How We Fund Local Government:

Michigan's Local Leaders See Need for Reform

Presentation by the Center for Local, State, and Urban Policy (CLOSUP)
for the
University of Michigan Wolverine Caucus Forum
February 13, 2013

Presentation Outline

- Introduction to the Michigan Public Policy Survey
- Era of Local Government Retrenchment
- A 2nd Retrenchment Looming?
- What Local Leaders Say Should Be Done

What is the MPPS?

- A census survey – every county, city, township, and village in MI
- Respondents - chief elected and chief appointed officials
- Two surveys per year: spring and fall
- Administered online and via hardcopy
- Content developed in partnership with MML, MTA, MAC, and topic experts

Why Conduct the MPPS?

- Michigan ranks 7th in the number of general purpose local governments (1,856):
  - 83 counties
  - 256 villages
  - 277 cities
  - 1,240 townships.
- These governments:
  - spend about $26 billion per year
  - employ about 150,000 people
  - hold approximately $45 billion in debt (and billions more in unfunded retiree obligations).

-U.S. Census of Governments, 2007

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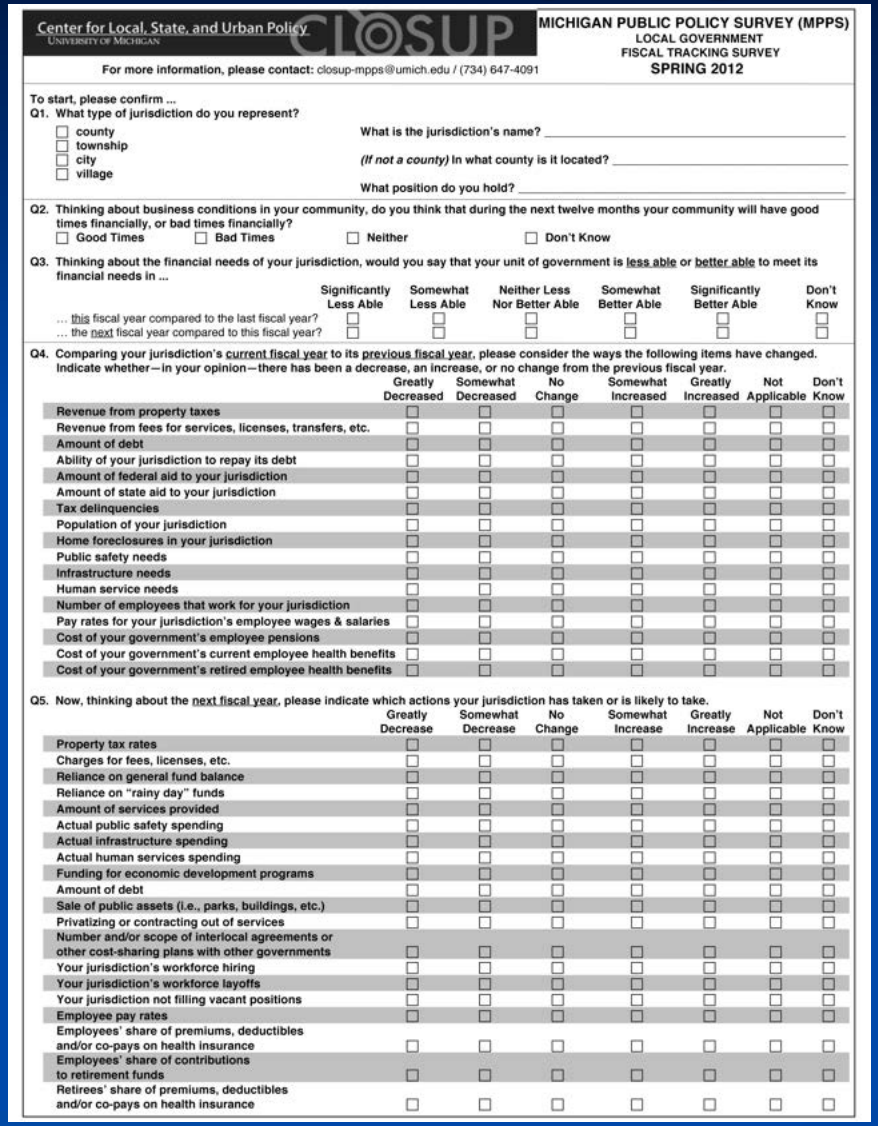
What does the MPPS aim to do?

- Improve understanding of local government to help improve policymaking and quality of life
- Inform local leaders about peers across the state: their challenges and responses
- Inform state policymakers and other stakeholders about local level challenges and responses with data 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 approach
- 72% response rates – extraordinary efforts to maximize
- Transparency
  - Questionnaires on line
  - Pre-run data tables on line
  - Sharing data with other researchers
- Expert advisors on questionnaire content
- Borrow from other proven sources such as NLC and ICMA
- Double blind coding of open-end responses
- Technical memos for quality control analysis

MPPS Spring 2012 Questionnaire



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MICHIGAN PUBLIC POLICY SURVEY (MPPS)
LOCAL GOVERNMENT
FISCAL TRACKING SURVEY
SPRING 2012

For more information, please contact: closup-mpps@umich.edu / (734) 647-4091

To start, please confirm ...

Q1. What type of jurisdiction do you represent?

☐ county
☐ township
☐ city
☐ village

What is the jurisdiction's name? _____

(If not a county) In what county is it located? _____

What position do you hold? _____

Q2. Thinking about business conditions in your community, do you think that during the next twelve months your community will have good times financially, or bad times financially?

☐ Good Times ☐ Bad Times ☐ Neither ☐ Don't Know

Q3. Thinking about the financial needs of your jurisdiction, would you say that your unit of government is less able or better able to meet its financial needs in ...

	Significantly Less Able	Somewhat Less Able	Neither Less Nor Better Able	Somewhat Better Able	Significantly Better Able	Don't Know
... this fiscal year compared to the last fiscal year?	☐	☐	☐	☐	☐	☐
... the next fiscal year compared to this fiscal year?	☐	☐	☐	☐	☐	☐

Q4. Comparing your jurisdiction's current fiscal year to its previous fiscal year, please consider the ways the following items have changed. Indicate whether—in your opinion—there has been a decrease, an increase, or no change from the previous fiscal year.

	Greatly Decreased	Somewhat Decreased	No Change	Somewhat Increased	Greatly Increased	Not Applicable	Don't Know
Revenue from property taxes	☐	☐	☐	☐	☐	☐	☐
Revenue from fees for services, licenses, transfers, etc.	☐	☐	☐	☐	☐	☐	☐
Amount of debt	☐	☐	☐	☐	☐	☐	☐
Ability of your jurisdiction to repay its debt	☐	☐	☐	☐	☐	☐	☐
Amount of federal aid to your jurisdiction	☐	☐	☐	☐	☐	☐	☐
Amount of state aid to your jurisdiction	☐	☐	☐	☐	☐	☐	☐
Tax delinquencies	☐	☐	☐	☐	☐	☐	☐
Population of your jurisdiction	☐	☐	☐	☐	☐	☐	☐
Home foreclosures in your jurisdiction	☐	☐	☐	☐	☐	☐	☐
Public safety needs	☐	☐	☐	☐	☐	☐	☐
Infrastructure needs	☐	☐	☐	☐	☐	☐	☐
Human service needs	☐	☐	☐	☐	☐	☐	☐
Number of employees that work for your jurisdiction	☐	☐	☐	☐	☐	☐	☐
Pay rates for your jurisdiction's employee wages & salaries	☐	☐	☐	☐	☐	☐	☐
Cost of your government's employee pensions	☐	☐	☐	☐	☐	☐	☐
Cost of your government's current employee health benefits	☐	☐	☐	☐	☐	☐	☐
Cost of your government's retired employee health benefits	☐	☐	☐	☐	☐	☐	☐

Q5. Now, thinking about the next fiscal year, please indicate which actions your jurisdiction has taken or is likely to take.

	Greatly Decrease	Somewhat Decrease	No Change	Somewhat Increase	Greatly Increase	Not Applicable	Don't Know
Property tax rates	☐	☐	☐	☐	☐	☐	☐
Charges for fees, licenses, etc.	☐	☐	☐	☐	☐	☐	☐
Reliance on general fund balance	☐	☐	☐	☐	☐	☐	☐
Reliance on "rainy day" funds	☐	☐	☐	☐	☐	☐	☐
Amount of services provided	☐	☐	☐	☐	☐	☐	☐
Actual public safety spending	☐	☐	☐	☐	☐	☐	☐
Actual infrastructure spending	☐	☐	☐	☐	☐	☐	☐
Actual human services spending	☐	☐	☐	☐	☐	☐	☐
Funding for economic development programs	☐	☐	☐	☐	☐	☐	☐
Amount of debt	☐	☐	☐	☐	☐	☐	☐
Sale of public assets (i.e., parks, buildings, etc.)	☐	☐	☐	☐	☐	☐	☐
Privatizing or contracting out of services	☐	☐	☐	☐	☐	☐	☐
Number and/or scope of interlocal agreements or other cost-sharing plans with other governments	☐	☐	☐	☐	☐	☐	☐
Your jurisdiction's workforce hiring	☐	☐	☐	☐	☐	☐	☐
Your jurisdiction's workforce layoffs	☐	☐	☐	☐	☐	☐	☐
Your jurisdiction not filling vacant positions	☐	☐	☐	☐	☐	☐	☐
Employee pay rates	☐	☐	☐	☐	☐	☐	☐
Employees' share of premiums, deductibles and/or co-pays on health insurance	☐	☐	☐	☐	☐	☐	☐
Employees' share of contributions to retirement funds	☐	☐	☐	☐	☐	☐	☐
Retirees' share of premiums, deductibles and/or co-pays on health insurance	☐	☐	☐	☐	☐	☐	☐

Now we have a few questions about your jurisdiction's budgeting processes.

Q26. Does your jurisdiction use multi-year financial projections when developing its budget?

☐ Yes ☐ No ☐ Don't Know

Q27. Some local jurisdictions are moving to formal multi-year budgeting, rather than the traditional single-year budgeting. Others are not. Does your jurisdiction adopt single-year budgets or multi-year budgets?

☐ Single-year ☐ Two-year ☐ Three-year ☐ Other *(please specify)* _____ ☐ Don't Know

Q28. *(If you selected "single-year" in Q27)* How likely is it that your jurisdiction will adopt formal multi-year budgeting in the next 12 months?

Very Likely	Somewhat Likely	Neither Likely Nor Unlikely	Somewhat Unlikely	Very Unlikely	Don't Know
☐	☐	☐	☐	☐	☐

Q29. Different local jurisdictions manage their unreserved general fund balances in different ways depending on their specific circumstances. Despite these differences, we're interested in tracking overall changes in these balances over time. Approximately what was your jurisdiction's unreserved general fund balance as a percentage of general fund expenditures at the end of its last fiscal year?

