CLOSUP
Center for Local, State, and Urban Policy

Gerald R. Ford School of Public Policy

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

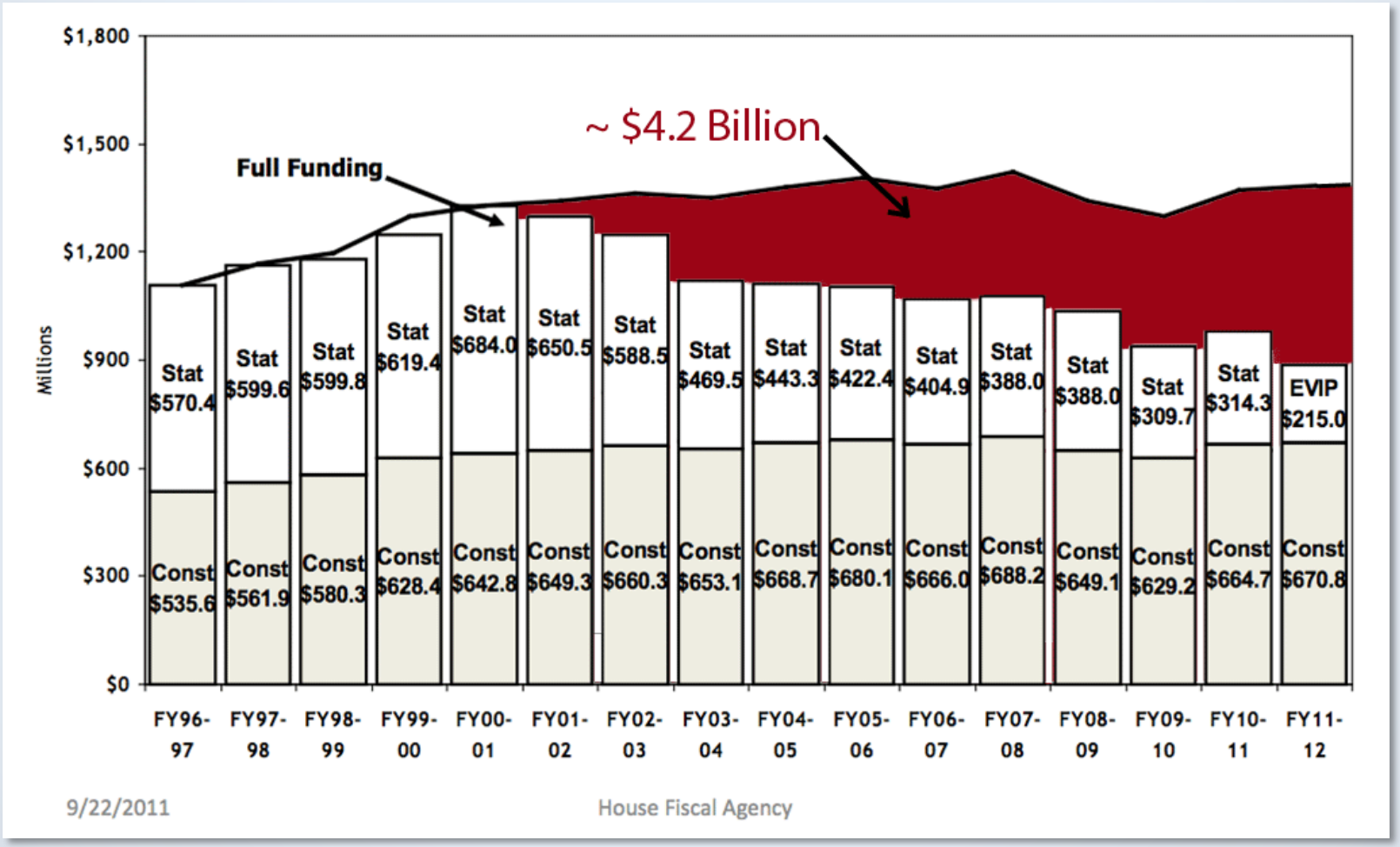
- Census-style approach
- 72% response rates
- Transparency
  - -- Questionnaires online
  - -- Pre-run data tables online
  - -- Sharing of datasets with other researchers
- Technical memos for quality control analysis
- Expert advisors on questionnaire content
- Borrow from other proven sources such 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



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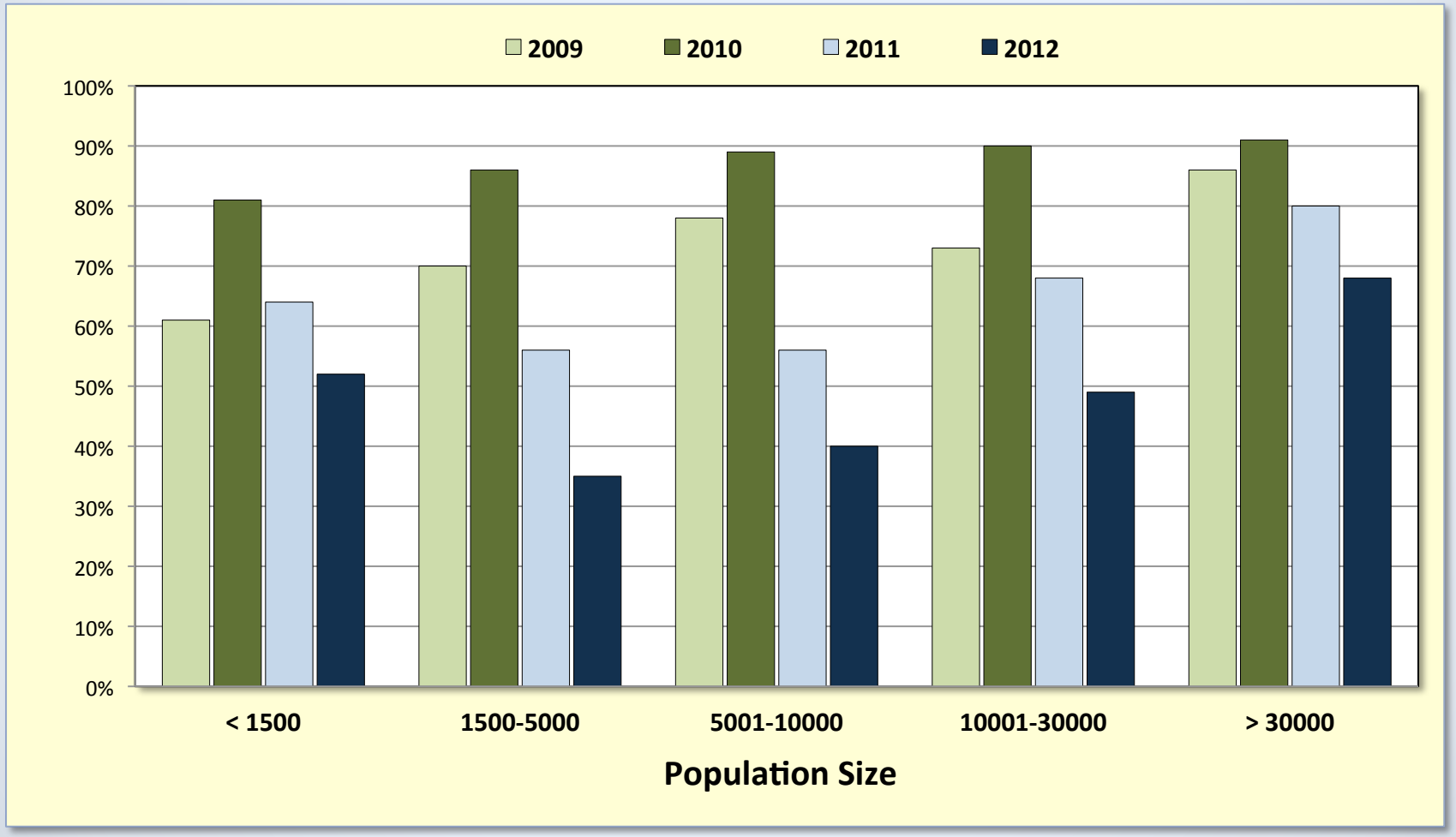
Declining Revenues

% of jurisdictions with declining **state aid**



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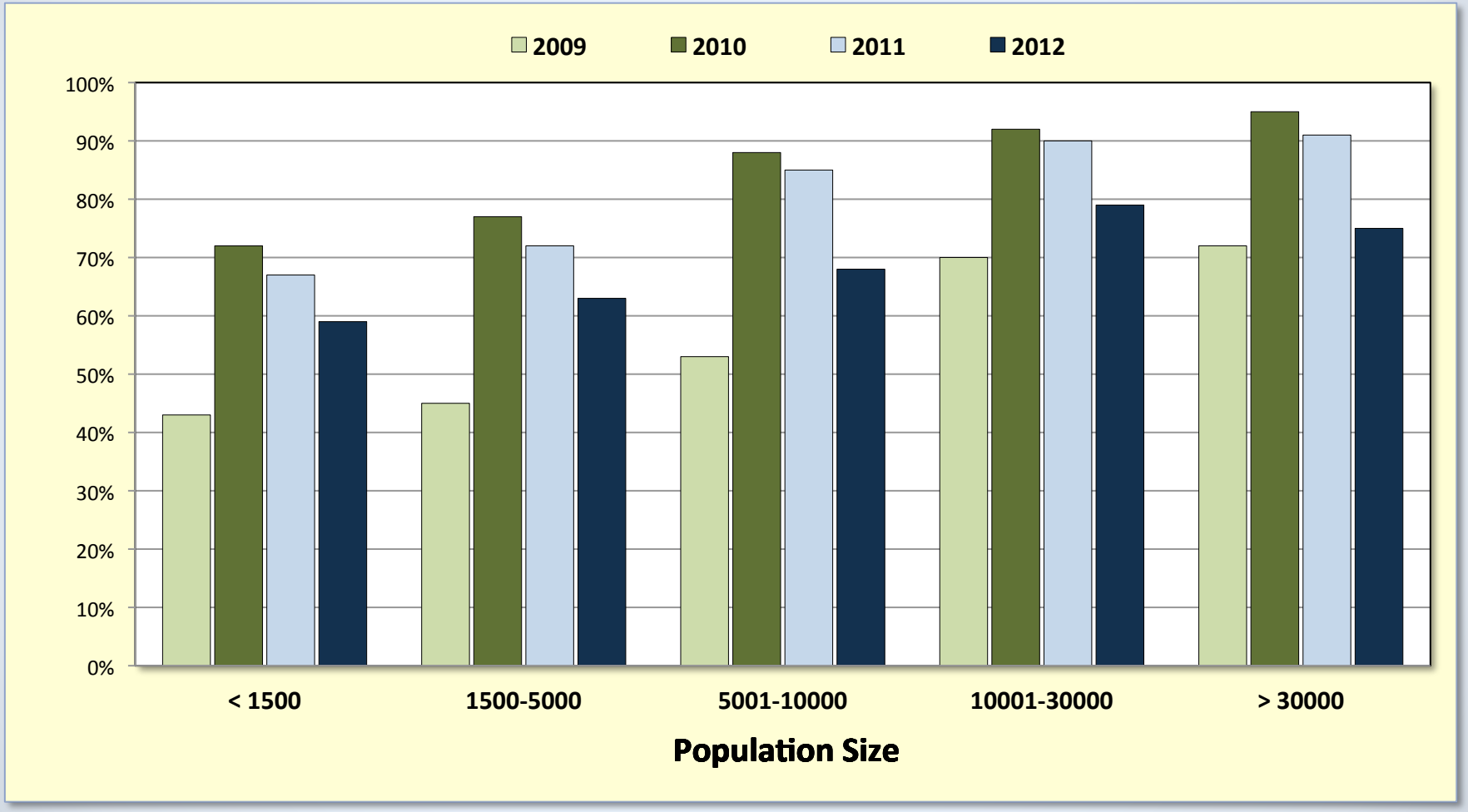
Declining Revenues

