

The Center for Local, State, and Urban Policy

Gerald R. Ford School of Public Policy >> University of Michigan

Michigan Public
Policy Survey January 2012

Local officials react to state policy innovation tying revenue sharing to dashboards and incentive funding

In 2011, the state of Michigan implemented major policy changes in its statutory revenue sharing program, through which it distributes funding to a subset of Michigan's 1,856 local governments. The new policy replaced formula-based funding with an incentive program that uses revenue sharing to foster local government reform. The new program, called the Economic Vitality Incentive Program (EVIP), requires local governments to certify that they have met state-specified standards for "best practices" in three categories (accountability and transparency; intergovernmental collaboration; and employee compensation policies) in order to receive their full allotment of incentive-based funds.

This report focuses on the first EVIP category (accountability and transparency) and examines how Michigan's local governments are responding to the state's incentive-driven push for local reform. The findings are based on statewide surveys of local government leaders in the Fall 2011 wave of the Michigan Public Policy Survey (MPPS).

>> The Michigan Public Policy Survey (MPPS) is conducted by the Center for Local, State, and Urban Policy (CLOSUP) at the University of Michigan in partnership with the Michigan Association of Counties, Michigan Municipal League, and Michigan Townships Association. The MPPS takes place twice each year and investigates local officials' opinions and perspectives on a variety of important public policy issues. Respondents for the MPPS this wave include county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers from 1,272 jurisdictions across the state.

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

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Key Findings

- Understanding of Michigan's EVIP policy innovation is uneven among local leaders across the state. While officials from large jurisdictions are quite familiar with the EVIP program, nearly a quarter (24%) of officials from the smallest EVIP-eligible jurisdictions say they know very little, if anything, about the incentive program.
- In order to receive EVIP funds in the category of accountability and transparency, eligible local governments must create performance dashboards and citizen's guides to local finances, both of which provide simplified views of key fiscal and operational indicators.
 - » Local governments that are eligible for EVIP funding appear to be responding to the EVIP incentives by creating dashboards and citizen's guides, but few other jurisdictions are following suit at this early stage. Overall, 90% of EVIP-eligible jurisdictions say they have created a performance dashboard or will do so in the next 12 months. By comparison, only 26% of jurisdictions that are ineligible for EVIP funding have created a dashboard, or plan to do so within the next year.
- Despite their adoption in EVIP-eligible jurisdictions, most Michigan local leaders question the efficacy of performance dashboards.
 - » Only 10% of all local leaders think a dashboard would be very effective at improving their jurisdiction's accountability and transparency or its ability to benchmark itself against other jurisdictions.
 - » Only 8% think a dashboard would be very effective at improving their local government's overall performance.
 - » Common concerns about dashboards include misgivings about typical measures included on them, insufficient government resources for their development, and skepticism about their use by citizens.

Background

Revenue sharing programs—where taxes are collected at the state level and then revenue is distributed to localities—are common among most states in the union, and can be used to address policy goals such as helping to eliminate inequities created by differences in local tax bases, promoting administrative efficiency in tax collections, and helping equalize the ability of all local governments to provide basic levels of public services to their residents and businesses.

Michigan local governments have long received revenue sharing funds from the state government in two separate streams: constitutional revenue sharing (determined by the state constitution and available to all city, village, and township governments on a per capita basis), and statutory revenue sharing (determined by law and available to only a subset of the state's 1,856 local governments, based on a series of complex formulae). More information on Michigan's revenue sharing programs is available from the Citizens Research Council of Michigan¹ and *Michigan at the Millennium*.²

Over the past decade, the state of Michigan has repeatedly cut the amount of statutory revenue sharing provided to local governments. At the same time, the number of local governments receiving statutory revenue sharing has declined. According to analysis by the Michigan House Fiscal Agency, the number of cities, villages, and townships that received statutory revenue sharing dropped from 1,775 in FY 1997-98 to 755 in FY 2010-11.³