☐ 0% or less ☐ 1-5% ☐ 6-10% ☐ 11-15% ☐ 16-20% ☐ 21-25% ☐ 26-30% ☐ over 30% ☐ Don't Know

Q30. Thinking about your jurisdiction's fiscal needs, overall, do you consider your jurisdiction's unreserved general fund balance to be too high, about right, or too low?

☐ Too High ☐ About Right ☐ Too Low ☐ Don't Know

Q31. In your opinion, is your jurisdiction's cash flow and its ability to pay bills in a timely manner a significant fiscal problem, somewhat of a problem, not much of a problem, or not a problem at all?

☐ A significant problem ☐ Somewhat of a problem ☐ Not much of a problem ☐ Not a problem at all ☐ Don't Know

Q32. Some jurisdictions have cut services recently, while others have not. We want to get an overall sense of the level of satisfaction with the package of services your jurisdiction offers today. In your view, how satisfied would you say the following people or groups are with your jurisdiction's current package of services provided?

	Very Satisfied	Somewhat Satisfied	Neither Satisfied Nor Dissatisfied	Somewhat Dissatisfied	Very Dissatisfied	Don't Know
The majority of your jurisdiction's citizens are ...	☐	☐	☐	☐	☐	☐
The majority of your jurisdiction's council/board are ...	☐	☐	☐	☐	☐	☐
The majority of business leaders in your community are ...	☐	☐	☐	☐	☐	☐
You personally are ...	☐	☐	☐	☐	☐	☐

Q33. We are interested in views about the trade-off between services and taxes. Thinking about particular services your jurisdiction may currently offer, if your jurisdiction's citizens were facing significant service cuts, in your opinion, what would they choose? Would the majority of citizens be more likely to choose higher taxes to avoid those service cuts or would they choose cuts to public services to avoid higher taxes? Please respond for each of the following services. *(if your jurisdiction does not provide a particular service below, please select "Not Applicable" for that service)*

	Citizens would choose higher taxes to avoid service cuts	Citizens would choose service cuts to avoid higher taxes	Not Applicable	Don't Know
Police services	☐	☐	☐	☐
Fire services	☐	☐	☐	☐
Parks / recreation / libraries	☐	☐	☐	☐
Roads	☐	☐	☐	☐
Public transportation / transit	☐	☐	☐	☐
Economic development	☐	☐	☐	☐
Utilities (water / sewer / lighting, etc.)	☐	☐	☐	☐
General operations	☐	☐	☐	☐

Now we have some questions about the system of funding local government in Michigan.

Q34. Michigan's local jurisdictions currently have constraints on certain kinds of revenue growth (for example, the Headlee Amendment and Proposal A). Thinking about the revenue caps facing your jurisdiction, if the economy improves over the coming years, do you agree or disagree that the current system of funding local government will provide adequate funding to ...

	Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree	Don't Know
... maintain the current package of services your jurisdiction provides?	☐	☐	☐	☐	☐	☐
... improve or add more services, if they are necessary or desired?	☐	☐	☐	☐	☐	☐

Q35. Some people think the current system for funding local government in Michigan needs significant reform, while others disagree. What about you? Would you say you agree or disagree that the system for funding local governments in Michigan needs significant reform?

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree	Don't Know
☐	☐	☐	☐	☐	☐

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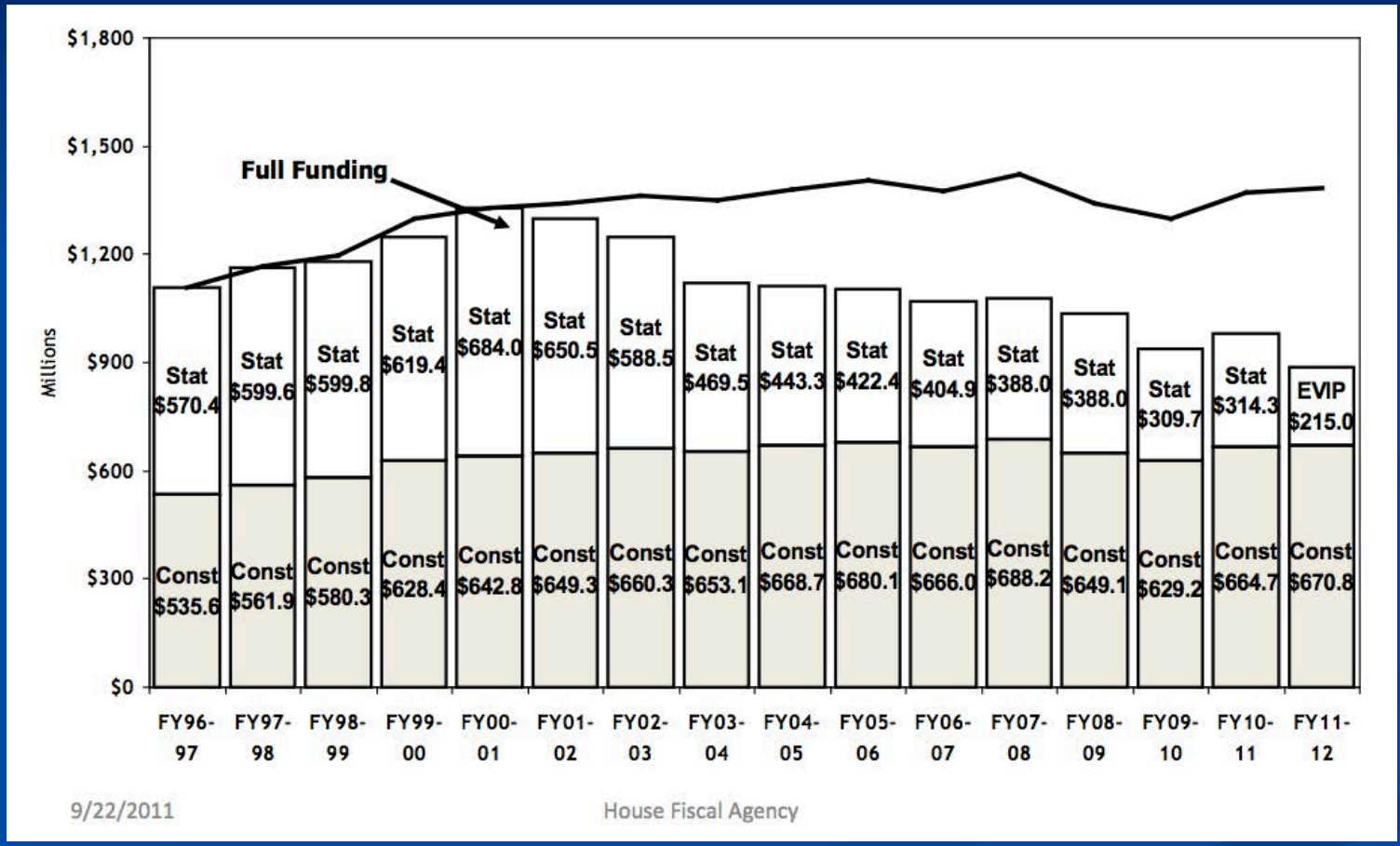
A Decade of Severe Fiscal Stress

- Revenue sharing cuts, property tax declines, rising costs -



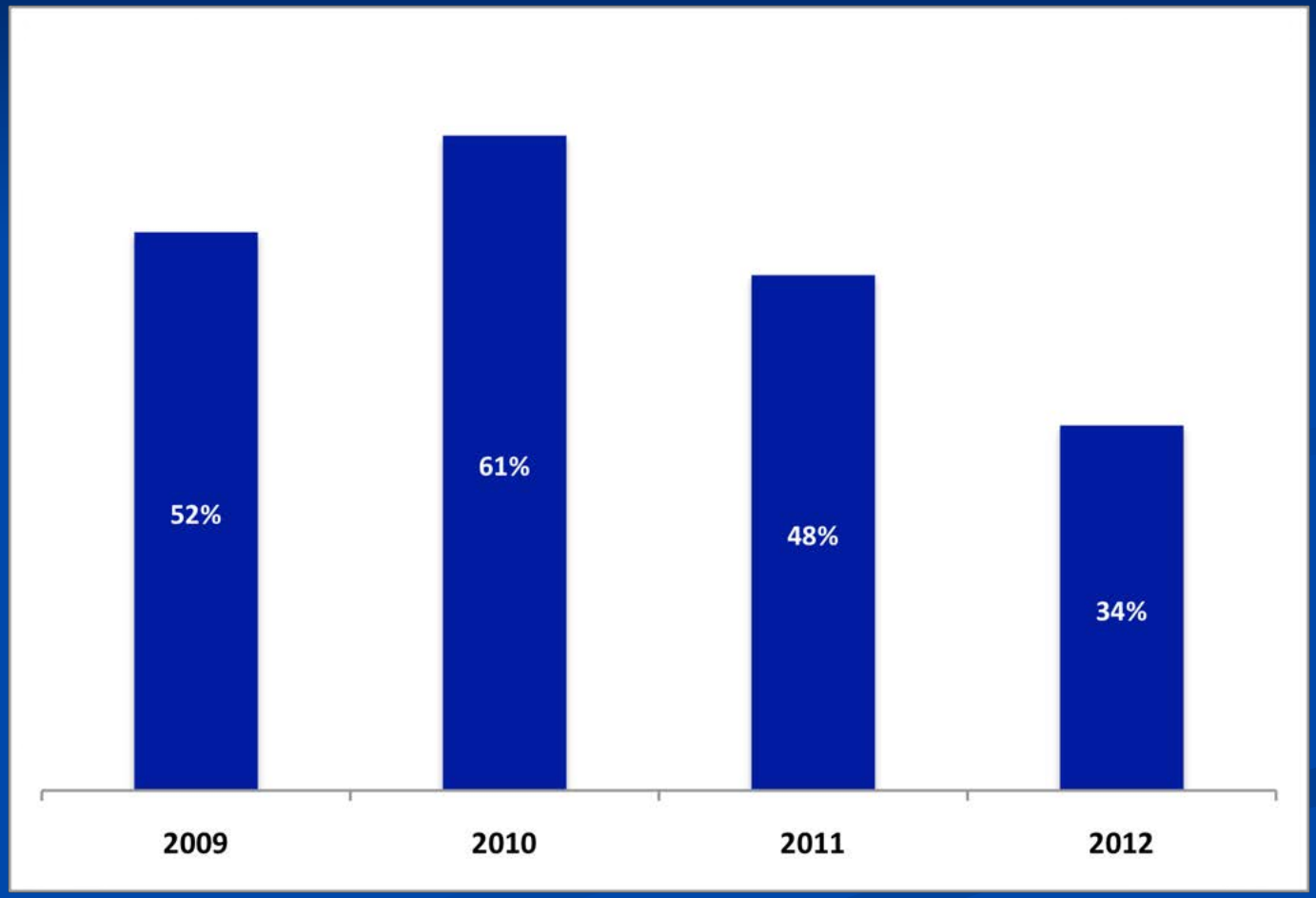
Local Government Reactions to Fiscal Crisis