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



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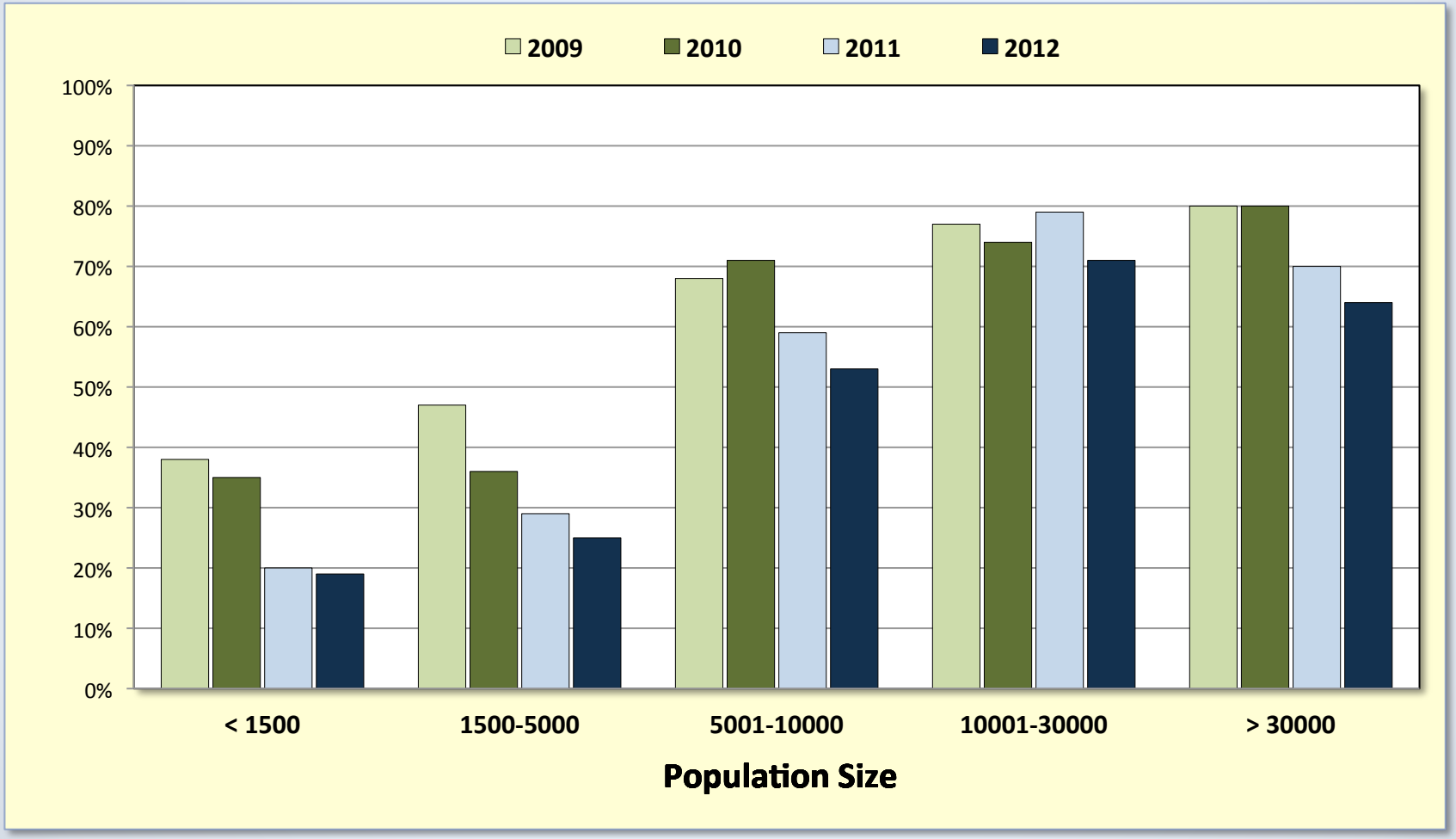
Rising Costs

% of jurisdictions with rising **health care costs**



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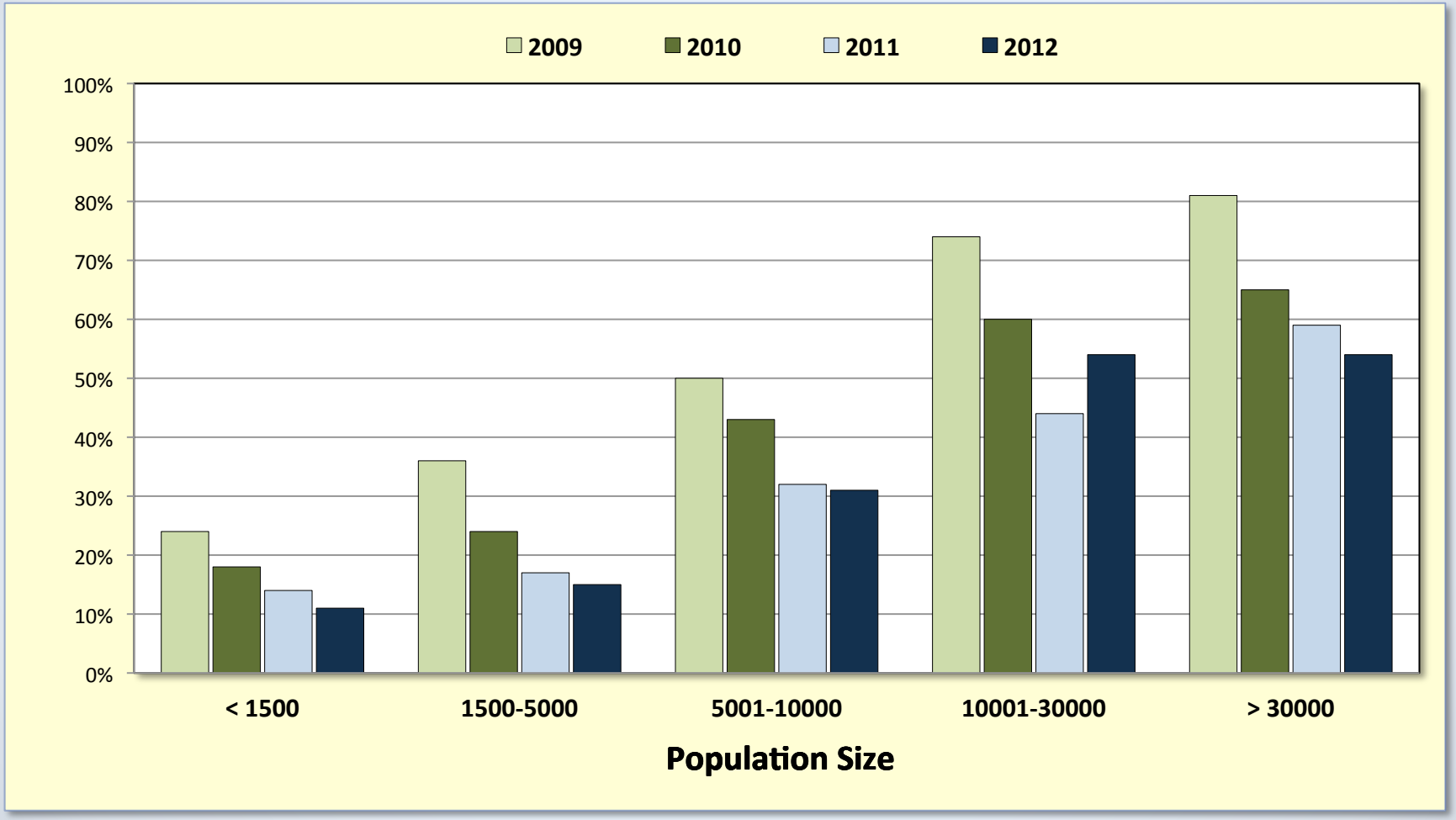
Rising Costs

% of jurisdictions with rising **pension costs**



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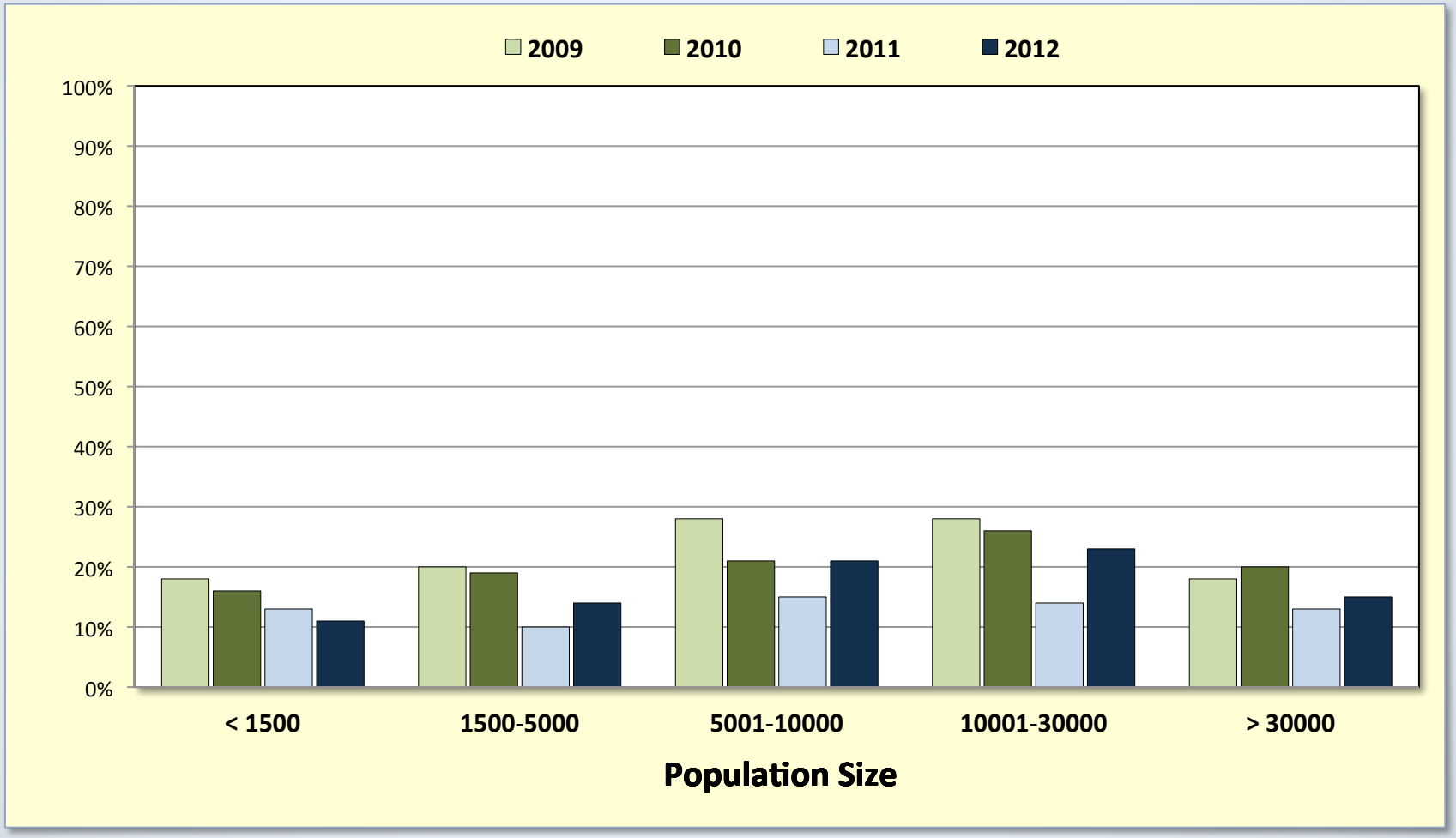
Government Actions

