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
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
<table>
<thead>
<tr>
<th>Question</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>G1. What type of jurisdiction do you represent?</td>
<td>Municipality, Township, Village, Other (specify)</td>
</tr>
<tr>
<td>G2. Thinking about business conditions in your community, do you think that during the next twelve months your community will have good news financially, or bad news financially?</td>
<td>Good Times, Bad Times, Neither, Don't Know</td>
</tr>
<tr>
<td>G3. 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 this fiscal year compared to the last fiscal year?</td>
<td>Significantly Less Able, Somewhat Less Able, Neither, Somewhat Better Able, Significantly Better Able, Don't Know</td>
</tr>
<tr>
<td>G4. Comparing your jurisdiction's current fiscal year to the previous fiscal year, please consider the ways the following items have changed. Include whether—in your opinion—there has been a decrease, an increase, or no change from the previous fiscal year.</td>
<td>Revenue from property taxes, Revenue from fees, 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 employers that work for your jurisdiction, Pay rates for your jurisdiction's employee wages &amp; salaries, Cost of your government's employee pensions, Cost of your government's current employees' health benefits, Cost of your government's retired employee health benefits</td>
</tr>
<tr>
<td>G5. Now, thinking about the next fiscal year, please indicate which actions your jurisdiction has taken or is likely to take.</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Property tax rates</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Charges for fees, services, etc.</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Revenue from general fund balance</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Reliance on &quot;rainy day&quot; funds</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
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<tr>
<td>Amount of services provided</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Actual public safety spending</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Actual infrastructure spending</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Actual human service spending</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Funding for economic development programs</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Sale of public assets (i.e., parks, buildings, etc.)</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Privatizing or contracting out of services</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Number and/or scope of interlocal agreements or other contracting plans with other governments</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Your jurisdiction's workforce hiring</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Your jurisdiction's workforce layoffs</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Your jurisdiction not filling vacant positions</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Employee pay rates</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Employee share of premiums, deductibles and/or co-pays on health insurance</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Employee share of contributions to retirement plans</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
<tr>
<td>Retirement share of premiums, deductibles and/or co-pays on health insurance</td>
<td>Decrease, No Change, Increase, Not Applicable</td>
</tr>
</tbody>
</table>

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

Q25. Does your jurisdiction use multi-year financial projections when developing its budget? | Yes, No, Don't Know |
Q26. If you select "multi-year" in Q25, how likely is it that your jurisdiction will adopt multi-year budgeting in the next 12 months? | Very Likely, Somewhat Likely, Neither Likely, Somewhat Unlikely, Very Unlikely, Don't Know |
Q27. Some local jurisdictions are moving to 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, Multi-year, Other (specify), Don't Know |
Q28. If you selected "multi-year" in Q25, is your single-year budget an estimate or a definite projection of revenue? | Yes, No, Don't Know |
Q29. Thinking about your jurisdiction's financial 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 |
Q30. 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? | Very Significant Problem, Somewhat of a Problem, Not Much of a Problem, No Problem at All, Don't Know |
Q31. 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, Satisfied, Neither Satisfied nor Dissatisfied, Dissatisfied, Very Dissatisfied, Don't Know |
Q32. We are interested in views about the trade-offs between services and taxes. Thinking about particular services your jurisdiction may currently offer, if your jurisdiction's citizens were facing significant revenue 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 to reduce 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 |
Q33. Michigan's local jurisdictions currently have constraints on certain levels of revenue growth (for example, the Headlee Amendment and Proposal A). Thinking about the revenue cap 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 ... maintain the current package of services your jurisdiction provides? | Strongly Agree, Somewhat Agree, Neither Agree nor Disagree, Somewhat Disagree, Strongly Disagree, Don't Know |
Q34. Some people think the current system for funding local government in Michigan needs significant reform, while others disagree. What about you? Would 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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- Introduction to the Michigan Public Policy Survey
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- What Local Leaders Say Should Be Done
A Decade of Severe Fiscal Stress
- Revenue sharing cuts, property tax declines, rising costs -