Percentage of jurisdictions reporting various budgetary and operational changes

	2009	2010	2011	2012
% planning to increase reliance on general fund balance (% with >30,000 residents)	44% (64%)	49% (63%)	36% (38%)	34% (38%)
% decreasing staff numbers overall (% with >30,000 residents)	*not asked*	27% (85%)	23% (75%)	19% (60%)
% planning to decrease amount of services provided (% with >30,000 residents)	24% (48%)	29% (63%)	21% (50%)	15% (34%)
% planning to increase intergovernmental cooperation (% with >30,000 residents)	32% (61%)	38% (79%)	40% (85%)	40% (76%)
% planning to increase employees' share of premiums, deductibles and/or co-pays on health insurance (% with >30,000 residents)	*not asked*	33% (71%)	30% (86%)	30% (81%)

Pressures on local fiscal health showed continued easing in 2012

% of jurisdictions less able to meet their financial needs this year



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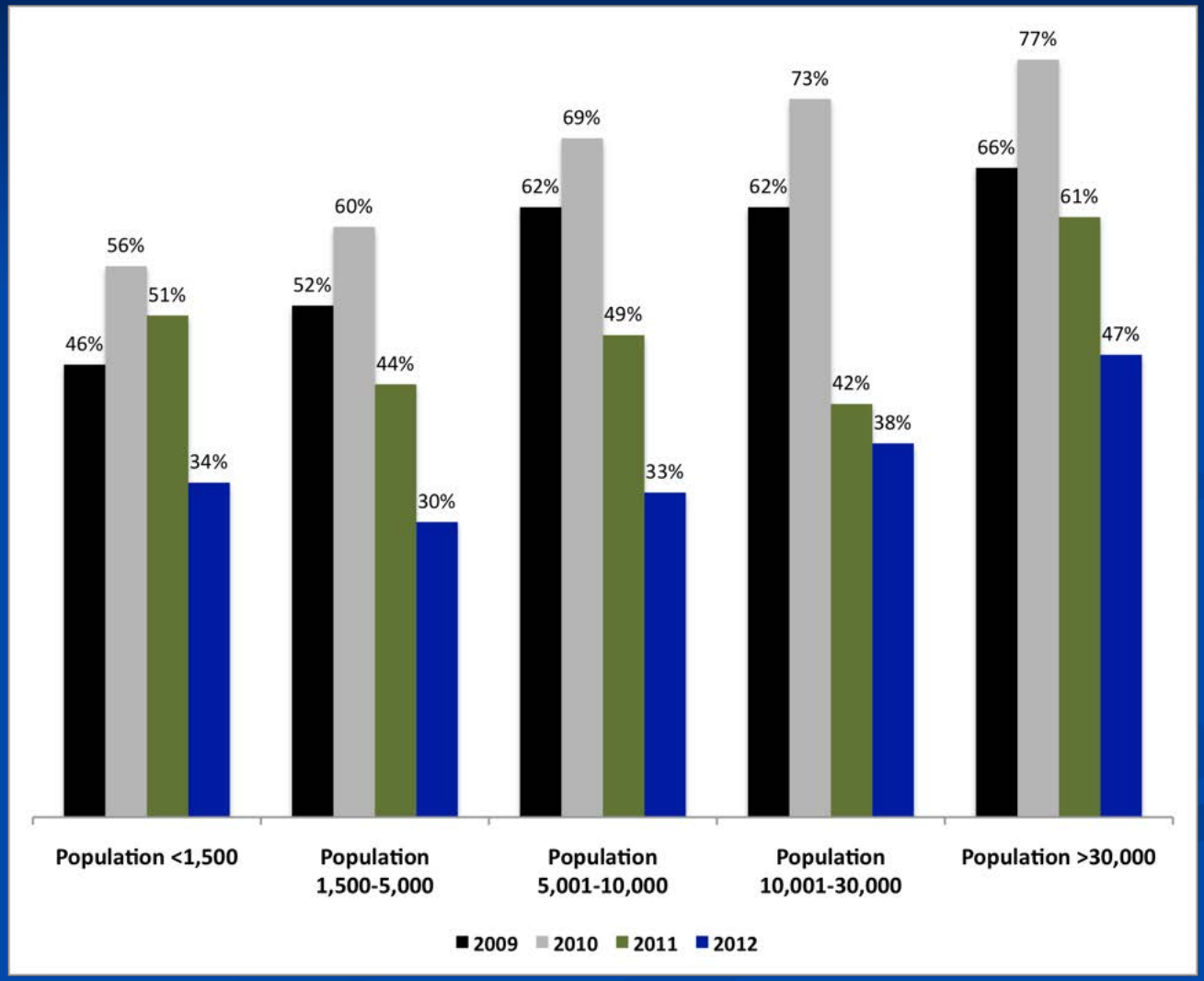
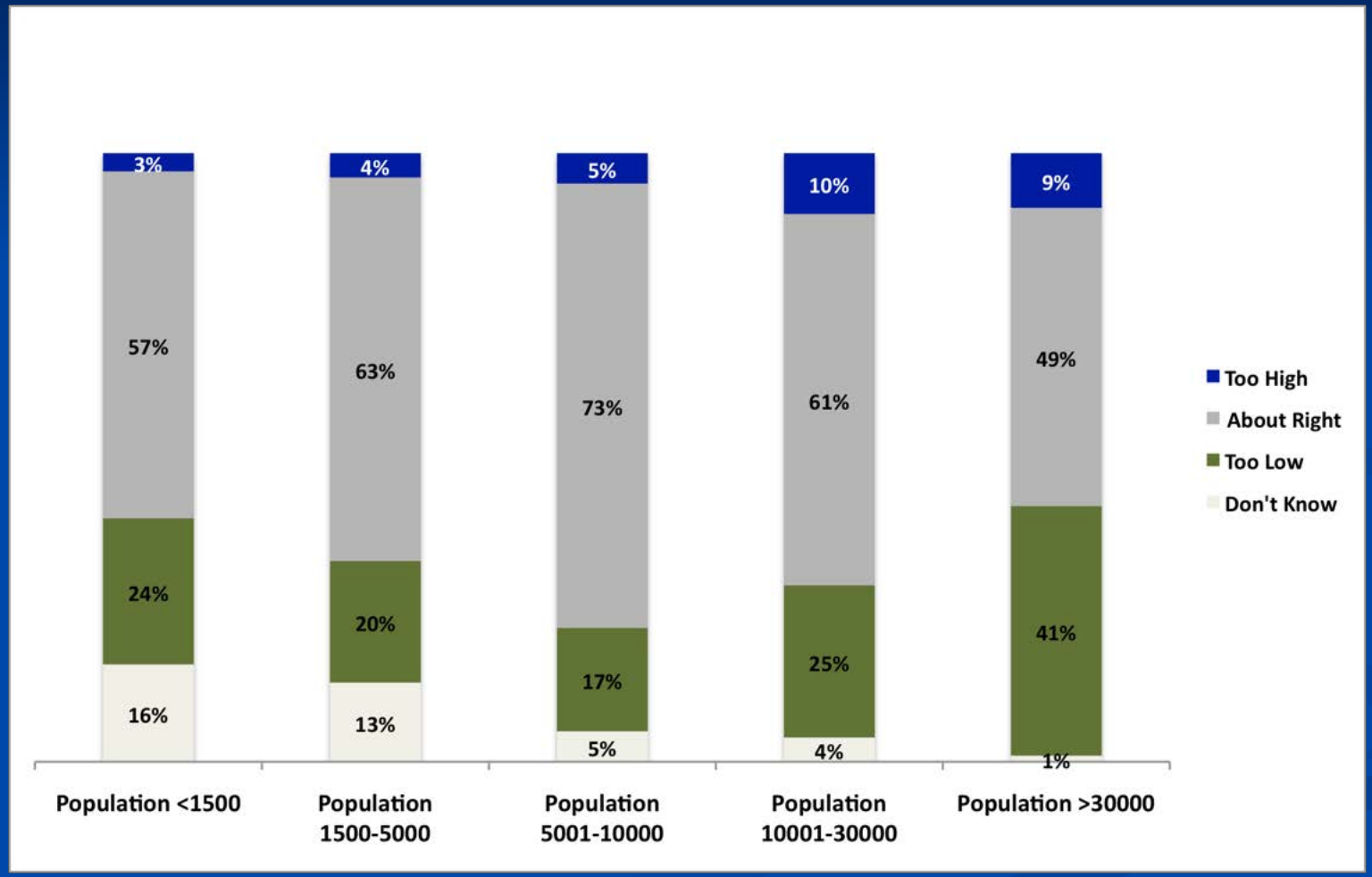
Easing felt in Michigan jurisdictions of all sizes