% of jurisdictions **increasing debt**



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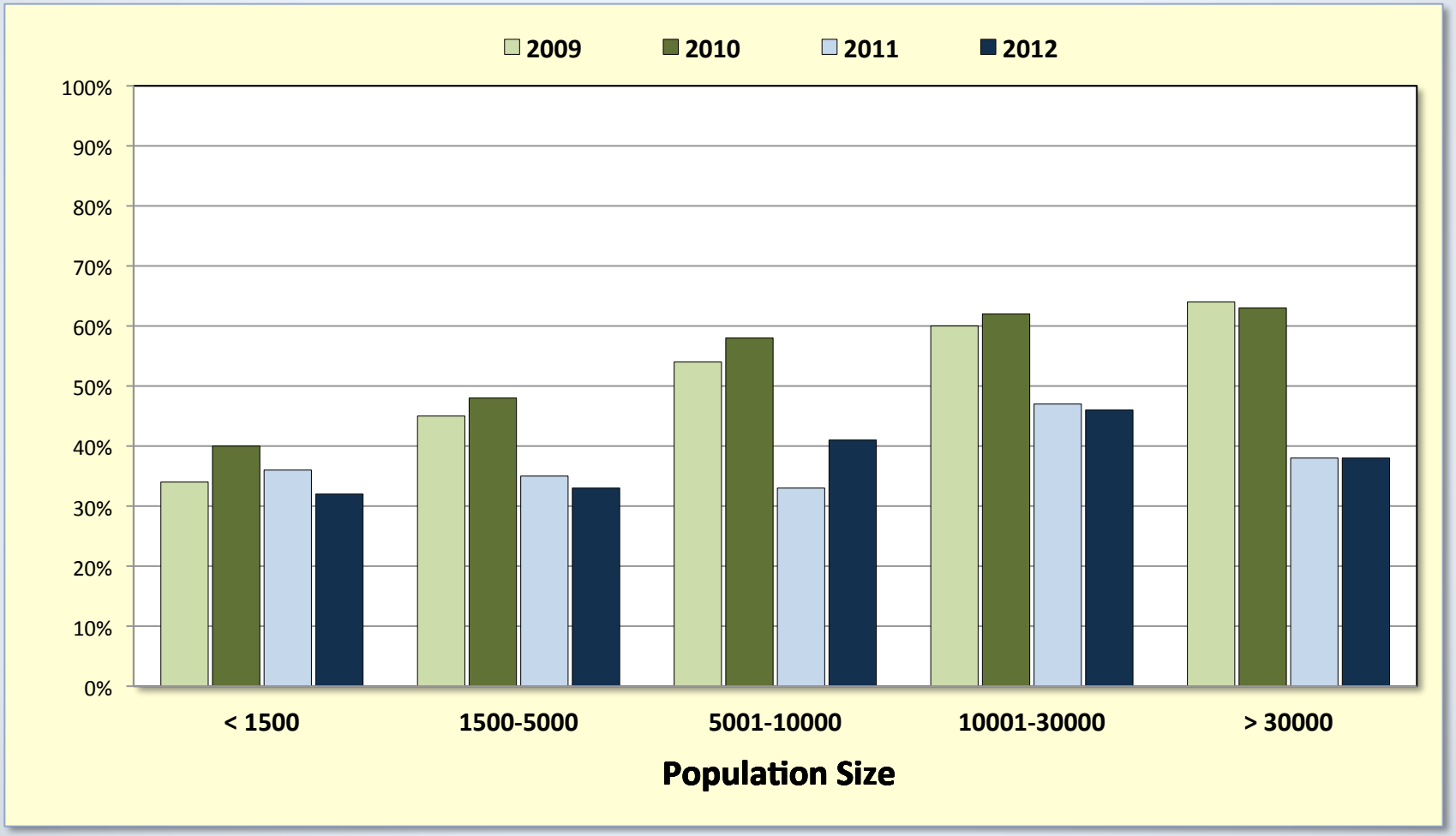
Government Actions

% of jurisdictions increasing **reliance on GF balance**



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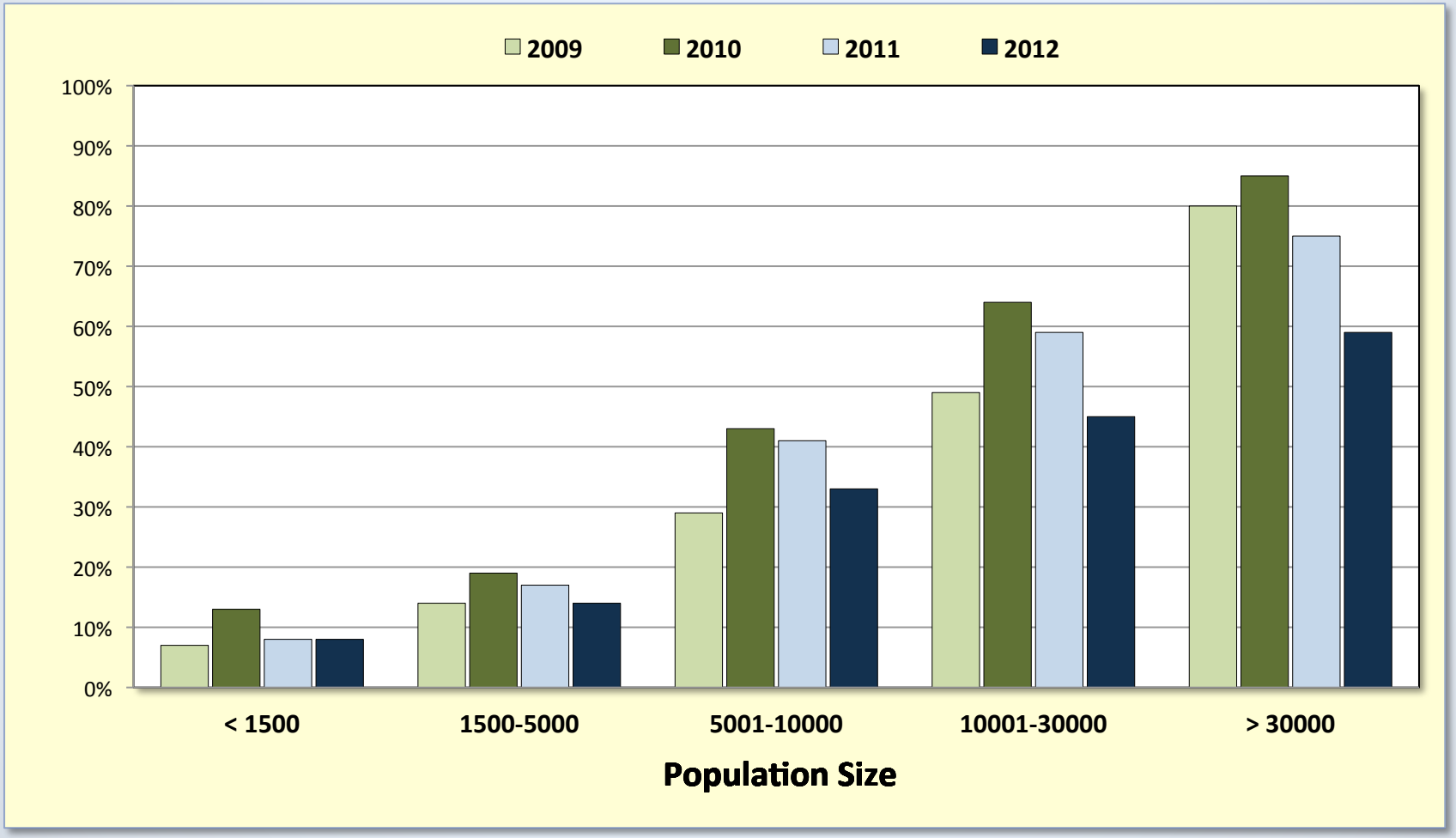
Government Actions

% of jurisdictions **cutting staff levels**



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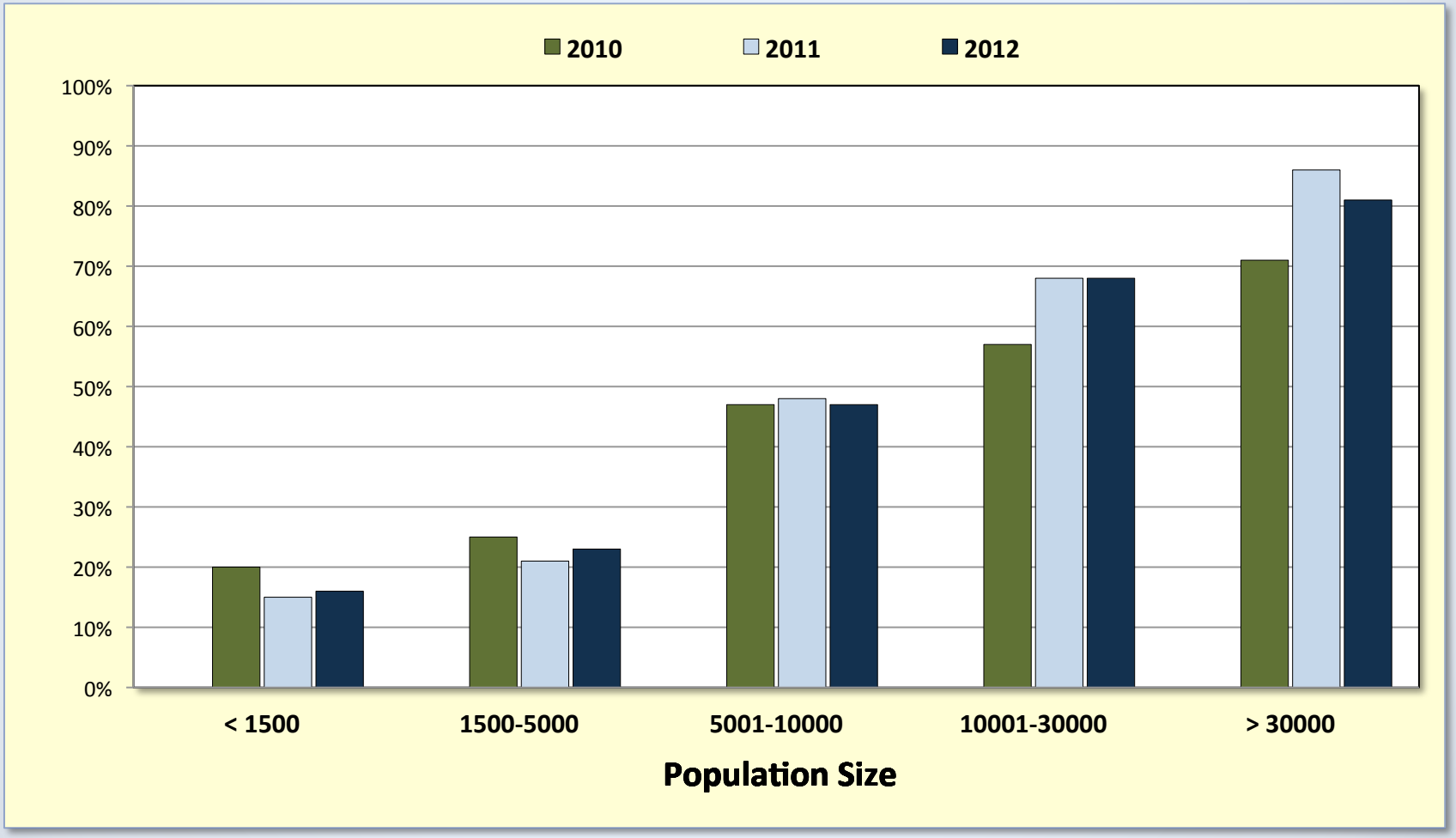
Government Actions

