23%
- High risk: 11%
- Average: 3.71
More from the Michigan Public Policy Survey
Upcoming reports (Spring 2015 wave)

• Right track / wrong direction, job performance
• Fiscal health
• OPEB/Pensions
• Budget surplus / projected deficits
Future waves of the MPPS

• **Fall 2015:** Public Safety

• Other survey topics?

• **How can MPPS better serve your jurisdiction?**
The Michigan Public Policy Survey (MPPS)

Email: closup-mpps@umich.edu
Web: www.closup.umich.edu
Twitter: @closup