% of jurisdictions less able to meet their financial needs this year



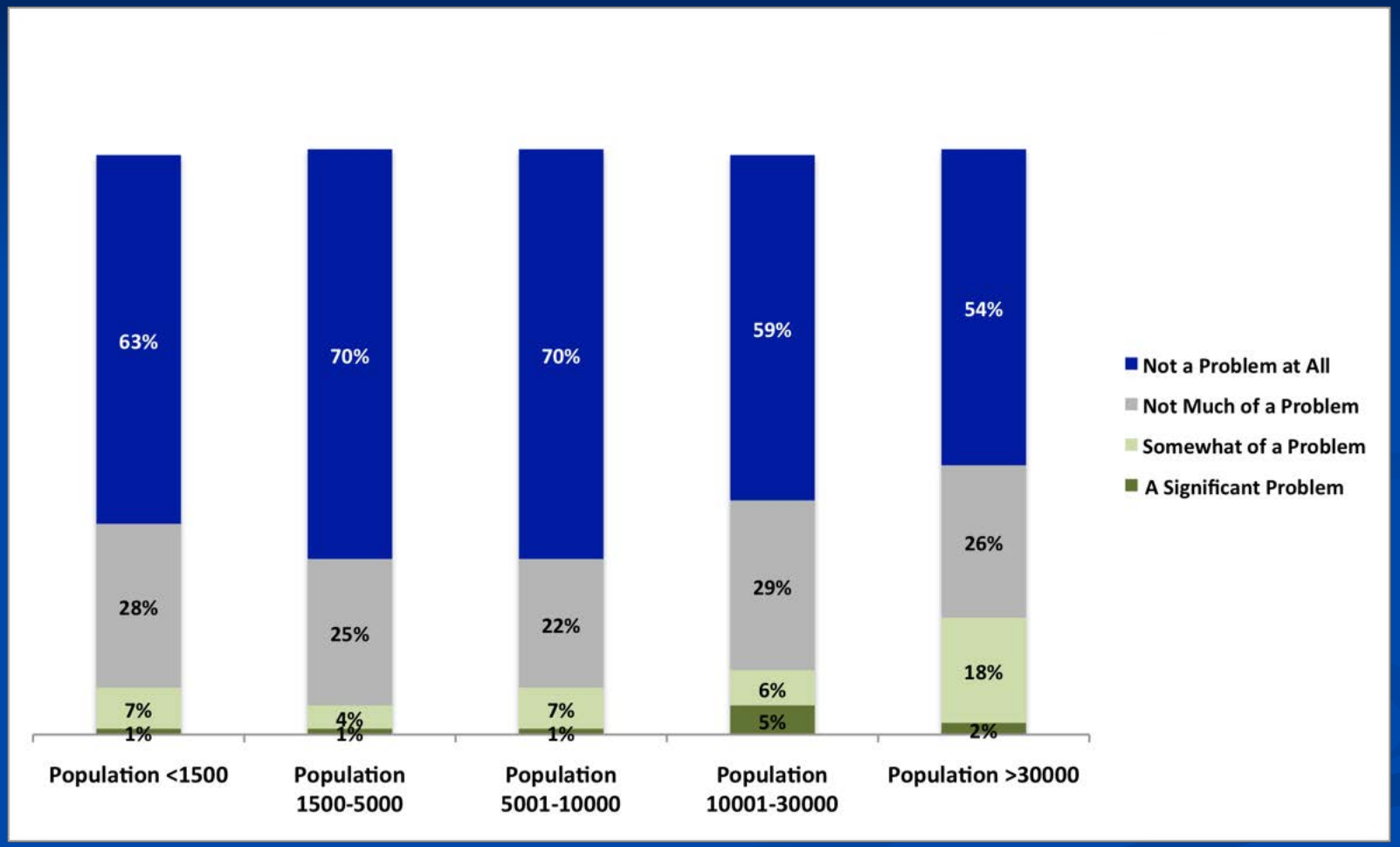
Local leaders mostly positive on 2 key indicators: -

- General Fund Balances -



Local leaders mostly positive on 2 key indicators: -

- Cash Flow -



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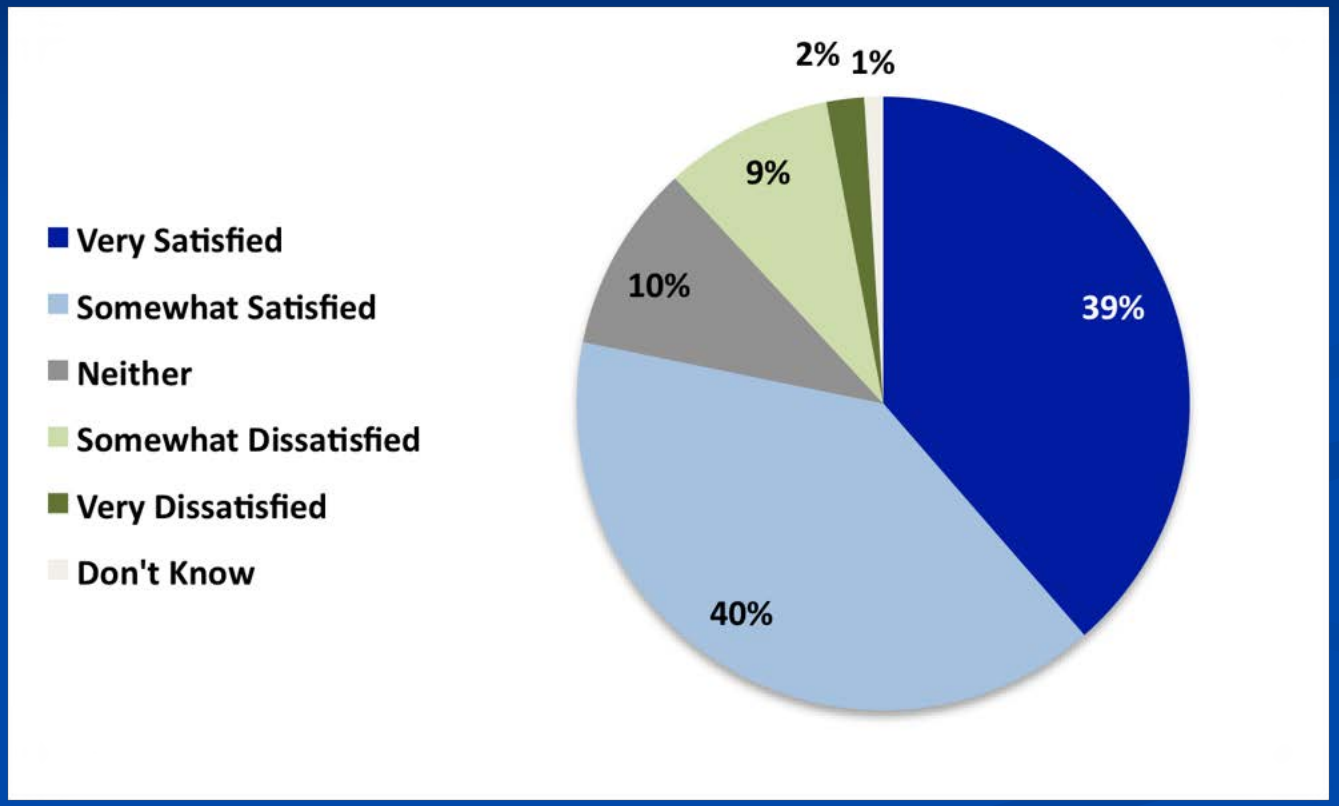
Widespread satisfaction with jurisdiction's current package of services



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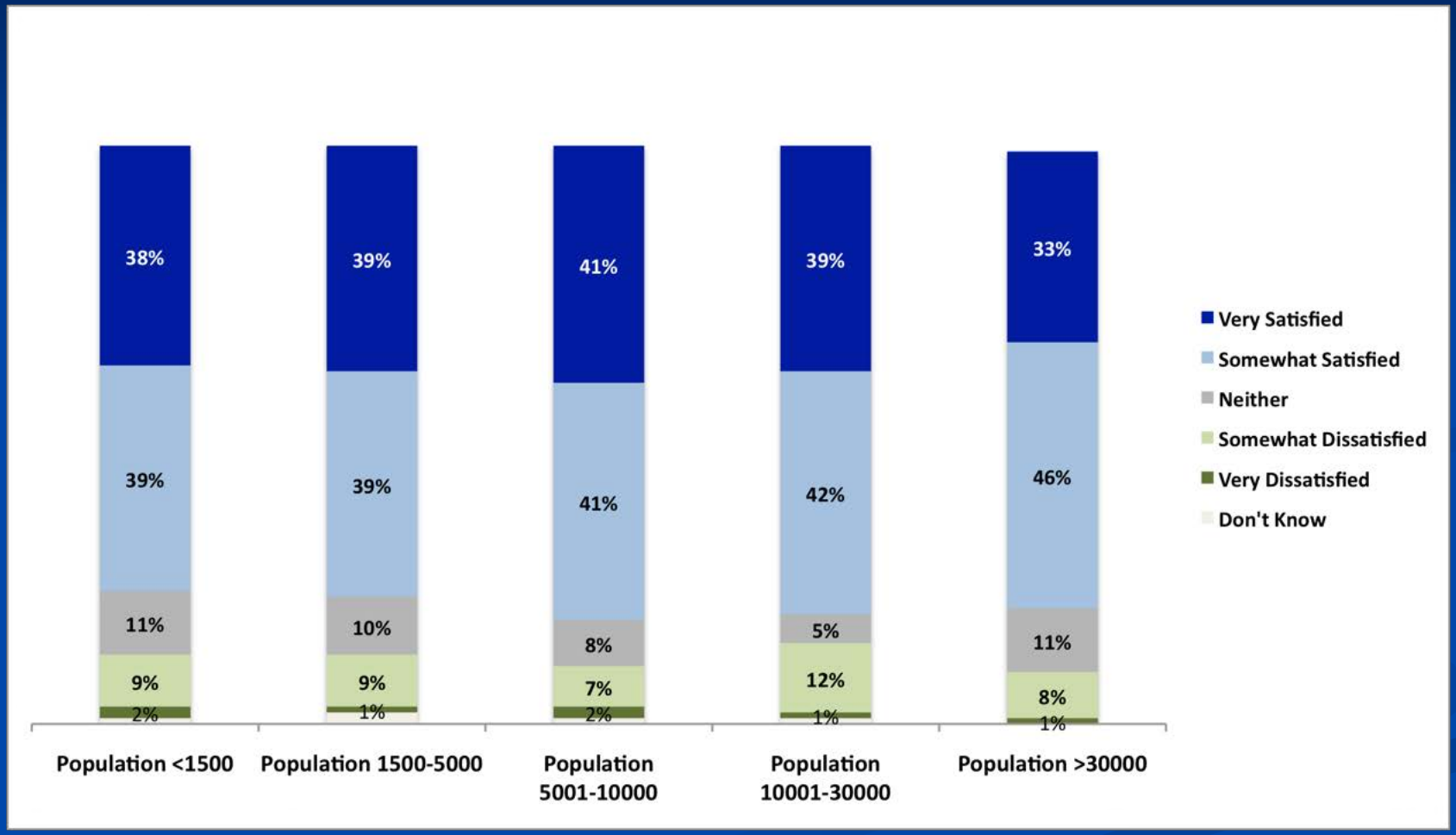