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



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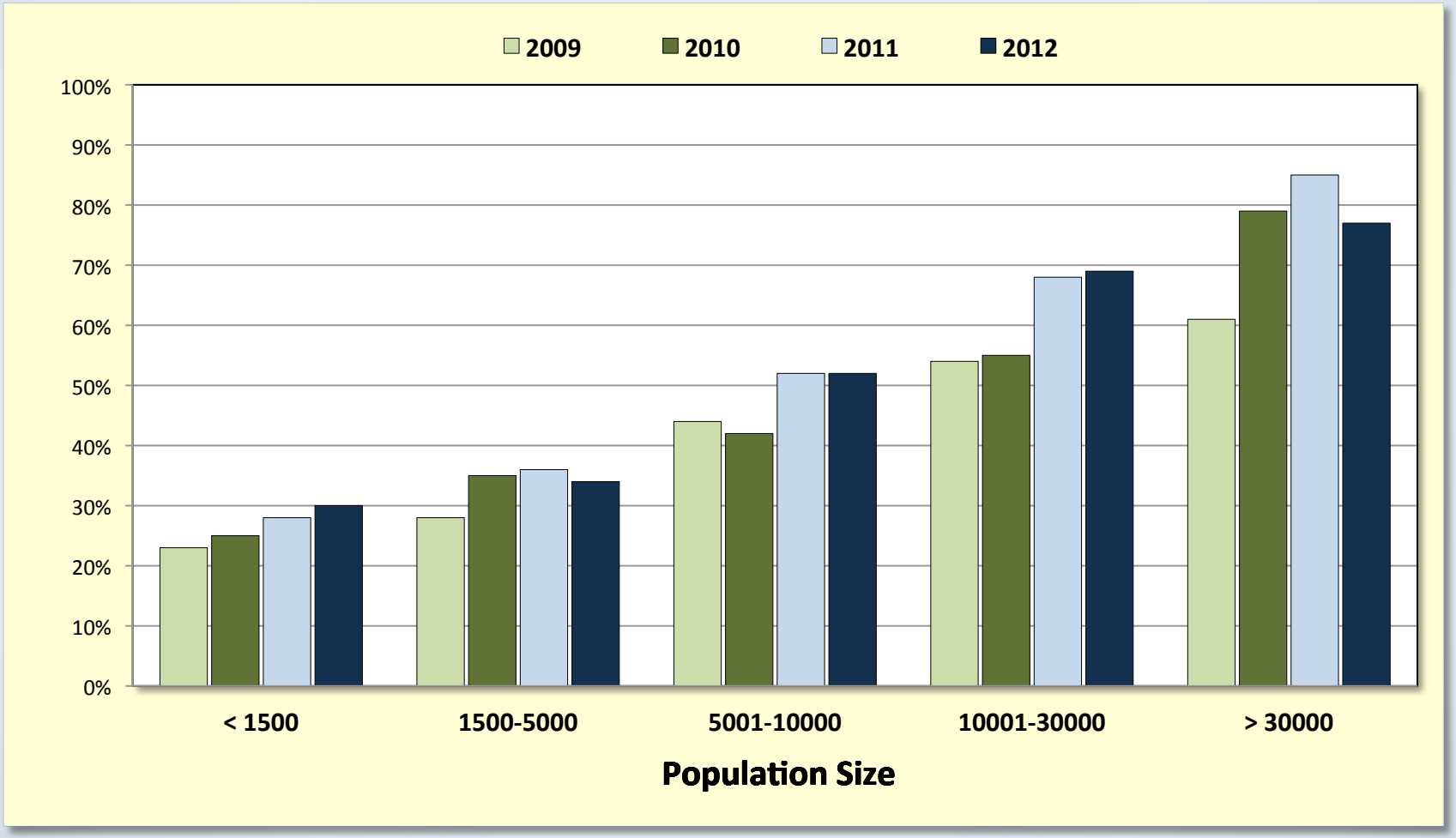
Government Actions

% of jurisdictions increasing **inter-gov't cooperation**



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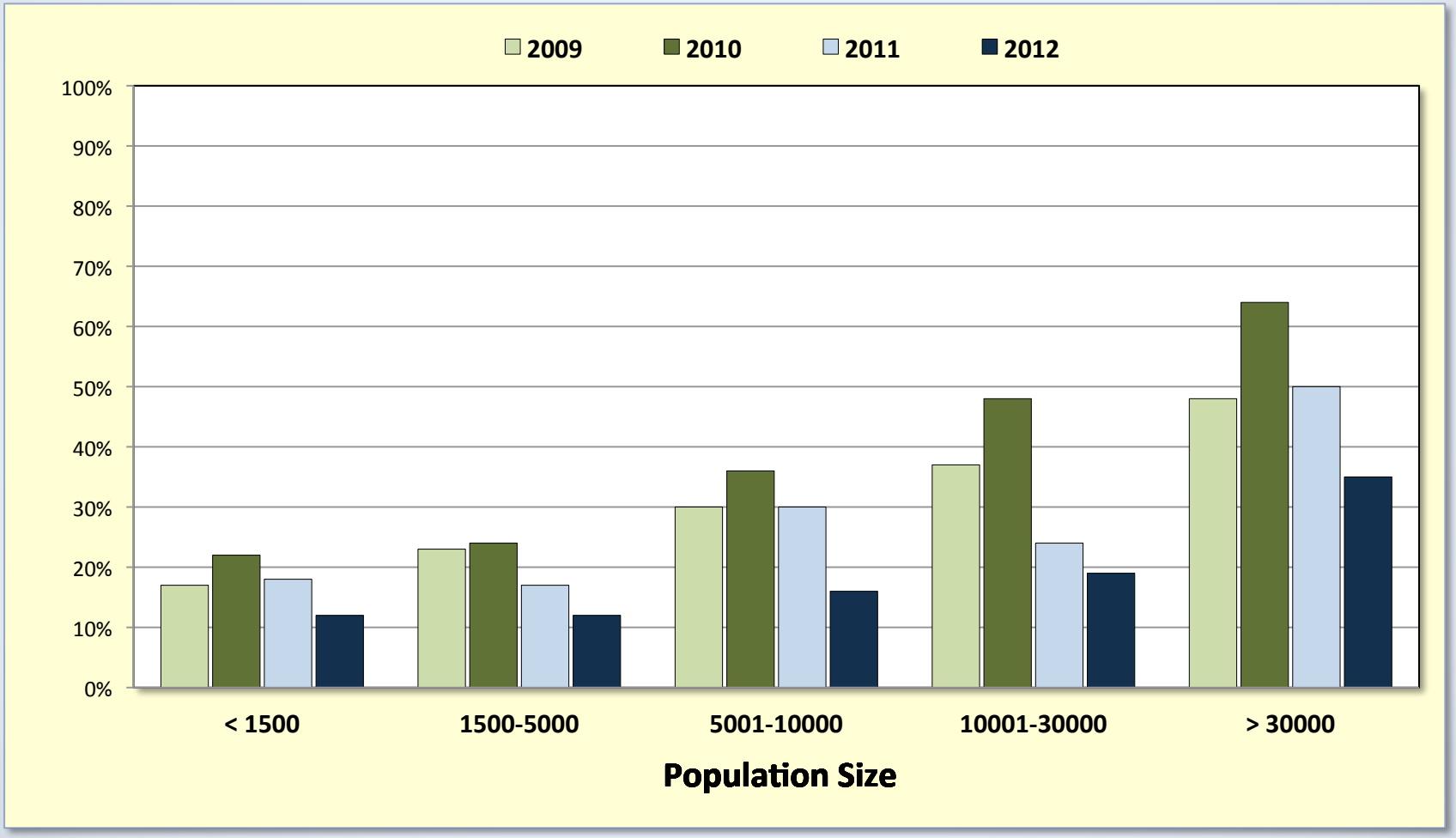
Government Actions

% of jurisdictions **cutting service levels**



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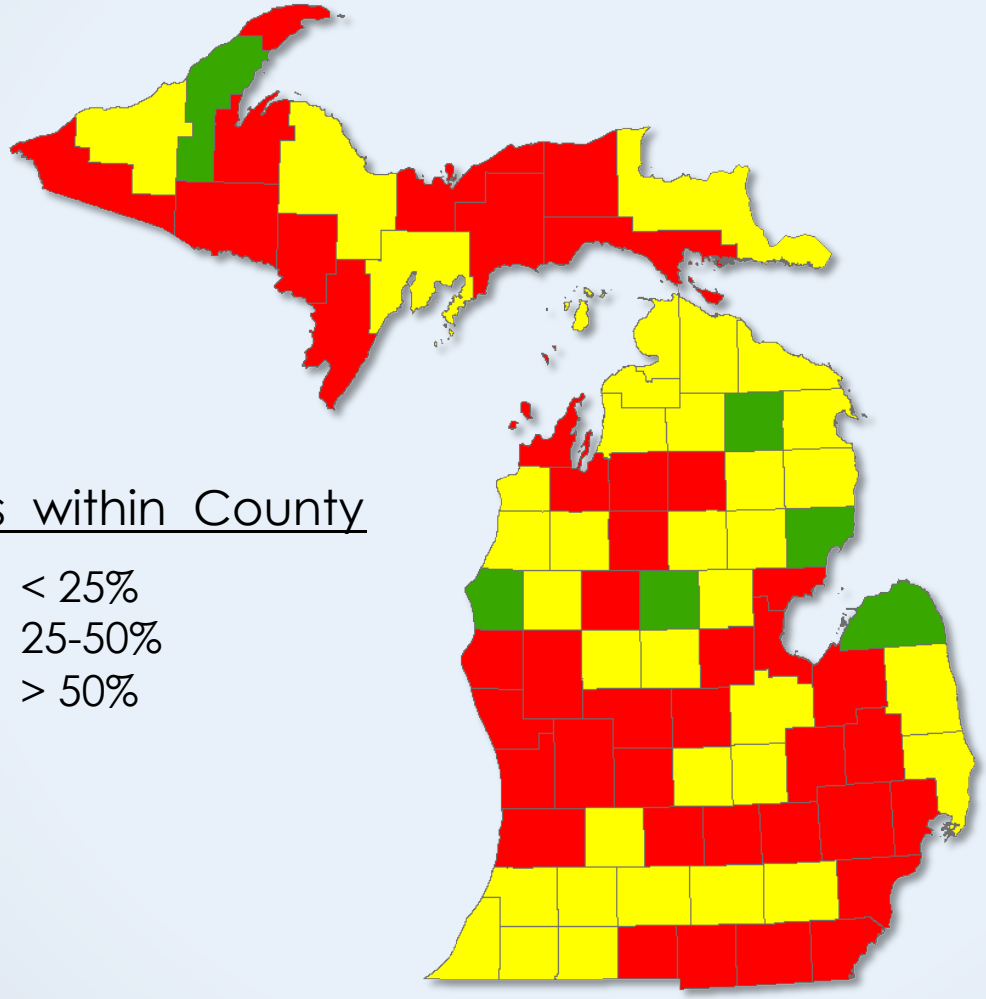
Spreading Fiscal Problems