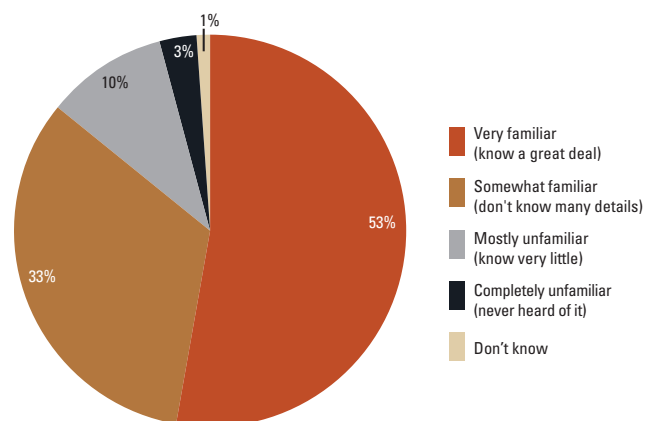
In the spring of 2011, the state enacted a major policy reform, replacing the former statutory revenue sharing program with a new program called the Economic Vitality Incentive Program (EVIP), which uses funding incentives to foster reform in local government operations. Under the EVIP, the number of local units eligible to receive payments dropped even further: only the 486 cities, townships, and villages that received greater than \$4,500 in statutory revenue sharing in fiscal year 2009-10 are now eligible for the EVIP funds. The new EVIP program uses its \$210 million appropriation to incentivize local government reform in three areas: accountability and transparency, intergovernmental collaboration, and employee compensation policies. Eligible local governments must certify to the state that they are in compliance with the program's "best practices" as defined in its three categories in order to receive their full allotment of funding.

This report provides an initial look at how Michigan's EVIP policy innovation is unfolding at the local level, and how local officials are reacting to the changes, based on responses to the Fall 2011 Michigan Public Policy Survey (MPPS). While this report focuses on the first EVIP category (accountability and transparency), a subsequent report will examine the second and third categories (intergovernmental collaboration, and employee compensation policies).

Knowledge of the EVIP innovation rolls out unevenly across the state

While a slim majority (53%) of leaders from all EVIP-eligible jurisdictions say they are very familiar with the EVIP program and understand a great deal about it, a significant portion are not well informed (see *Figure 1a*). For instance, 33% of leaders from EVIP-eligible jurisdictions say they are somewhat familiar with the program but don't know many details about it, while another 13% are mostly or completely unfamiliar with the program.

Figure 1a
Local officials' familiarity with EVIP (among jurisdictions eligible for EVIP)





There are significant differences in understanding the EVIP, associated with jurisdiction size. For example, while 77% of leaders from the largest EVIP-eligible jurisdictions (those with more than 30,000 residents) report being very familiar with the EVIP incentives, the same is true for only 33% of leaders from EVIP-eligible jurisdictions with fewer than 1,500 residents (see *Figure 1b*).

By jurisdiction type, 63% of city officials from EVIP-eligible jurisdictions say they are very familiar with the program, compared to 48% of township officials and only 38% of village officials (while counties are not eligible at all for the EVIP incentive-based funds).

By region, local leaders of EVIP-eligible jurisdictions in Southeast Michigan (62%) are most likely to say they are very familiar with the program, followed closely by leaders in the Northern Lower Peninsula (61%). By comparison, leaders of EVIP-eligible jurisdictions in the West Central region of Michigan are the least likely (39%) to say they are very familiar with the program.

To gauge understanding of EVIP eligibility, the Fall 2011 MPPS also asked local officials if they know whether or not their jurisdiction is eligible for EVIP incentive funds. Again, the MPPS finds that levels of knowledge are uneven and are associated with jurisdiction size. Among EVIP-eligible units, 92% of leaders from the state's largest jurisdictions correctly identify that their cities, villages, or townships are eligible for EVIP funds, compared to only 76% of leaders from the smallest jurisdictions (see *Figure 2*).

There is also confusion among jurisdictions that are not currently eligible for EVIP funding. For instance, 53% of leaders from all jurisdictions that are not eligible for EVIP incentive funds report that they do not know whether or not their jurisdictions are eligible.