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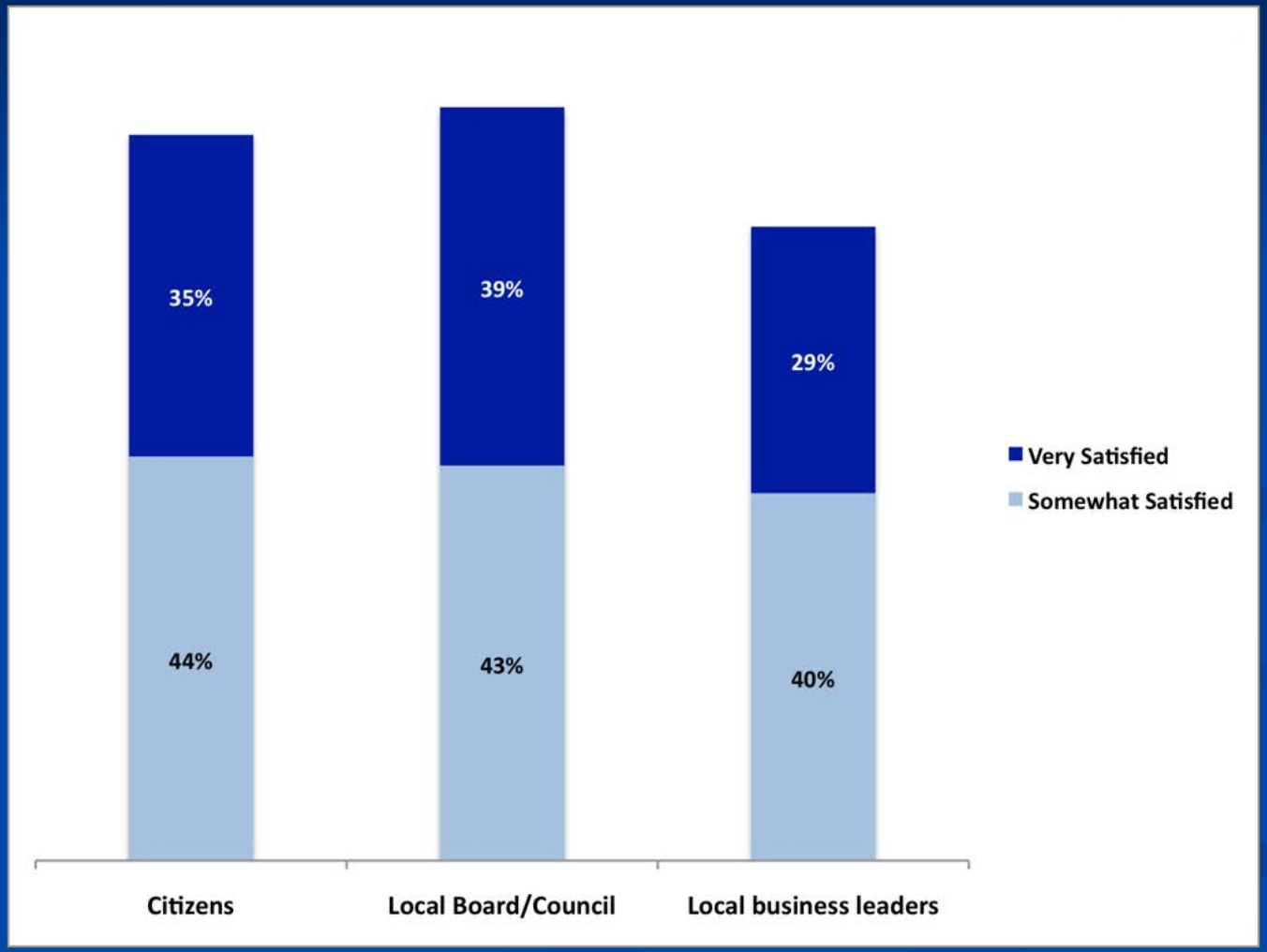
Officials believe other stakeholders are also satisfied with current package of services



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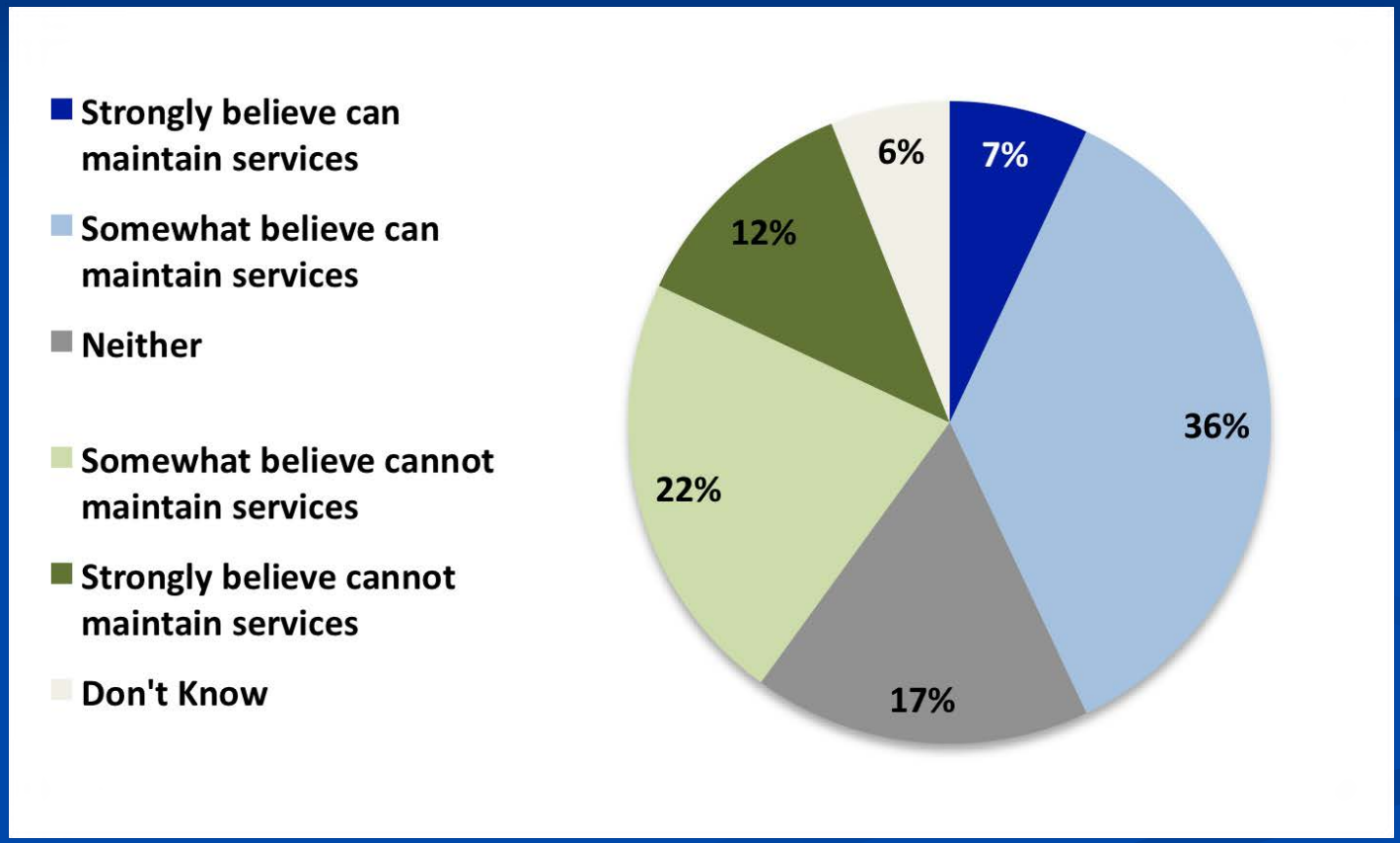
Less than half believe current system of funding local government will be adequate to maintain jurisdiction's services



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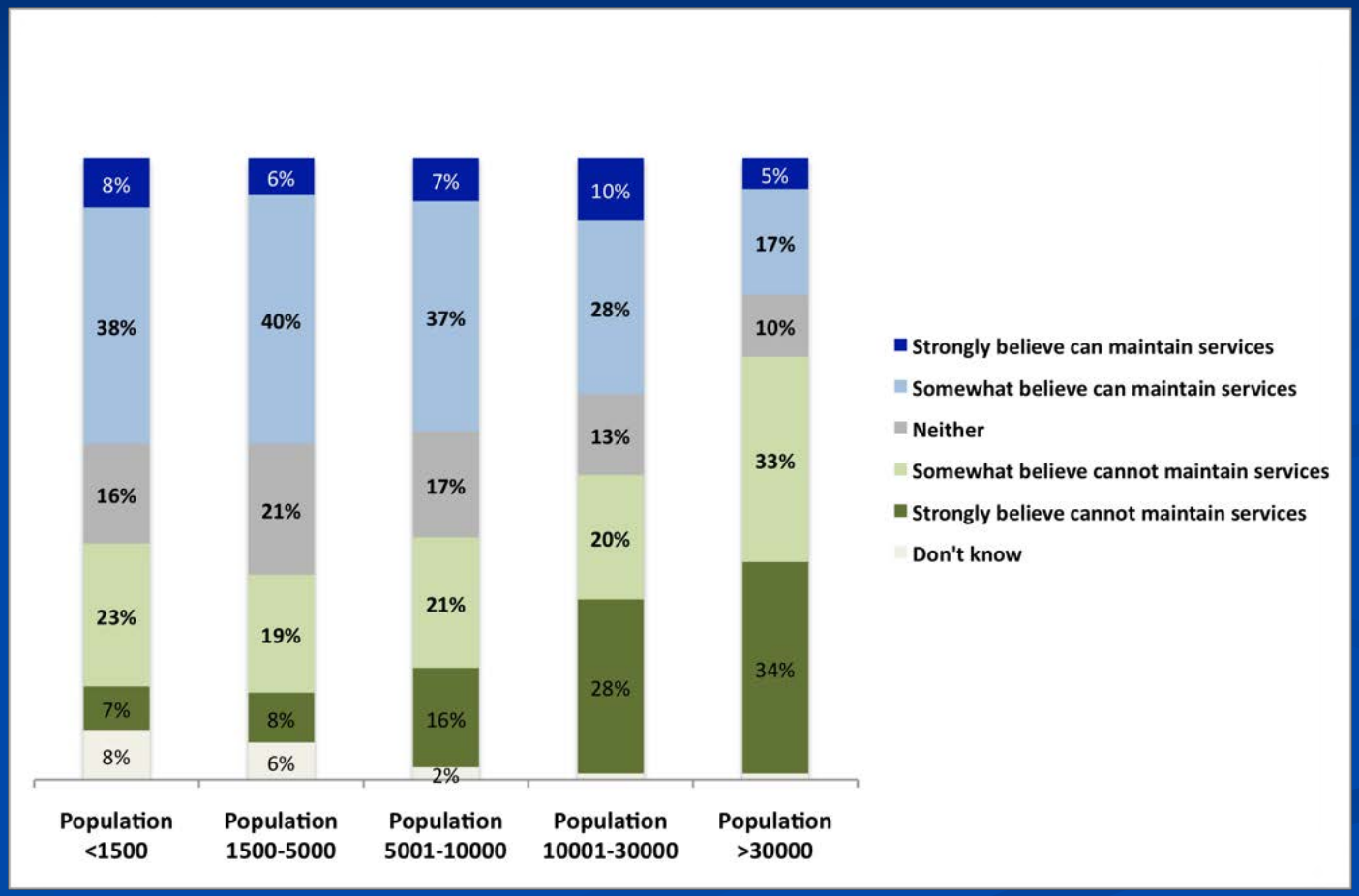