2009: **less able to meet fiscal needs,** by county

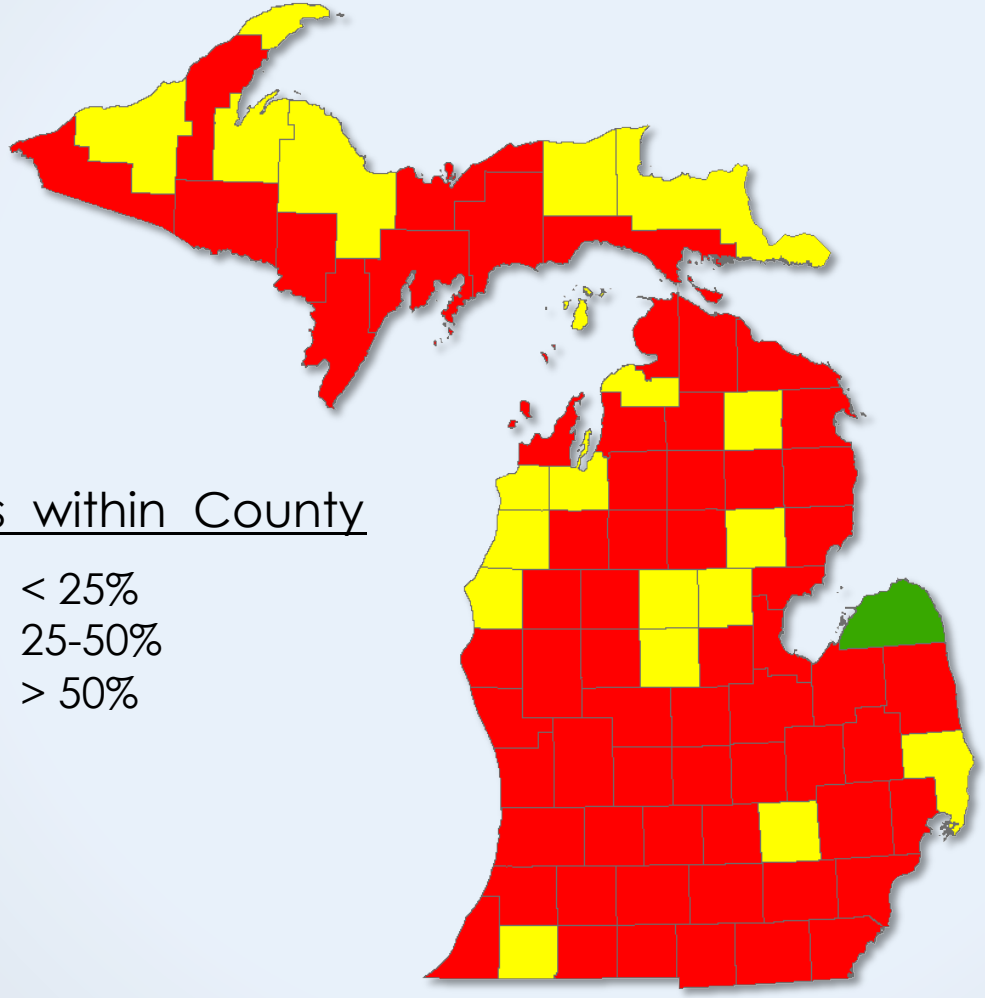


Jurisdictions within County

Green: < 25%
Yellow: 25-50%
Red: > 50%

Spreading Fiscal Problems

2010: **less able to meet fiscal needs,** by county



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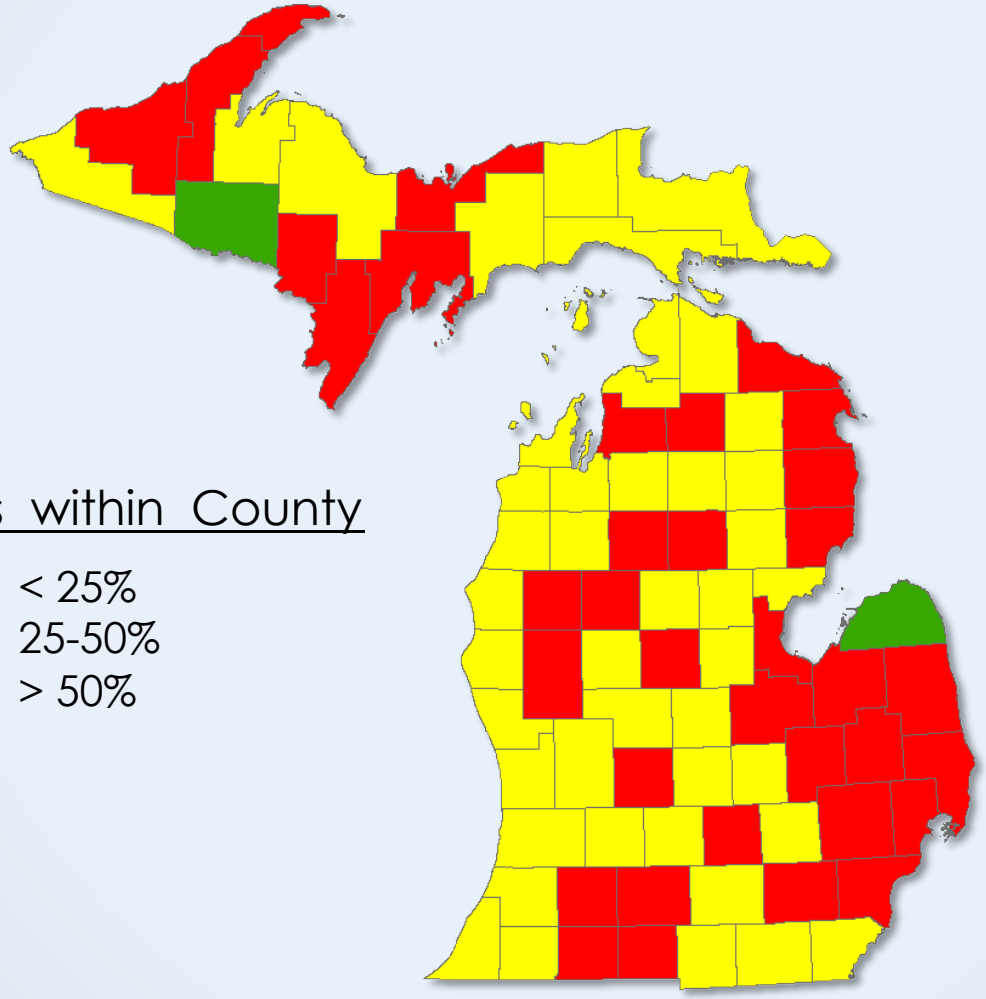
Easing Fiscal Problems

2011: **less able to meet fiscal needs,** by county



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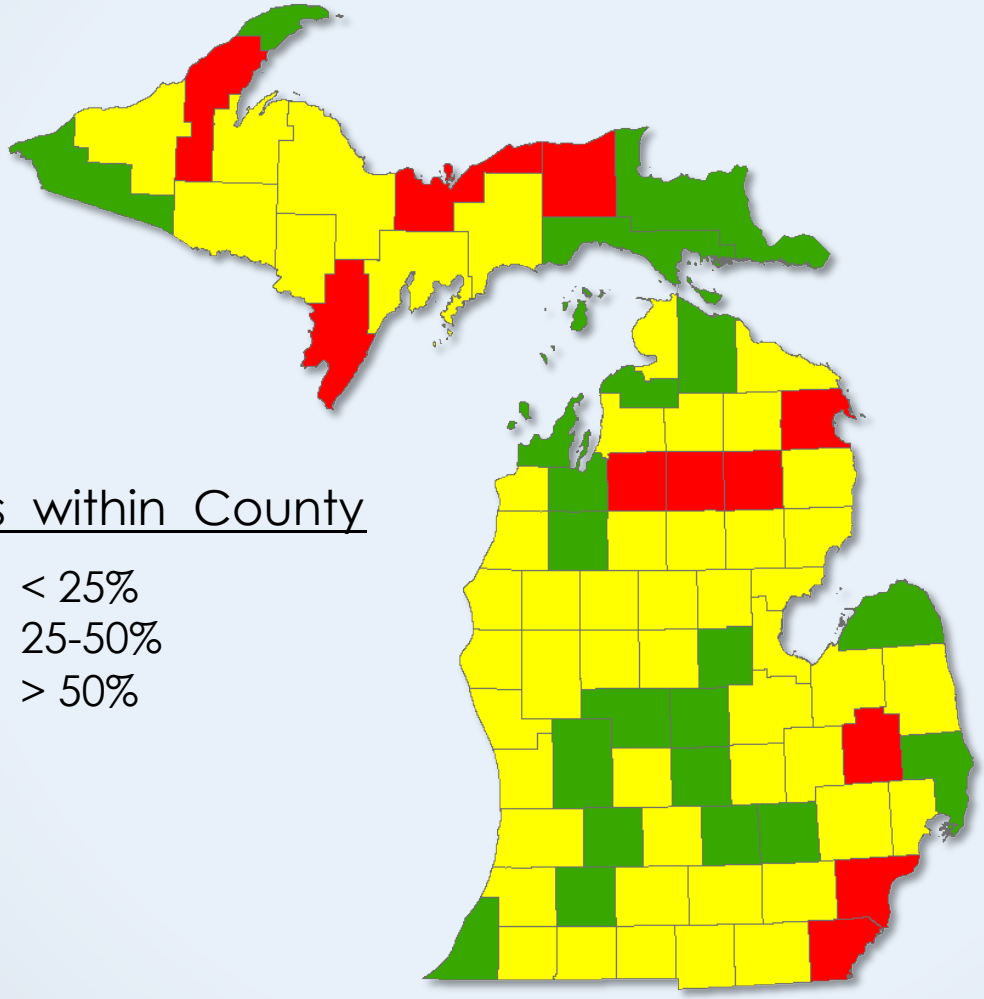
Easing Fiscal Problems

2012: **less able to meet fiscal needs,** by county



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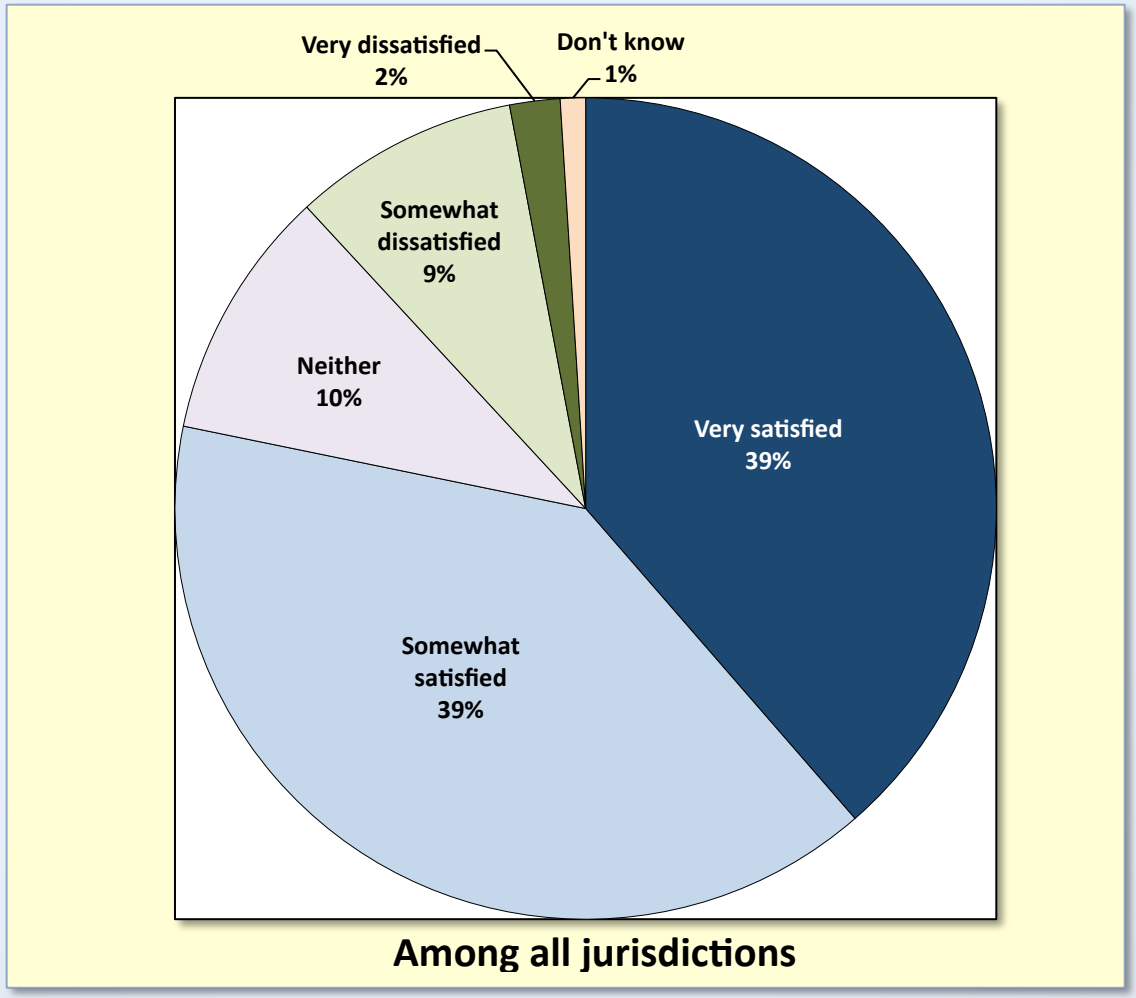
Status of Fiscal Health Today

- **General Fund Balance**
  - 66% say levels are about right or even too high (41% in largest jurisdictions say its 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



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Presentation Outline

- Era of Local Government Retrenchment
- A 2nd Retrenchment Looming?
- What Local Leaders Say Should Be Done