Figure 1b

Local officials' familiarity with EVIP (among jurisdictions eligible for EVIP), by population size

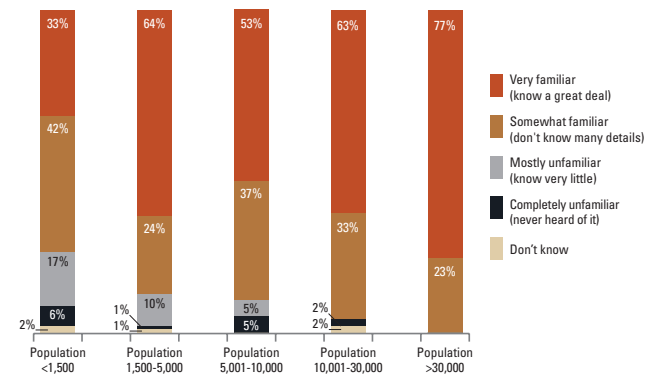
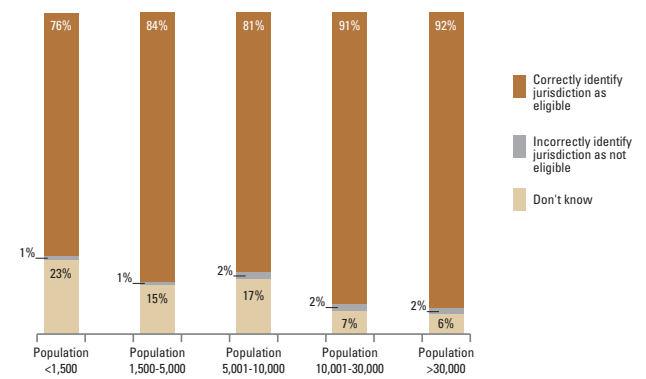


Figure 2

Local officials' knowledge of eligibility for EVIP (among jurisdictions that are eligible for EVIP), by population size



The EVIP's influence on local reform: performance dashboards

The first EVIP incentive category is designed to foster greater accountability and transparency in local government through the creation of performance dashboards and related citizen's guides to local finances. The dashboards and citizen's guides are intended to provide simplified views of key indicators regarding the local government's operations and fiscal health (for more information, see: www.michigan.gov/midashboard). The MPPS finds that local leaders' views on citizen's guides are very similar to their views on dashboards, and so for brevity, this report focuses primarily on views of dashboards.

In order to receive one-third of their available EVIP incentive funds (that is, the funding tied to the first of the three EVIP categories), local governments needed to certify to the state of Michigan that they had created a performance dashboard (and related citizen's guide) by the fall of 2011.

EVIP-eligible jurisdictions produce dashboards, while few non-eligible jurisdictions follow suit

Despite some officials' confusion regarding the EVIP program overall, 90% of officials from EVIP-eligible jurisdictions across the state report that they have created a dashboard, or that they plan to do so within the next year. Larger jurisdictions are somewhat more likely than smaller jurisdictions to produce a dashboard, but even 84% of the state's smallest EVIP-eligible jurisdictions have already, or will soon create a dashboard (see *Figure 3a*).

By comparison, relatively few jurisdictions that are *ineligible* for EVIP incentive funds have produced a dashboard or plan to do so in the next year (see *Figure 3b*). Overall, only 26% of these non-eligible jurisdictions are creating dashboards. Among the smallest of these jurisdictions, only 6% have produced a dashboard already, and only 10% plan to produce one within the next year.

These MPPS findings appear to show that the state's EVIP funding incentives are in fact encouraging EVIP-eligible jurisdictions to produce dashboards. But at this early stage, at least, the state's push for local dashboards is not yet gaining traction where state-incentive funding is not attached to adoption of dashboards.

Figure 3a
Production of performance dashboards by Michigan's local governments (among jurisdictions eligible for EVIP), by population size

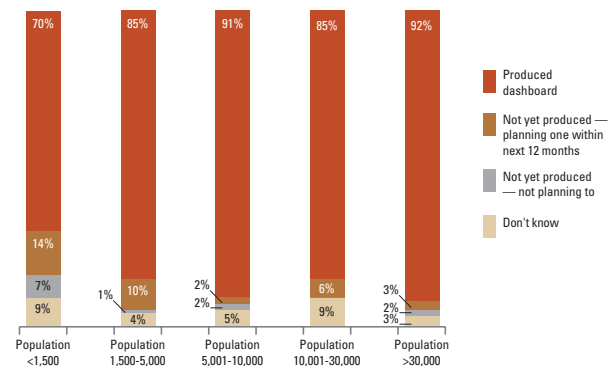
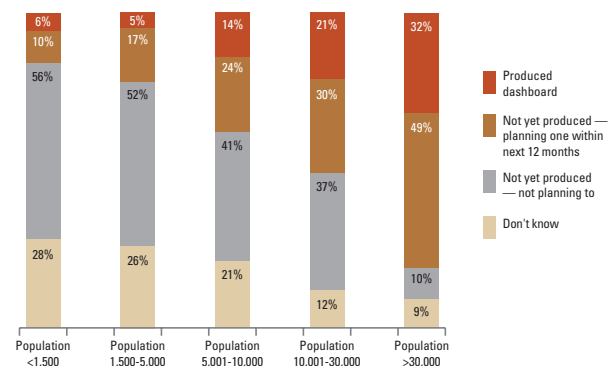