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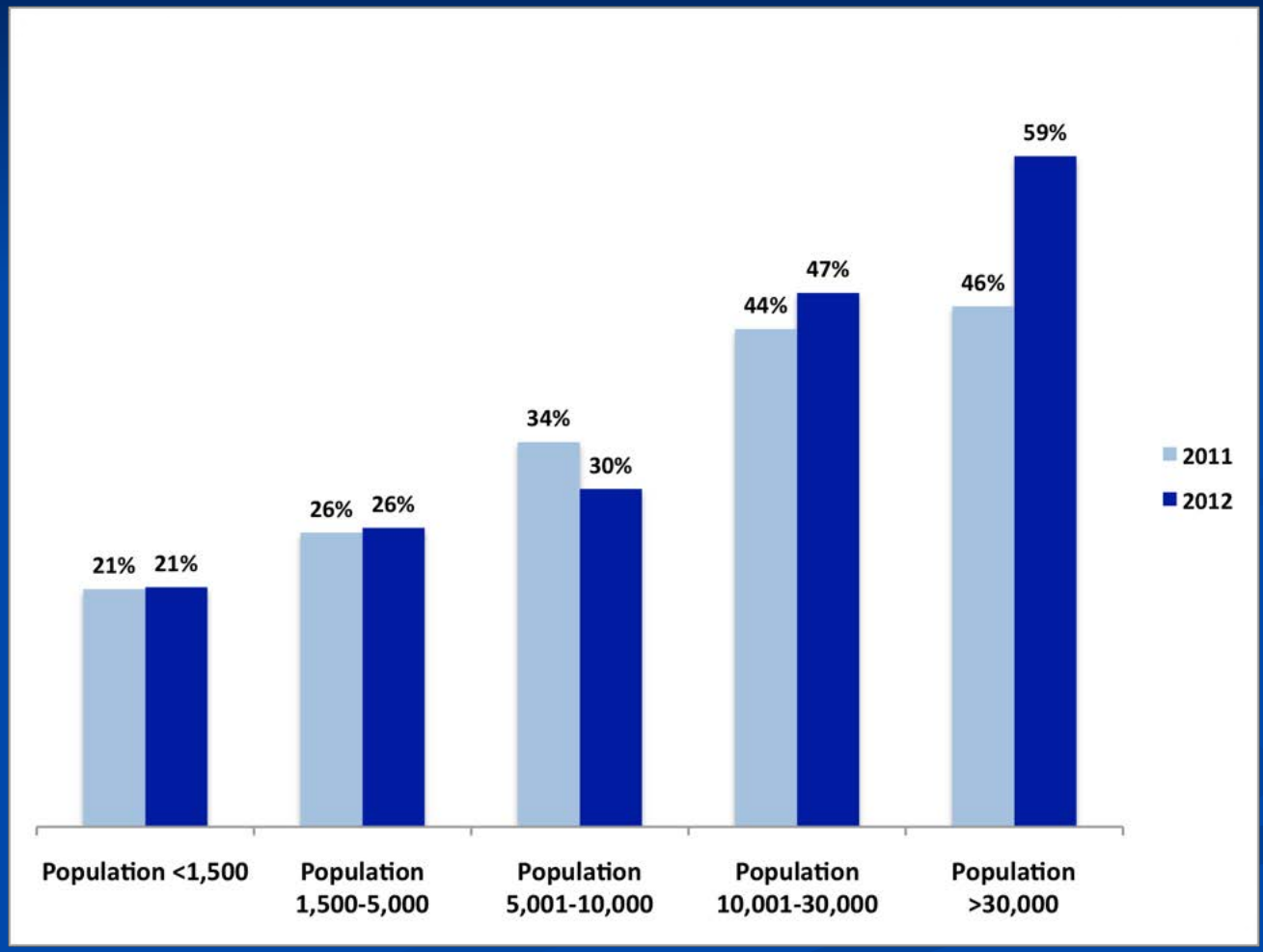
However, service demands continue to increase

% of jurisdictions with increased public safety needs compared to previous year



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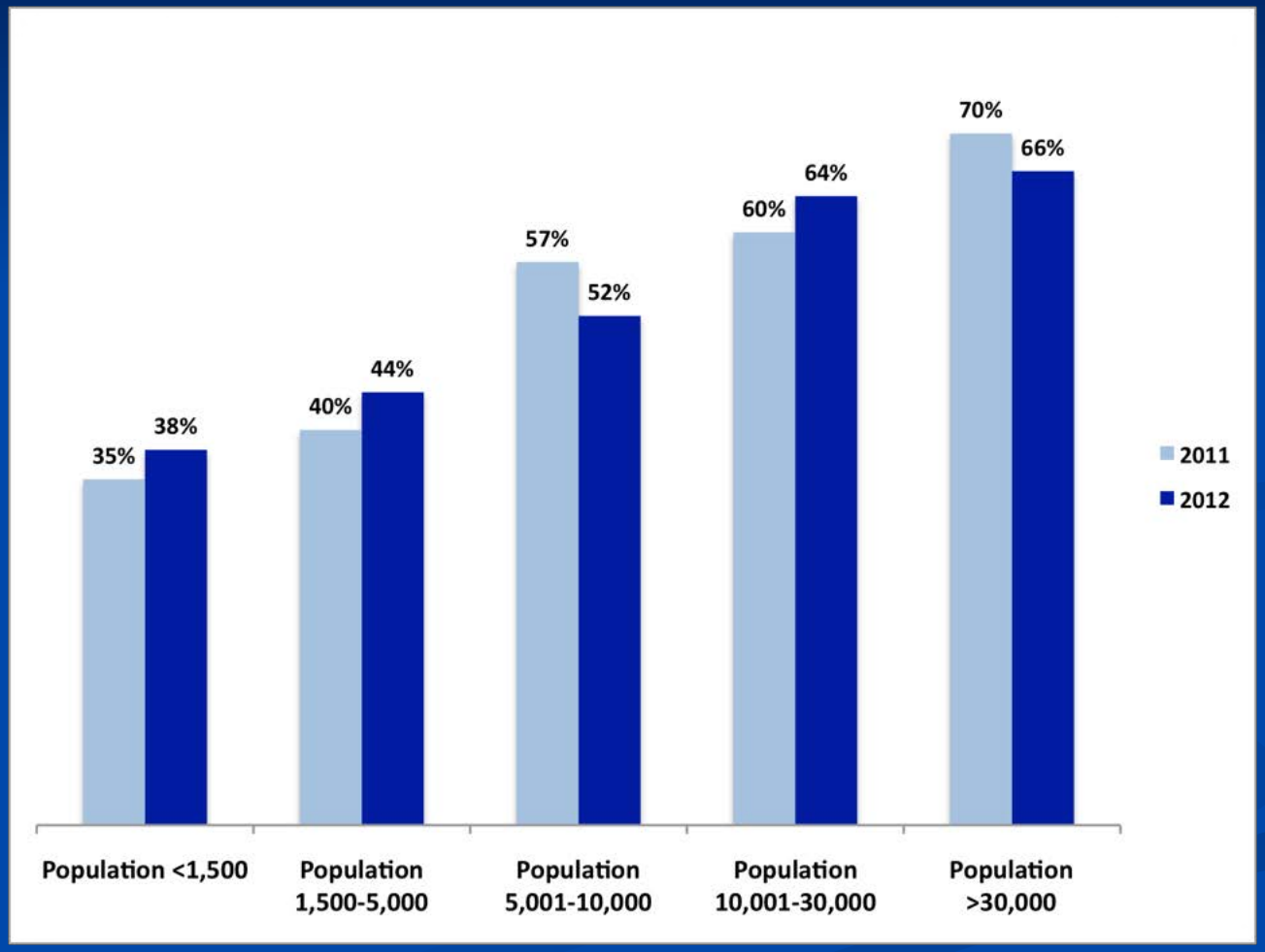
However, service demands continue to increase

% of jurisdictions with increased infrastructure needs compared to previous year



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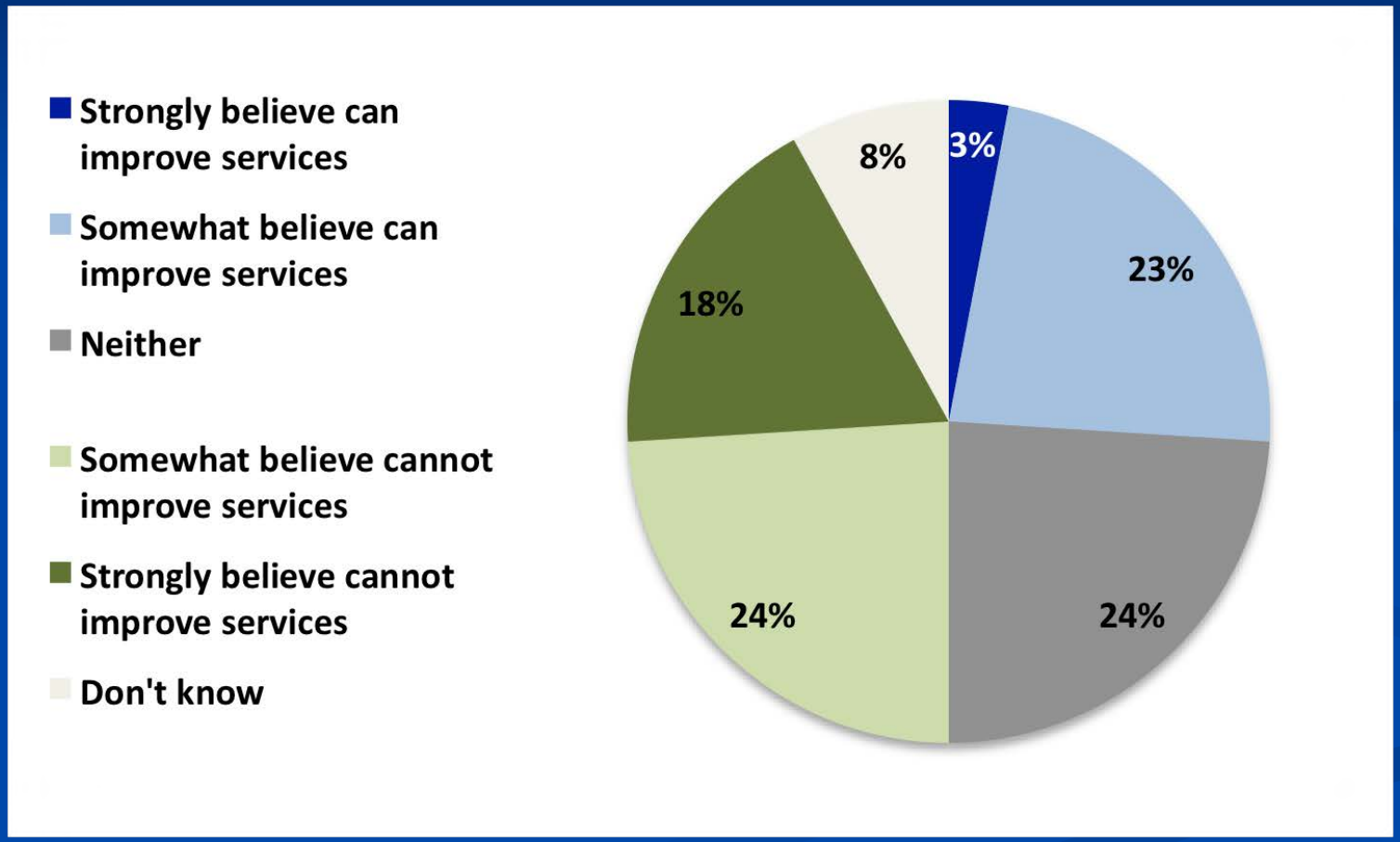
Just a quarter believe funding will be adequate to improve jurisdiction's services