9/22/2011
House Fiscal Agency
## Local Government Reactions to Fiscal Crisis

### Percentage of jurisdictions reporting various budgetary and operational changes

<table>
<thead>
<tr>
<th>% planning to increase reliance on general fund balance (% with &gt;30,000 residents)</th>
<th>2009 (64%)</th>
<th>2010 (63%)</th>
<th>2011 (38%)</th>
<th>2012 (38%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% decreasing staff numbers overall (% with &gt;30,000 residents)</td>
<td>not asked</td>
<td>27% (85%)</td>
<td>23% (75%)</td>
<td>19% (60%)</td>
</tr>
<tr>
<td>% planning to decrease amount of services provided (% with &gt;30,000 residents)</td>
<td>24% (48%)</td>
<td>29% (63%)</td>
<td>21% (50%)</td>
<td>15% (34%)</td>
</tr>
<tr>
<td>% planning to increase intergovernmental cooperation (% with &gt;30,000 residents)</td>
<td>32% (61%)</td>
<td>38% (79%)</td>
<td>40% (85%)</td>
<td>40% (76%)</td>
</tr>
<tr>
<td>% planning to increase employees’ share of premiums, deductibles and/or co-pays on health insurance (% with &gt;30,000 residents)</td>
<td>not asked</td>
<td>33% (71%)</td>
<td>30% (86%)</td>
<td>30% (81%)</td>
</tr>
</tbody>
</table>
Pressures on local fiscal health showed continued easing in 2012

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>52%</td>
</tr>
<tr>
<td>2010</td>
<td>61%</td>
</tr>
<tr>
<td>2011</td>
<td>48%</td>
</tr>
<tr>
<td>2012</td>
<td>34%</td>
</tr>
</tbody>
</table>
Easing felt in Michigan jurisdictions of all sizes

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

<table>
<thead>
<tr>
<th>Population</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1,500</td>
<td>46%</td>
<td>51%</td>
<td>60%</td>
<td>62%</td>
</tr>
<tr>
<td>1,500-5,000</td>
<td>52%</td>
<td>51%</td>
<td>44%</td>
<td>30%</td>
</tr>
<tr>
<td>5,001-10,000</td>
<td>30%</td>
<td>62%</td>
<td>69%</td>
<td>62%</td>
</tr>
<tr>
<td>10,001-30,000</td>
<td>62%</td>
<td>62%</td>
<td>73%</td>
<td>62%</td>
</tr>
<tr>
<td>&gt;30,000</td>
<td>66%</td>
<td>66%</td>
<td>77%</td>
<td>61%</td>
</tr>
</tbody>
</table>
Local leaders mostly positive on 2 key indicators:

- General Fund Balances -

<table>
<thead>
<tr>
<th>Population</th>
<th>Too High</th>
<th>About Right</th>
<th>Too Low</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1500</td>
<td>3%</td>
<td>57%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>1500-5000</td>
<td>4%</td>
<td>63%</td>
<td>20%</td>
<td>13%</td>
</tr>
<tr>
<td>5001-10000</td>
<td>5%</td>
<td>73%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>10001-30000</td>
<td>10%</td>
<td>61%</td>
<td>25%</td>
<td>4%</td>
</tr>
<tr>
<td>&gt;30000</td>
<td>9%</td>
<td>49%</td>
<td>41%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Local leaders mostly positive on 2 key indicators: - Cash Flow -

- Not a Problem at All
- Not Much of a Problem
- Somewhat of a Problem
- A Significant Problem

<table>
<thead>
<tr>
<th>Population</th>
<th>Not a Problem at All</th>
<th>Not Much of a Problem</th>
<th>Somewhat of a Problem</th>
<th>A Significant Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population &lt;1500</td>
<td>63%</td>
<td>28%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Population 1500-5000</td>
<td>70%</td>
<td>25%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Population 5001-10000</td>
<td>70%</td>
<td>22%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Population 10001-30000</td>
<td>59%</td>
<td>29%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Population &gt;30000</td>
<td>54%</td>
<td>26%</td>
<td>18%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Widespread satisfaction with jurisdiction’s current package of services

- Very Satisfied: 39%
- Somewhat Satisfied: 10%
- Neither: 9%
- Somewhat Dissatisfied: 2%
- Very Dissatisfied: 1%
- Don’t Know: 40%
Widespread satisfaction with jurisdiction’s current package of services

- **Very Satisfied**
- **Somewhat Satisfied**
- **Neither**
- **Somewhat Dissatisfied**
- **Very Dissatisfied**
- **Don’t Know**

<table>
<thead>
<tr>
<th>Population</th>
<th>Very Satisfied</th>
<th>Somewhat Satisfied</th>
<th>Neither</th>
<th>Somewhat Dissatisfied</th>
<th>Very Dissatisfied</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1500</td>
<td>38%</td>
<td>39%</td>
<td>11%</td>
<td>9%</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>1500-5000</td>
<td>39%</td>
<td>39%</td>
<td>10%</td>
<td>9%</td>
<td>1%</td>
<td>9%</td>
</tr>
<tr>
<td>5001-10000</td>
<td>41%</td>
<td>41%</td>
<td>8%</td>
<td>7%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>10001-30000</td>
<td>39%</td>
<td>42%</td>
<td>5%</td>
<td>12%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>&gt;30000</td>
<td>33%</td>
<td>46%</td>
<td>11%</td>
<td>8%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Officials believe other stakeholders are also satisfied with current package of services

- Citizens: 44% Very Satisfied, 35% Somewhat Satisfied
- Local Board/Council: 43% Very Satisfied, 39% Somewhat Satisfied
- Local business leaders: 40% Very Satisfied, 29% Somewhat Satisfied
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Less than half believe current system of funding local government will be adequate to maintain jurisdiction’s services.