Figure 3b
Production of performance dashboards by Michigan's local governments (among jurisdictions *not* eligible for EVIP), by population size





Local doubts regarding performance dashboards

While EVIP-eligible jurisdictions have rushed to produce dashboards (and citizen's guides), most Michigan local government leaders—including those from EVIP-eligible jurisdictions—are at best lukewarm regarding the efficacy of performance dashboards. Overall, only 10% of the state's local leaders think a performance dashboard would be very effective at helping to improve their jurisdiction's accountability and transparency (see *Figure 4a*). While another 32% of officials overall think dashboards would be at least somewhat effective, 11% are unsure of their value, and 47% say they would be less than effective.

Beyond issues of accountability and transparency, the MPPS also asked local leaders if they thought dashboards would be effective at improving their jurisdictions' overall performance and their ability to benchmark against other jurisdictions. Only 10% of local officials think dashboards would be very effective at improving their ability to benchmark against other jurisdictions, and even fewer, just 8%, believe they would be very effective at improving their government's performance.

Attitudes toward the efficacy of dashboards do vary by jurisdiction size, with officials from smaller jurisdictions reporting greater skepticism compared to officials from larger ones (see *Figure 4b*). Still, even among officials from the state's largest jurisdictions, only 15% say dashboards would be very effective at improving accountability and transparency.

Overall, there is a lack of conviction in the efficacy of performance dashboards among local officials today.

Figure 4a

Officials' assessments of the efficacy of local government performance dashboards

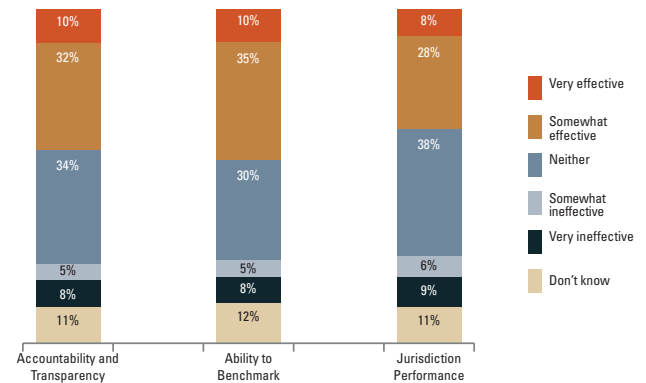
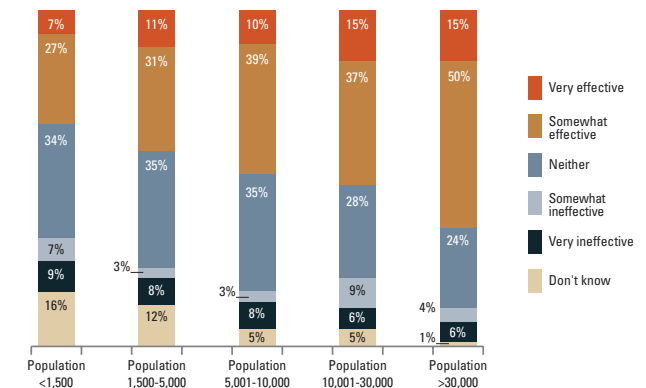


Figure 4b

Officials' assessments of the efficacy of local government dashboards for accountability and transparency, by population size