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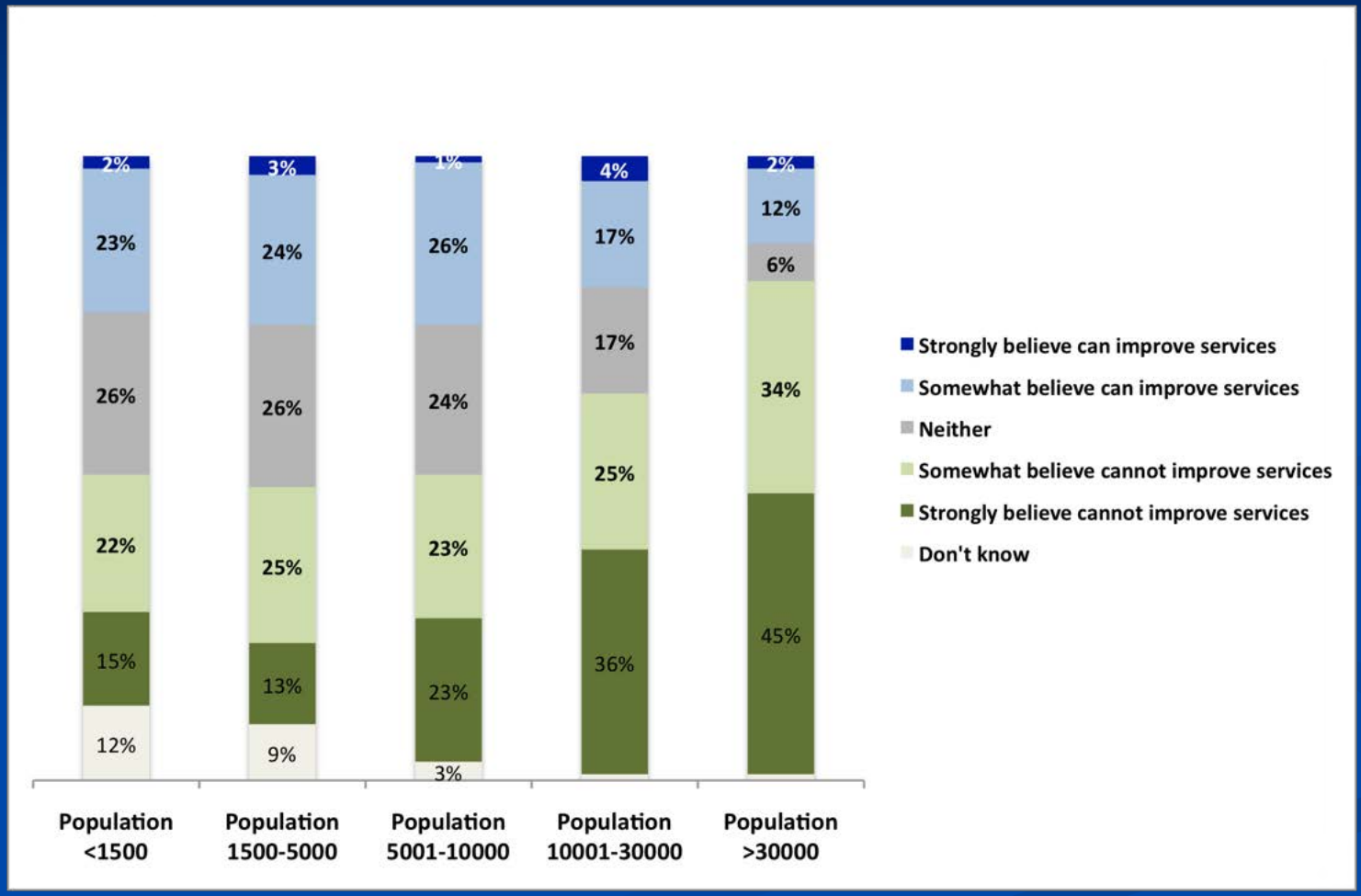

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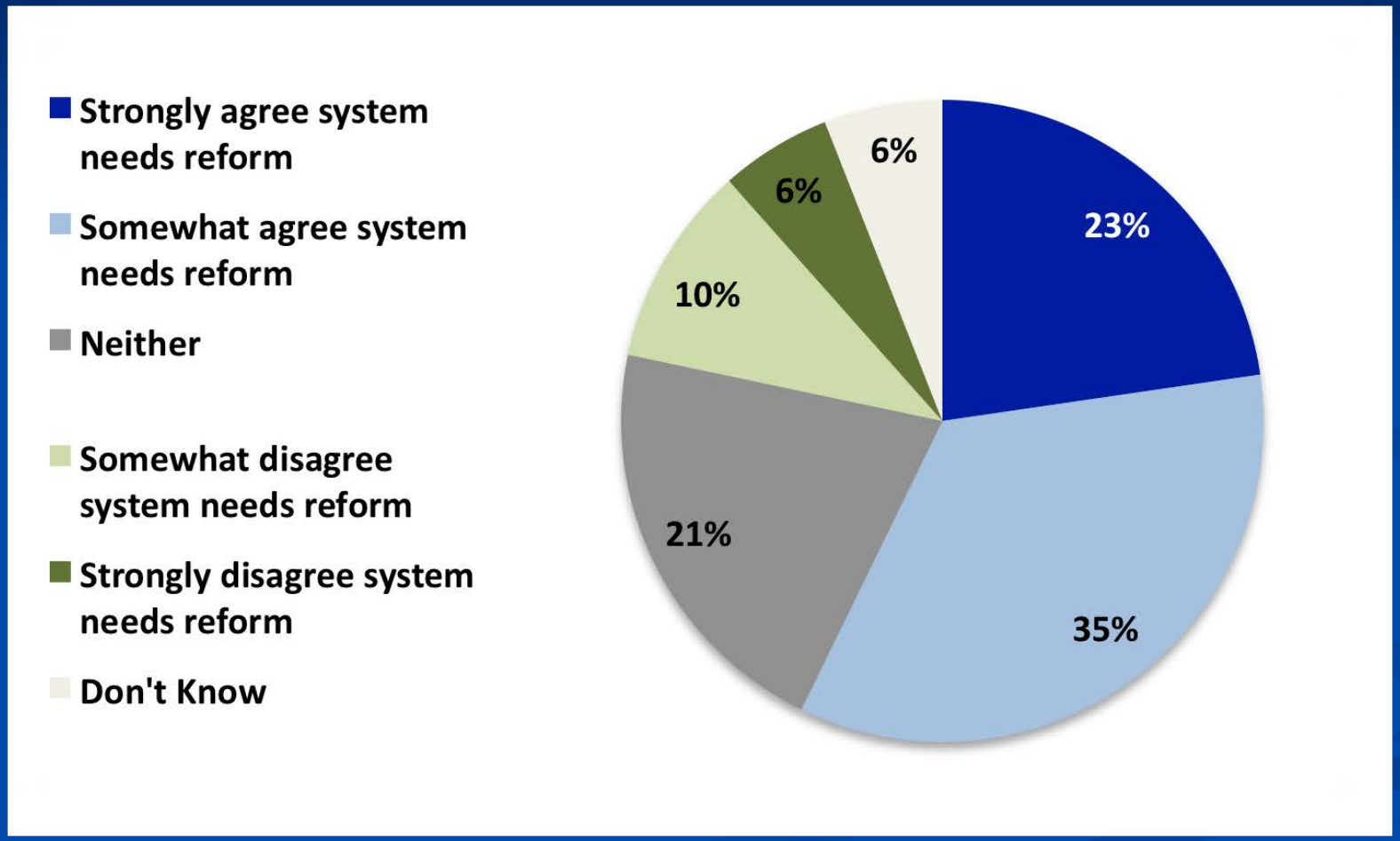
Substantial local support for significant reform to current system of funding local government



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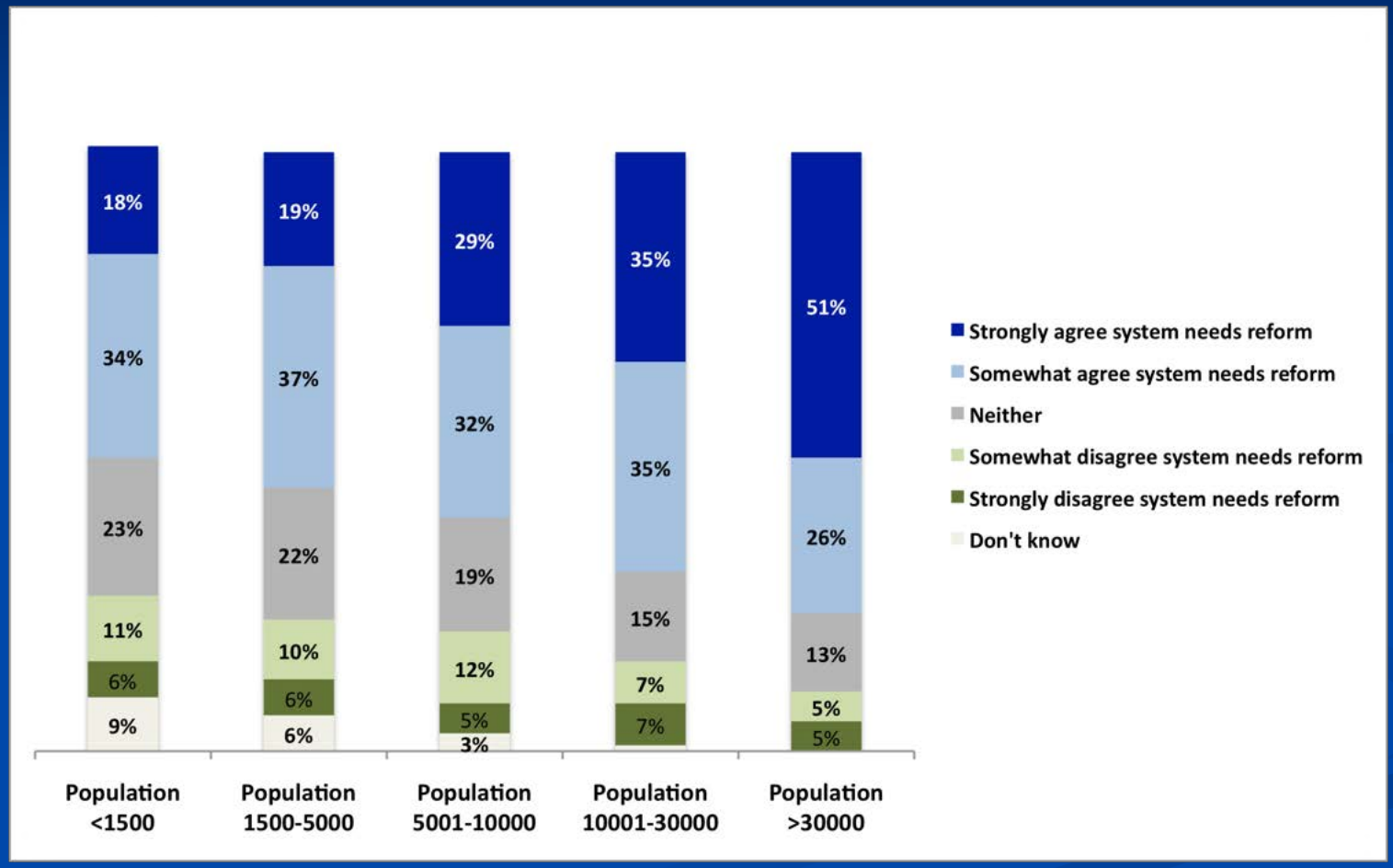