- **Strongly believe can maintain services**: 6%
- **Somewhat believe can maintain services**: 12%
- **Neither**: 17%
- **Somewhat believe cannot maintain services**: 22%
- **Strongly believe cannot maintain services**: 7%
- **Don't Know**: 36%
Less than half believe current system of funding local government will be adequate to maintain jurisdiction’s services
However, service demands continue to increase

% of jurisdictions with increased public safety needs compared to previous year
However, service demands continue to increase

% of jurisdictions with increased infrastructure needs compared to previous year

<table>
<thead>
<tr>
<th>Population</th>
<th>2011</th>
<th>2012</th>
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<td>60%</td>
<td>64%</td>
</tr>
<tr>
<td>&gt;30,000</td>
<td>70%</td>
<td>66%</td>
</tr>
</tbody>
</table>
Just a quarter believe funding will be adequate to improve jurisdiction’s services

- Strongly believe can improve services: 24%
- Somewhat believe can improve services: 23%
- Neither: 18%
- Somewhat believe cannot improve services: 8%
- Strongly believe cannot improve services: 3%
- Don't know: 3%
Just a quarter believe funding will be adequate to improve jurisdiction’s services
Presentation Outline

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

- Strongly agree system needs reform: 35%
- Somewhat agree system needs reform: 23%
- Neither: 10%
- Somewhat disagree system needs reform: 6%
- Strongly disagree system needs reform: 6%
- Don't Know: 6%
Substantial local support for significant reform to current system of funding local government

- **Population <1500**:
  - Strongly agree system needs reform: 18%
  - Somewhat agree system needs reform: 34%
  - Neither: 23%
  - Somewhat disagree system needs reform: 11%
  - Strongly disagree system needs reform: 6%
  - Don't know: 9%

- **Population 1500-5000**:
  - Strongly agree system needs reform: 19%
  - Somewhat agree system needs reform: 37%
  - Neither: 22%
  - Somewhat disagree system needs reform: 10%
  - Strongly disagree system needs reform: 6%
  - Don't know: 6%

- **Population 5001-10000**:
  - Strongly agree system needs reform: 29%
  - Somewhat agree system needs reform: 32%
  - Neither: 19%
  - Somewhat disagree system needs reform: 12%
  - Strongly disagree system needs reform: 5%
  - Don't know: 3%

- **Population 10001-30000**:
  - Strongly agree system needs reform: 35%
  - Somewhat agree system needs reform: 35%
  - Neither: 15%
  - Somewhat disagree system needs reform: 7%
  - Strongly disagree system needs reform: 7%
  - Don't know: 5%

- **Population >30000**:
  - Strongly agree system needs reform: 51%
  - Somewhat agree system needs reform: 26%
  - Neither: 13%
  - Somewhat disagree system needs reform: 5%
  - Strongly disagree system needs reform: 5%
  - Don't know: 5%
Substantial local support for significant reform to current system of funding local government
Substantial local support for significant reform to current system of funding local government

- **Gas tax**: 6% Not Important at All, 35% Somewhat Important, 54% Very Important
- **Sales tax**: 12% Not Important at All, 42% Somewhat Important, 41% Very Important
- **The Headlee Amendment**: 9% Not Important at All, 38% Somewhat Important, 44% Very Important
- **Proposal A**: 8% Not Important at All, 36% Somewhat Important, 45% Very Important
- **Constitutional revenue sharing**: 15% Not Important at All, 30% Somewhat Important, 50% Very Important
- **Personal Property Tax (PPT)**: 15% Not Important at All, 37% Somewhat Important, 41% Very Important
- **The Economic Vitality Incentive Program (EVIP)**: 12% Not Important at All, 32% Somewhat Important, 32% Very Important
- **Local income tax**: 9% Not Important at All, 27% Somewhat Important, 20% Very Important
- **Regional taxation**: 29% Not Important at All, 26% Somewhat Important, 16% Very Important
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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