Concerns about dashboard measures

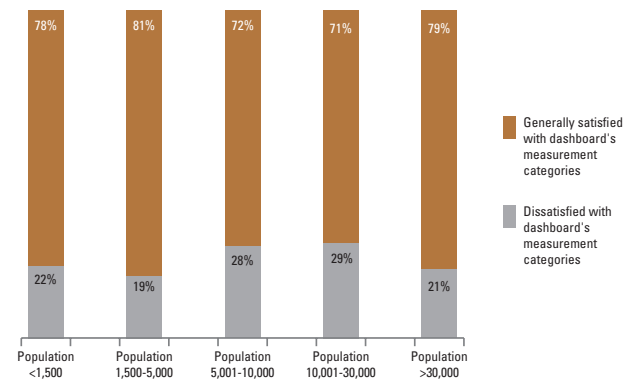
In the fall of 2011, the Citizens Research Council of Michigan reviewed the state's template for suggested local government dashboards and identified a number of problems.⁴ For example, CRC noted that some proposed measures, such as the percentage of adults with bachelors degrees, are beyond the control of local jurisdictions, and that others, such as per capita spending, are ambiguous (e.g., it is unclear whether changes in spending per capita would be good or bad, without knowing more of the details behind such changes). The CRC analysis points out the difficulty of creating valid and meaningful dashboards.

The MPPS finds that these measurement difficulties are being felt at the local level. Among jurisdictions that have created dashboards to date, 23% of local leaders are dissatisfied with their dashboards' measurement categories. Interestingly, these levels of dissatisfaction are relatively consistent across jurisdictions of all sizes, from the smallest to the largest. For instance, while 22% of leaders from the smallest jurisdictions that have adopted dashboards are dissatisfied with their measures, the same is true for 21% of leaders from the largest jurisdictions (see *Figure 5*).

Dashboards have the difficult task of simplifying complex issues, and about a quarter of local leaders who have been through the dashboard development process are not yet satisfied with their adopted indicators.

Figure 5

Officials' assessments of jurisdictions' dashboard measures (among all jurisdictions that have produced a performance dashboard)





Why some jurisdictions have not created dashboards

Given the local government fiscal crisis and resulting cuts in staffing experienced over the last few years, many jurisdictions in Michigan are trying to “do more with less” today. Adding new activities such as creation and maintenance of dashboards and citizen’s guides may be untenable in this era of public sector retrenchment, at least for some jurisdictions.

To dig beyond that most fundamental barrier to adopting dashboards, the MPPS asked follow-up questions of local leaders whose jurisdictions have not created dashboards. Many of these leaders indicate that they have problems with the kinds of measures often found on dashboards (for example, that they are outside of the control of local government or that they do not take into account the quality of a service); that their jurisdictions already report out data to citizens, making dashboards unnecessary in their views; that their jurisdictions’ resources are too strained now to take on the additional work to produce and maintain dashboards; or that no one in their jurisdictions will use them.

A common theme in smaller jurisdictions is that local leaders believe the jurisdiction is small enough that its citizens already know exactly what is happening, and if they have any questions they know exactly whom to ask. These leaders tend to think dashboards won’t add any new value in their jurisdictions.

The box below (“Voices Across Michigan”) provides a series of typical responses from local leaders, describing why their jurisdiction has decided not to adopt dashboards at this point.

Voices Across Michigan

On why performance dashboards would be ineffective and why jurisdictions choose not to produce dashboards:

- “Lack of reliable information when ‘self-reporting.’ Also, too much variation between units. This would create scenarios in which vastly different areas were compared with expectation that they should be able to perform the same.”
- “We don’t have the time and resources to add another mandate to our already-overburdened work force. This is micro-management at its worse, and micromanagement just breeds hostility and frustration, making our government less productive.”
- “Where to start . . . have you looked at the meaningless, detail-less, dashboards being created . . . because of this policy? Oy! So, the metrics used for a dashboard are often deliberately vague and so high-level as to be ineffective in helping define what elements of policy or program are contributing to the success or failure of a program. Nor do most dashboards use sufficiently nuanced information.”
- “We are too small to be able to effectively use such information in a way that justifies the costs involved in obtaining, organizing, and reporting it.”
- “Because we only receive constitutional revenue sharing. If we did receive statutory revenue sharing it would be worth the man hours needed. But at this point in time, it doesn’t seem like the benefits would outweigh the man hours required.”
- “It would be a waste of time because we already monitor performance, income, and expense. A ‘performance dashboard’ would be a redundancy and waste of time and effort in our case.”

Conclusion

During 2011, Governor Snyder and the Michigan legislature pursued new policies -- such as expanded powers for Emergency Managers, as well as the use of financial incentives in the EVIP program designed to foster reform at the local level -- that are reshaping the state-local relationship in Michigan in important ways. The MPPS has been tracking local leaders' views on these changes, and finds a range of views on EVIP and performance dashboards.

