

The Center for Local, State, and Urban Policy

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

Michigan Public
Policy Survey March 2012

State funding incentives foster local collaboration, but also raise concerns

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 each of three categories (accountability and transparency; intergovernmental collaboration and consolidation; and employee compensation policies) in order to receive their full allotment of incentive-based funds.

This report focuses on the second EVIP category (intergovernmental collaboration and consolidation). In order to encourage greater levels of intergovernmental collaboration, the EVIP program withheld the 2nd portion of revenue sharing funds unless eligible jurisdictions submitted a plan to the state by January 1, 2012, documenting their plans to launch new or expanded collaboration or consolidation efforts.

Findings in this report are based on statewide surveys of local government leaders in the Fall 2011 wave of the Michigan Public Policy Survey (MPPS), as well as supplementary data from the Fall 2010 MPPS wave which focused on intergovernmental collaboration.

>> 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 1,331 jurisdictions across the state.

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

CLOSUP

Center for Local, State, and Urban Policy
University of Michigan | Gerald R. Ford School of Public Policy

Gerald R. Ford
School of Public Policy
UNIVERSITY OF MICHIGAN

Key Findings

- To evaluate the EVIP program's effectiveness at increasing inter-governmental collaboration, it is important first to understand that most local governments were already engaged in joint service sharing efforts, and most were already looking to expand those efforts on their own, before the introduction of EVIP. Shortly before the EVIP was announced, the Fall 2010 MPPS survey found that:
 - » 72% of all local Michigan jurisdictions were already engaged in collaborative efforts with other jurisdictions to jointly provide services.
 - » 87% of the cities, villages and townships that are now eligible for EVIP incentive funds were already engaged in such collaboration.
 - » Almost three-quarters (72%) of these EVIP-eligible jurisdictions were already looking to expand their collaborative efforts, before the introduction of the EVIP program.
- Still, on top of those high levels of pre-existing and expanding collaboration, the EVIP incentives appear to have fostered additional plans for new or expanded collaboration. Among jurisdictions that were not exploring new or expanded collaboration efforts in fall 2010, about 88% eventually "flipped" and did submit plans to the state for new or expanded collaboration efforts.
- Most of the jurisdictions that still chose not to pursue the EVIP funds are small jurisdictions, with populations below 1,500 residents. Among other potential reasons, low EVIP funding may have played a role in their decisions not to pursue additional collaboration.
 - » Among small jurisdictions that "flipped" (changing course to pursue EVIP funds via new collaboration, after previously saying they would not pursue new collaboration), the average amount of EVIP incentive funding they received was \$4,995.
 - » By comparison, among the small jurisdictions that did not "flip," the average amount of EVIP funding they would have received was only \$1,964.
- Local officials expressed numerous concerns regarding the EVIP's goal of expanding collaboration, including: a belief that the EVIP funding was not high enough to justify the extra work required; a belief among small jurisdictions that they are already collaborating on all the services they possibly can, and yet don't get EVIP credit for those existing collaborations; difficulty finding partners for collaboration; and problems encountered in previous collaborative efforts.
- The EVIP program also has grant-based funds available to all Michigan jurisdictions, to support costs of planning and implementing new or expanded collaboration efforts, but the MPPS finds that only 21% of Michigan officials predict their jurisdictions will apply for these grants.

Background

In the spring of 2011, Governor Snyder and the Michigan legislature 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. For more details about statutory revenue sharing and the introduction of the EVIP program, see the first MPPS report on the EVIP reforms, released in January 2012.¹

Under the EVIP program, only 486 cities, townships, and villages—those that received greater than \$4,500 in statutory revenue sharing in fiscal year 2009-10—are now eligible for the EVIP incentive funds. In its first year, the 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 can opt-out of the EVIP program entirely, or they can certify in anywhere from just 1, to all 3 categories. Certifying in an individual category earns a jurisdiction one-third of its total available EVIP funding. Thus, jurisdictions must certify to the state that they are in compliance with the program’s “best practices” in all three categories in order to receive their full allotment of funding.