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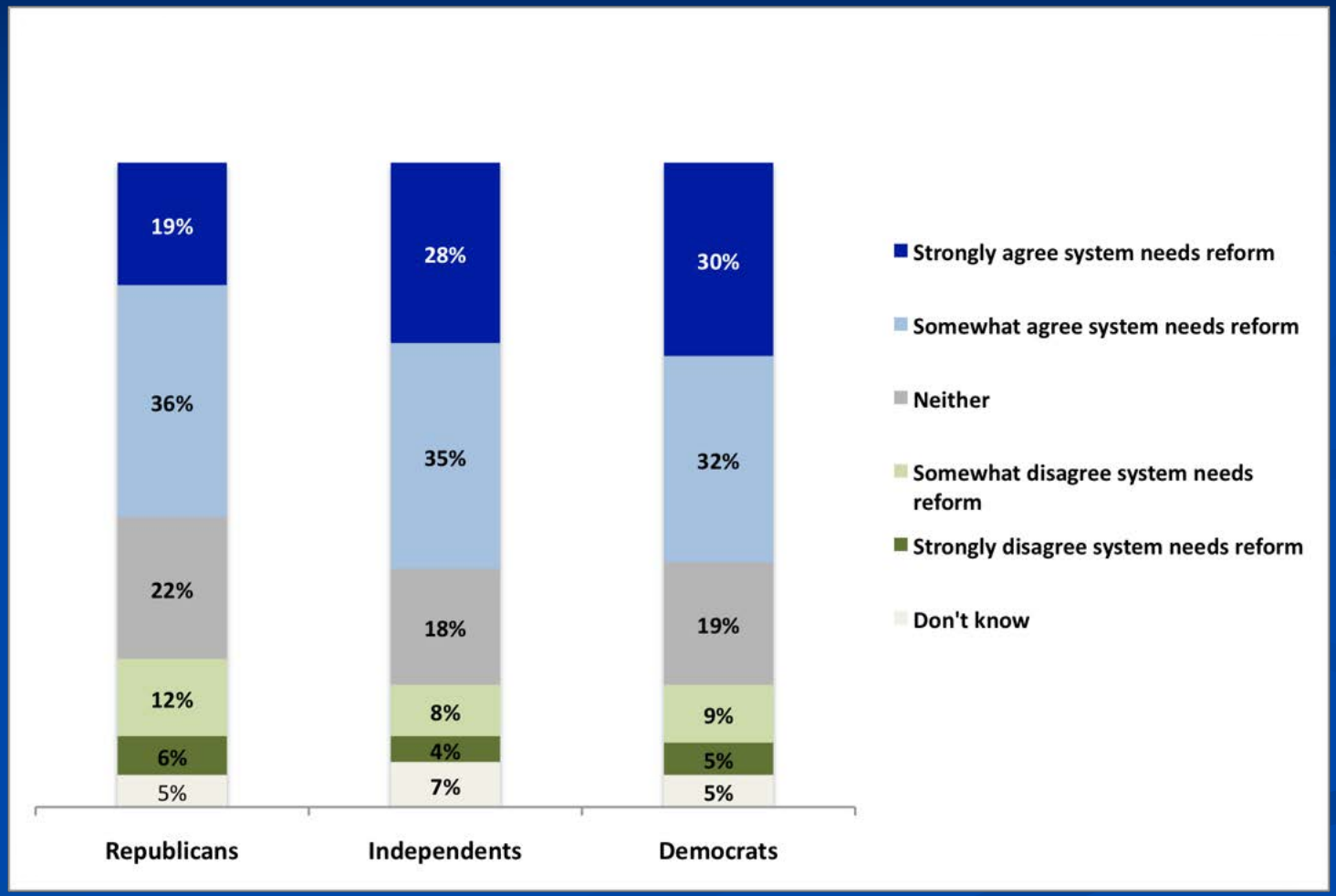

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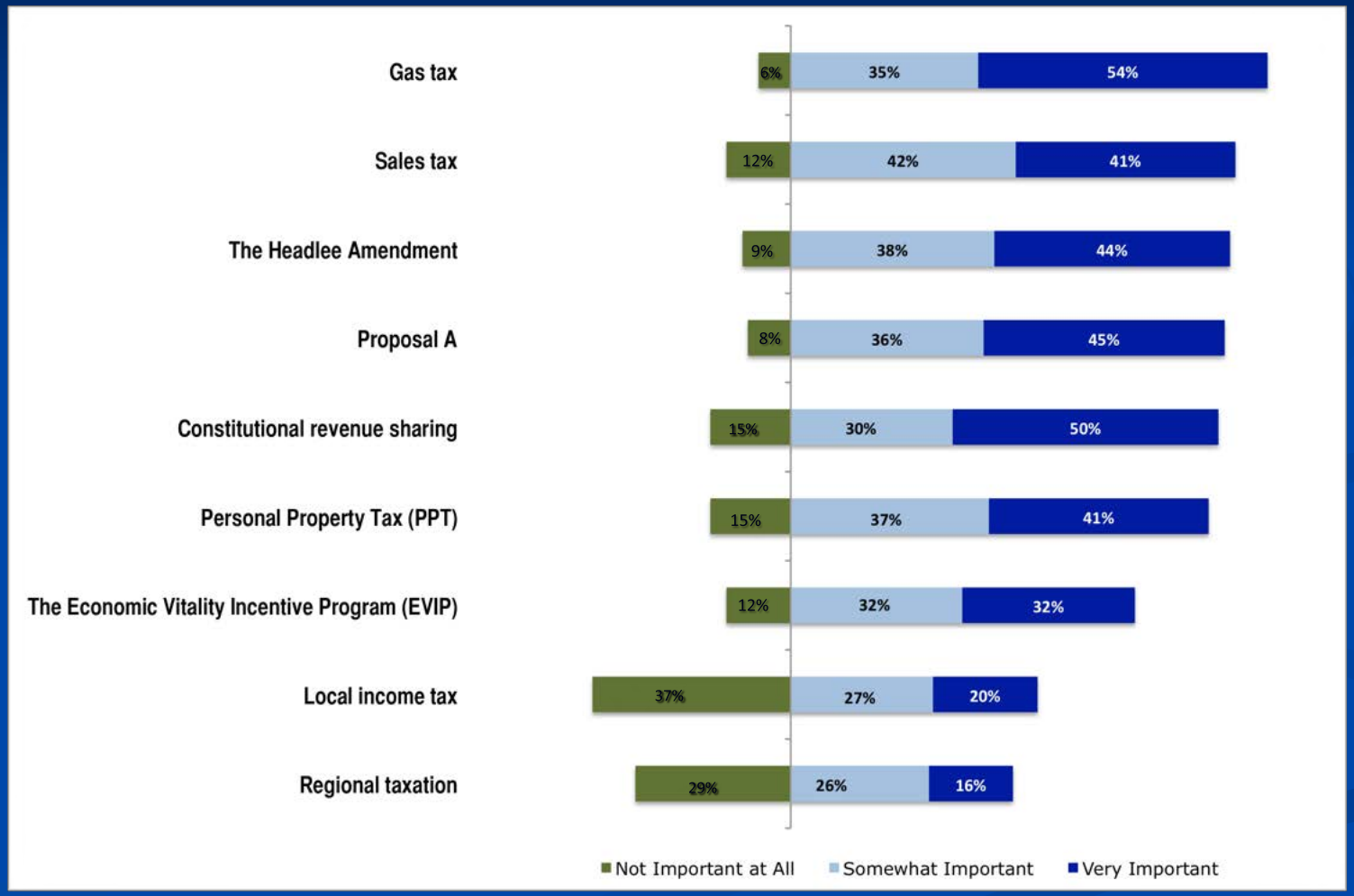

Suggestions from local officials: Property Tax

"… I would revise the Headlee amendment so that millage rates could both be rolled back and rolled up without a vote of the people."

Suggestions from local officials: Sales Tax

"Giving local municipalities the ability to levy a local sales tax would significantly change our financial landscape and our dependence on property taxes ..."

Suggestions from local officials: Revenue Sharing (including EVIP)

"EVIP needs a complete overhaul. The idea isn't bad but a one-size doesn't fit all. Most of the required initiatives are already being done because they were the right thing to do. Now things are being required like they're new ideas."

Key Findings from MPPS on System of Funding Local Governments

- Despite years of retrenchment among Michigan's local governments, most local leaders are satisfied with their current package of services today.
- However, fewer than half (43%) believe our current system of funding local government will allow them to maintain their current package of services in the future, and only 26% think the current funding system will allow improvements to current services or provision of new services in their jurisdictions.
- Of the 58% who say reform is needed: 89% cite the gas tax; 83% point to the sales tax; 82% cite the Headlee Amendment; 81% say Proposal A needs reform; and 80% say revenue sharing needs reform.

Future MPPS survey content

- 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?

Contact us at: closup-mpps@umich.edu

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