Looking Ahead

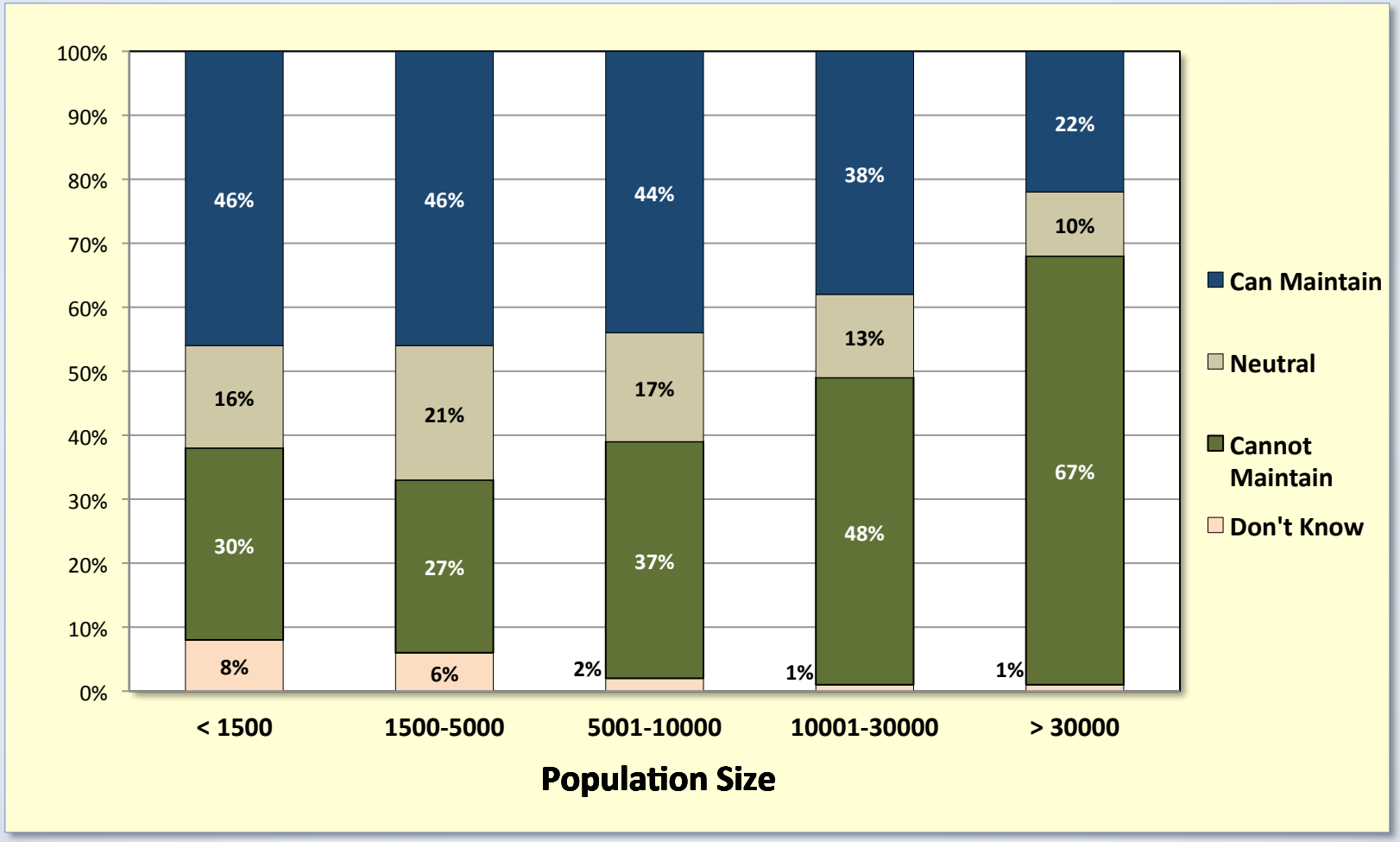
"Within five years all of our urban cores are going to be where Flint is at today, unless some significant changes are made.

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



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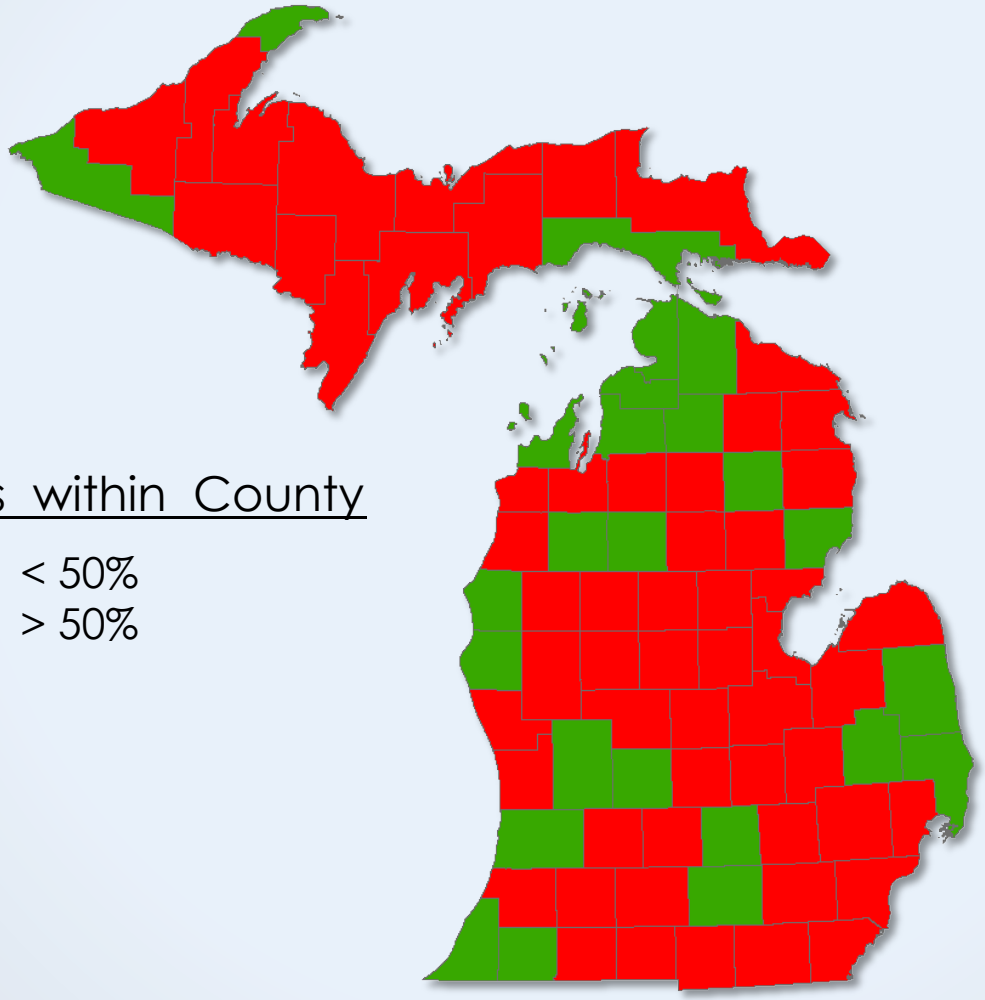
Spreading Fiscal Problems

Able to **maintain services,** by county



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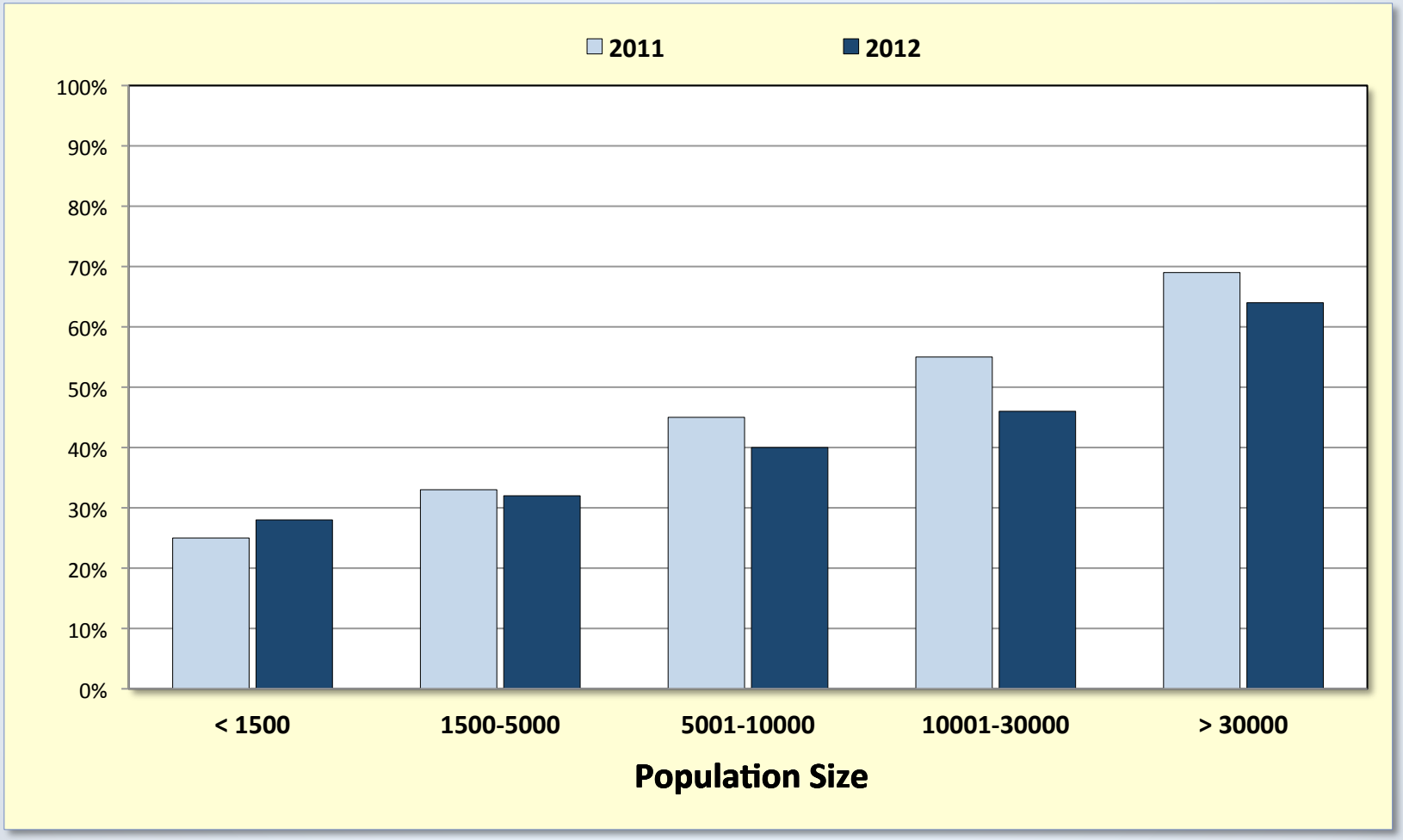
Concerns Going Forward

% of jurisdictions with increased **human service** needs



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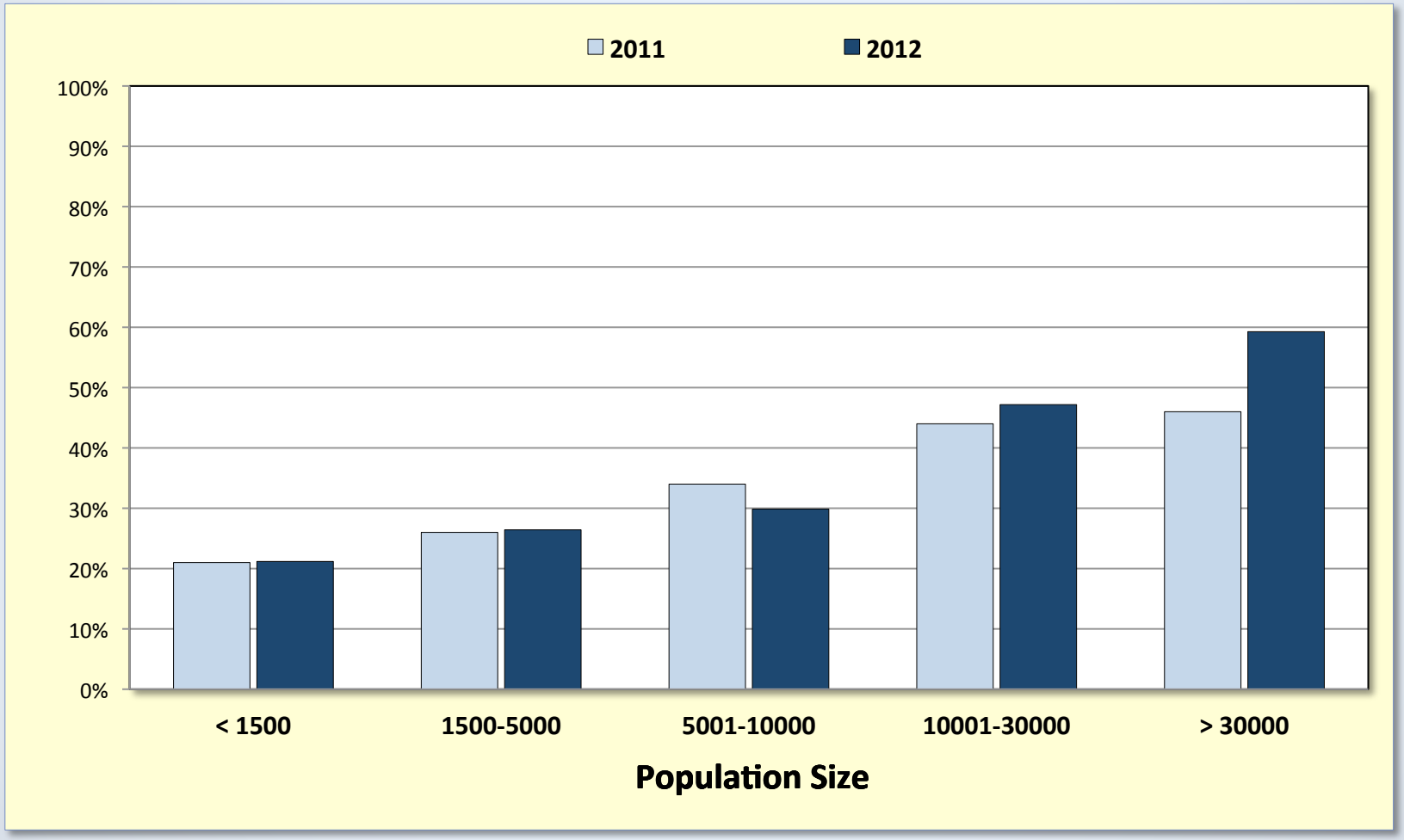
Concerns Going Forward