The MPPS finds that the state's EVIP innovation -- using financial incentives to foster local reform -- is meeting mixed success in its first year. Levels of knowledge and understanding of the EVIP incentives are uneven among local officials across the state. In particular, officials from smaller jurisdictions tend to have less information about the program, compared to their peers in large jurisdictions. And while a core of local officials express strong support for dashboards' efficacy, most express doubts.

Despite these doubts, however, the financial incentives appear to be driving a response among jurisdictions that are eligible for EVIP funding, with 90% of such jurisdictions creating dashboards and citizen's guides. In this sense, the state's most immediate goals appear to have been largely met. However, the state's ultimate goal is to have all jurisdictions adopt dashboards, and here it is falling short, at least at this early stage. There appears to be little or no spill-over effect from the EVIP funding incentives, as few jurisdictions that are *ineligible* for EVIP funding are following suit with creation of dashboards. Perhaps the spill-over effect will emerge down the road, if dashboards are found to be more effective than many local officials believe today, or if citizens or other stakeholders in local communities begin to push for their adoption.

Alternatively, opening EVIP eligibility to *all* local jurisdictions (rather than just the current 486 EVIP-eligible jurisdictions) or otherwise providing funding tied to creation of dashboards could help spread the adoption of dashboards across the state quickly.

Meanwhile, one key lesson for state and local policymakers is that local understanding of major state policy innovations can unfold in very uneven ways across a state as large and diverse as Michigan. Greater effort and attention should be paid to helping local officials get up-to-speed on major policy changes, especially for officials from smaller jurisdictions that may have less access to information and fewer internal resources, such as specialized staff, to deal with such changes.

Survey background and methodology

The MPPS is a biannual survey of each of Michigan's 1,856 units of general purpose local government. Surveys were sent by the Center for Local, State and Urban Policy (CLOSUP) via the internet and hardcopy to top elected and appointed officials (including county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers) from all 83 counties, 274 cities, 259 villages, and 1,240 townships in the state of Michigan.

The Fall 2011 wave was conducted from October 3 – November 23, 2011. A total of 1,330 jurisdictions in the Fall 2011 wave returned valid surveys, resulting in a 72% response rate by unit. The margin of error for the survey as a whole is +/- 1.43%. However, the margin of error may differ for analyses that include only a subset of respondents. Contact CLOSUP staff for more information. The key relationships discussed in the above report are statistically significant at the $p < .05$ level or below, unless otherwise specified. Missing responses are not included in the tabulations, unless otherwise specified. Data are weighted to account for non-response.

Detailed tables of the data analyzed in this report broken down three ways-- by jurisdiction type (county, city, township or village); by population size of the respondent's community; and by the region of the respondent's jurisdiction--will soon be available online at the MPPS homepage: <http://closup.umich.edu/mpps.php>

The views reported herein are those of local Michigan officials and do not necessarily reflect the views of the University of Michigan.

Notes

1. Citizens Research Council of Michigan. "Michigan's Unrestricted Revenue Sharing Program: Retrospect and Prospect." September 2000. <http://crcmich.org/PUBLICAT/2000s/2000/rpt330.pdf>.
2. Fisher, Ronald C. and Jeffrey P. Guilfoyle. "Fiscal Relations among the Federal Government, State Government, and Local Governments in Michigan." *Michigan at the Millennium*. Ed. Charles L. Ballard et al. East Lansing: Michigan University Press, 2003. 645-665.
3. Gielczyk, Ben and Jim Stansell. Michigan House Fiscal Agency. "Memorandum re: Economic Vitality Incentive Program." September 22, 2011. http://house.michigan.gov/hfa/PDFs/EVIP%20FINAL_2011.pdf.
4. Citizens Research Council of Michigan. "Local Government Performance Dashboards and Citizen's Guides." September 2011. <http://crcmich.org/PUBLICAT/2010s/2011/memo1108.pdf>.

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The **Center for Local, State, and Urban Policy (CLOSUP)**, housed at the University of Michigan's Gerald R. Ford School of Public Policy, conducts and supports applied policy research designed to inform state, local, and urban policy issues. Through integrated research, teaching, and outreach involving academic researchers, students, policymakers and practitioners, CLOSUP seeks to foster understanding of today's state and local policy problems, and to find effective solutions to those problems.

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