% of jurisdictions with increased **public safety** needs



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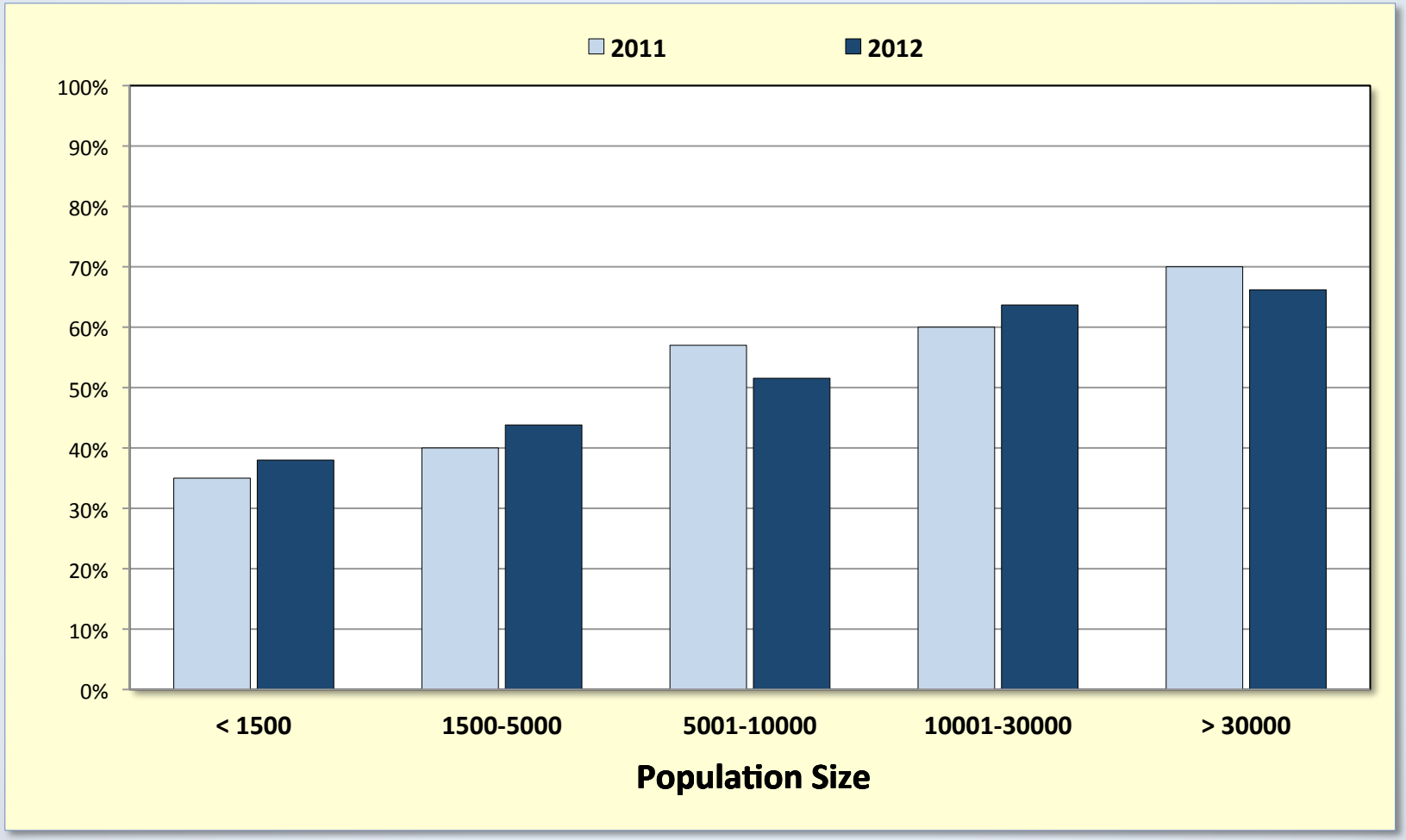
Concerns Going Forward

% of jurisdictions with increased **infrastructure** needs



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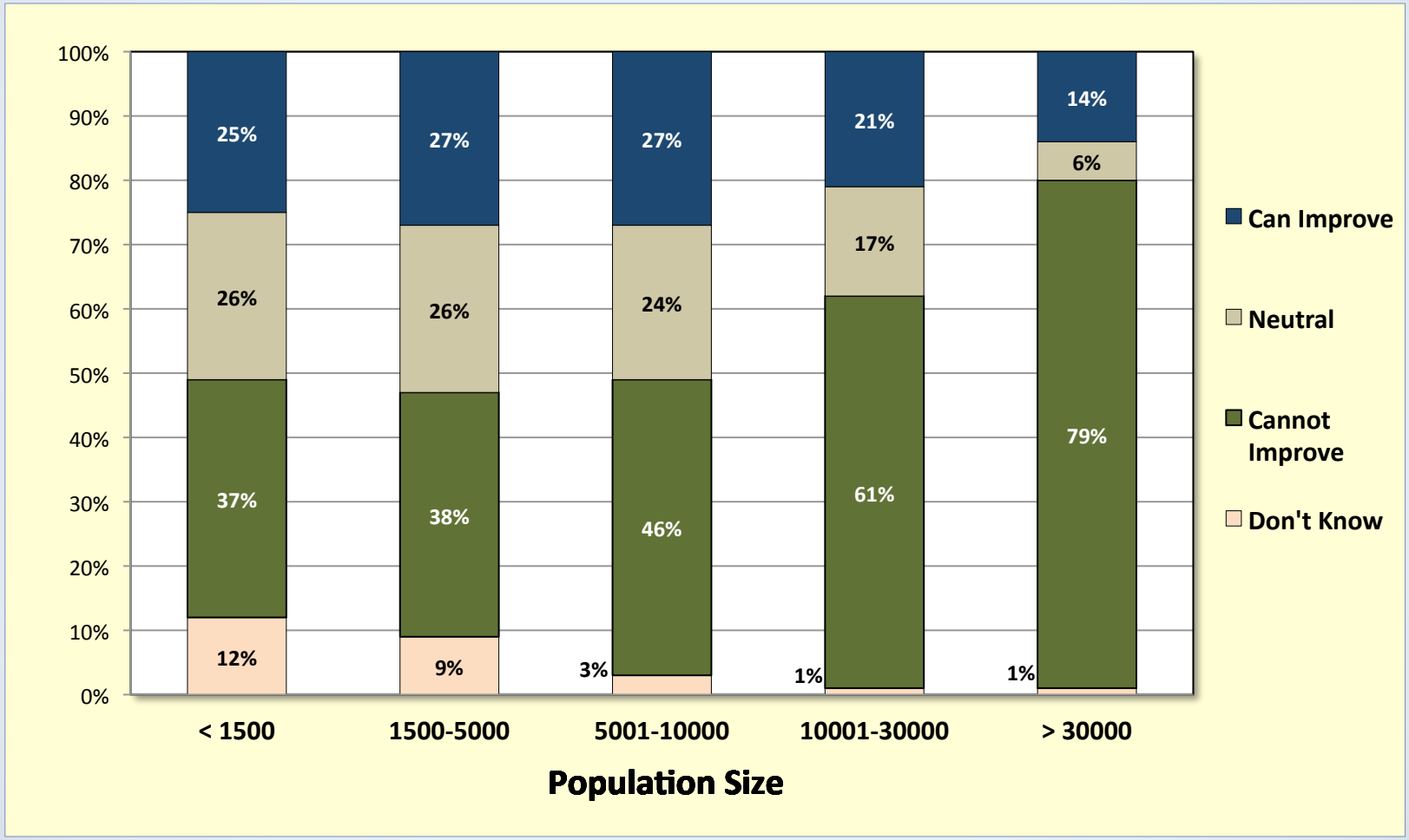
Concerns Going Forward

% that can **improve services** in current system



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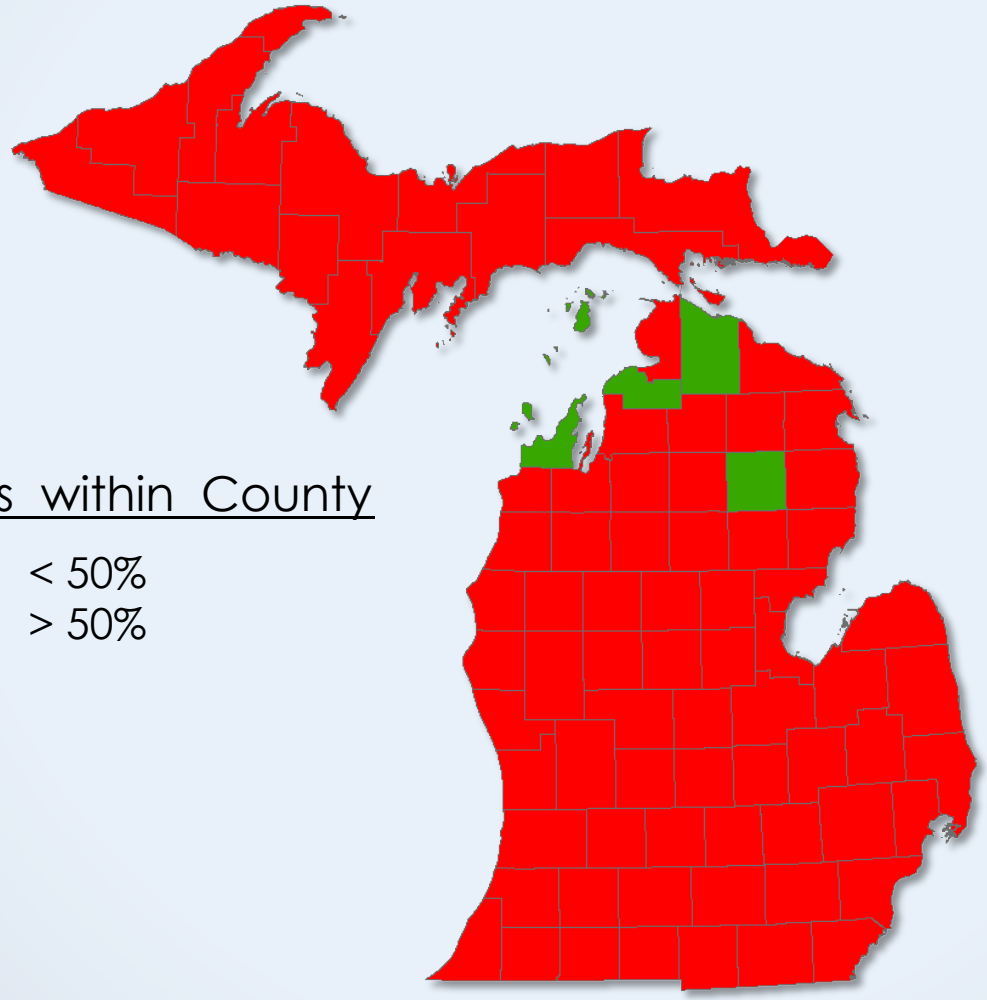
Spreading Fiscal Problems

Able to **improve services,** by county



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Presentation Outline

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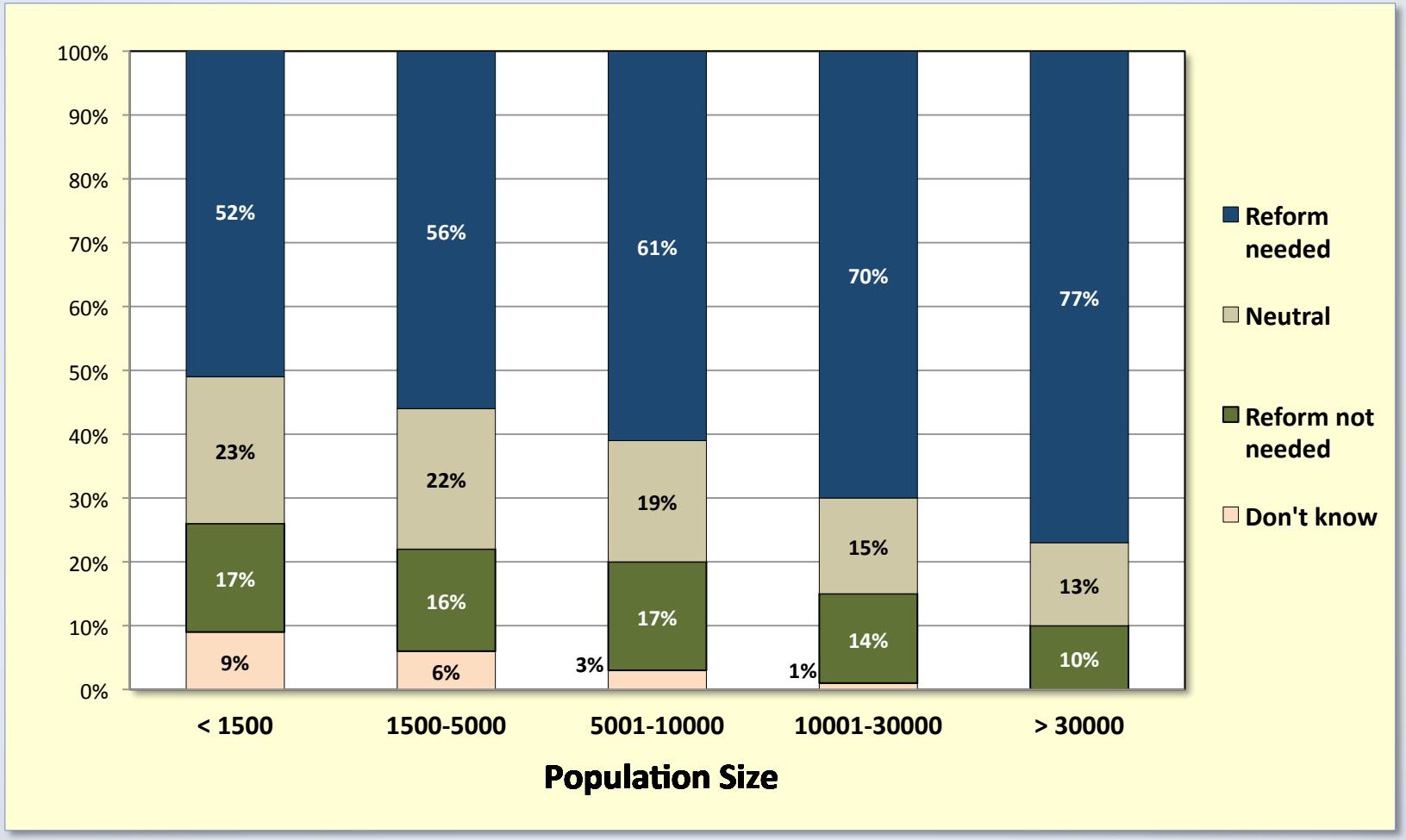
Support for Funding Reform

% that believe **significant reform** is needed



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Support for Funding Reform

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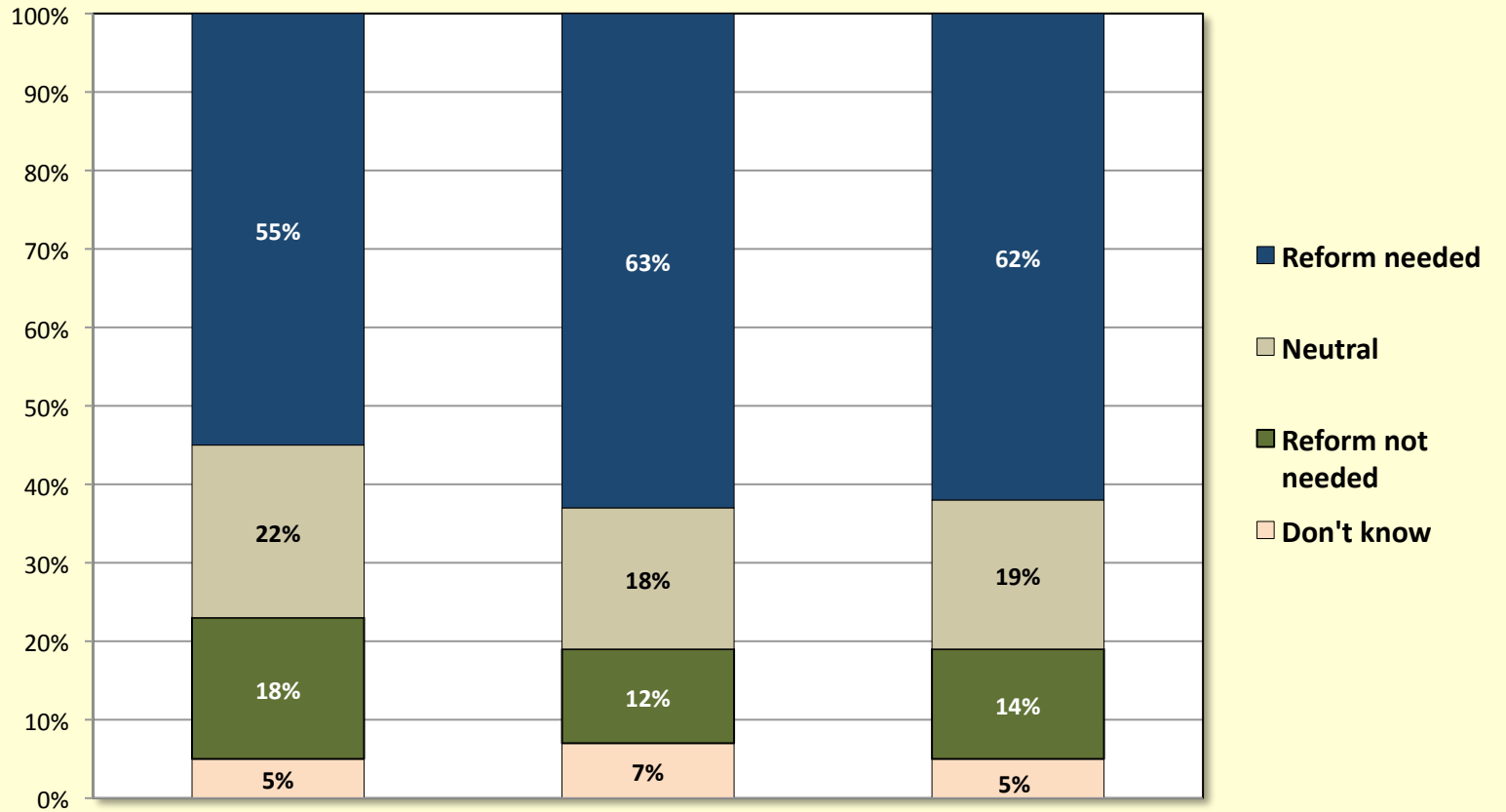

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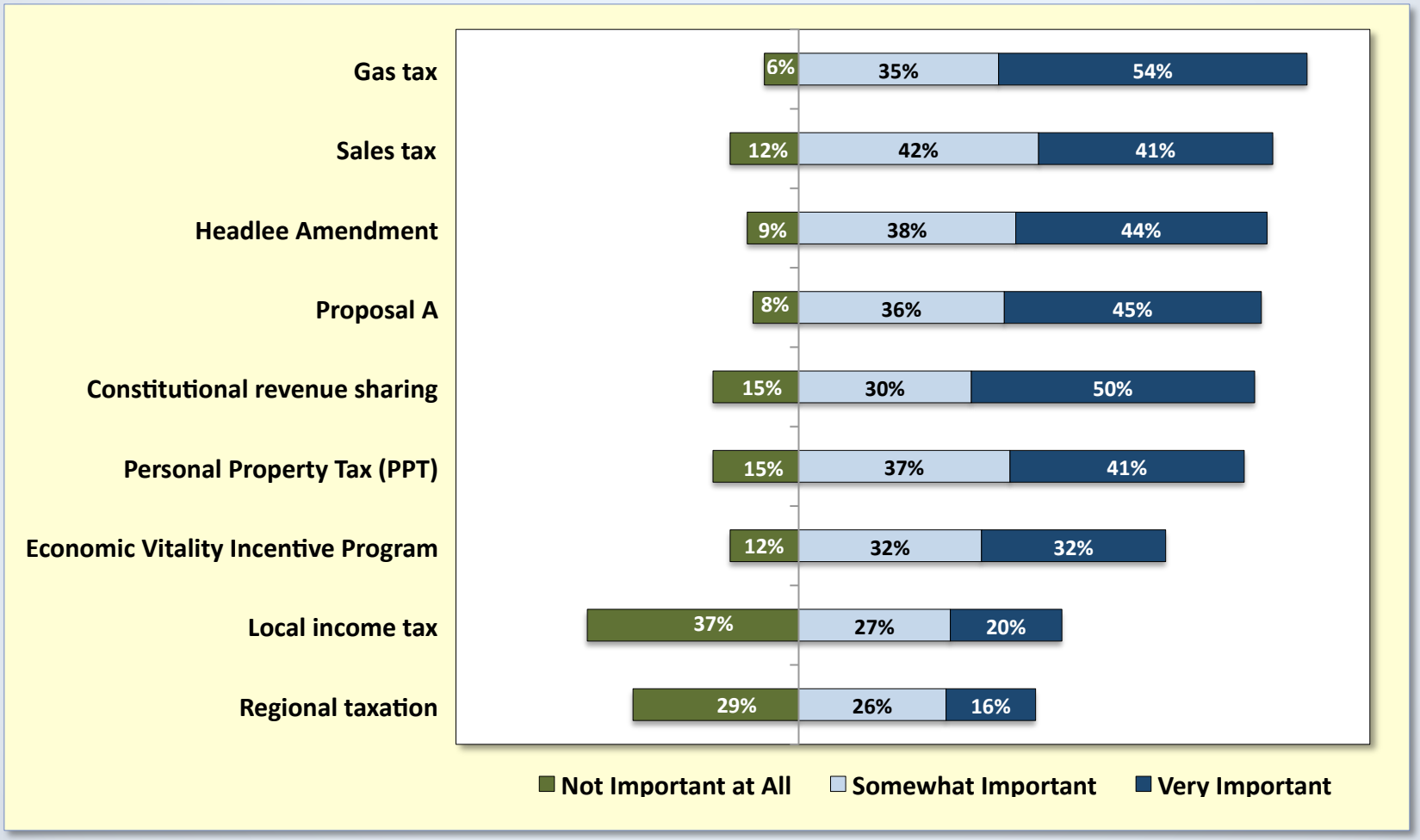
Support for Funding Reform

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



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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:
  - 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:
  - 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.**

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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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