This report is a follow-up to the first MPPS EVIP report from January 2012 that explored local officials’ familiarity with the EVIP program, as well as their opinions regarding the first category of EVIP funding (accountability and transparency) related to creation of performance dashboards and citizen’s guides to local finances.

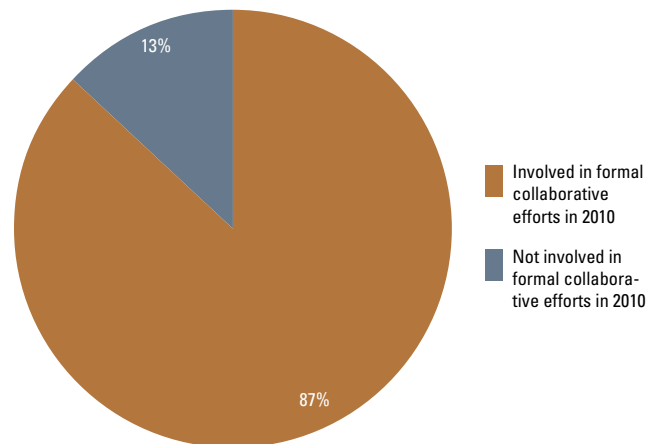
The following analysis focuses on local government compliance with the second EVIP category, which requires submission of plans for new or expanded intergovernmental collaboration or consolidation. The amount of potential EVIP funding in Category 2 varies for each jurisdiction, from a low of \$1,030 to a high of \$1.9 million (in addition to Detroit, which has about \$40 million available in EVIP funding for Category 2). In order to receive their EVIP funds in Category 2, eligible jurisdictions needed to submit a report to the state by January 1, 2012, documenting their plans to launch new or expanded collaboration or consolidation efforts.

Prior to the EVIP, most eligible jurisdictions were already engaged in collaboration

While the EVIP incentives are designed to increase levels of intergovernmental collaboration and consolidation, it is important to understand that most local governments in Michigan were already participating in formal collaboration efforts before the introduction of the EVIP program. The Fall 2010 MPPS survey—in the field shortly before the introduction of the EVIP program—focused largely on issues of collaboration, and found that 72% of all Michigan jurisdictions were already participating in such efforts.²

The percentage is even larger when looking at just those cities, villages, and townships that are now eligible for EVIP incentive funds. Among these jurisdictions, 87% said that they were already engaged in collaboration, prior to the introduction of EVIP incentives (see *Figure 1a*).

Figure 1a
Percentage of EVIP-eligible jurisdictions in Fall 2010 engaged in collaboration





And this collaboration is common among all types of local jurisdictions, based on a range of community sizes. As shown in *Figure 1b*, over three-quarters (76%) of the smallest EVIP-eligible jurisdictions, and 95% of the largest EVIP-eligible jurisdictions, confirmed that they were already engaged in formal collaborative efforts with other local governments in the Fall 2010 MPPS.

Similarly, collaboration is common in all regions of Michigan. Wide majorities of EVIP-eligible jurisdictions from every region of the state were already involved in formal collaborative efforts (see *Figure 1c*). On the “low” end, 79% of EVIP-eligible jurisdictions in the East Central region reported participating in collaborative efforts in the Fall 2010 MPPS, while 96% of such jurisdictions in the Northern Lower Peninsula reported the same.

And not only are most of these jurisdictions engaged in collaboration, but most are engaged in multiple types of collaboration. As of fall 2010, EVIP-eligible jurisdictions reported participating in a wide variety of collaborative efforts, from land use planning and zoning to public safety services to economic development, and more. When asked about 14 different types of services in which they might be cooperating with other governments, on average, EVIP-eligible jurisdictions reported collaboration in six different service areas. Some reported collaboration in all 14 service categories listed.

Prior to EVIP, most eligible jurisdictions were also already exploring new or expanded collaboration

The Fall 2010 MPPS survey also asked whether local jurisdictions were exploring new or expanded collaboration efforts, beyond those they were already engaged in. Among all EVIP-eligible jurisdictions, 72% reported that they were in fact already exploring new or expanded collaborative efforts, on their own initiative. As seen in *Figure 2*, large majorities in most types of EVIP-eligible jurisdictions were already exploring additional collaboration. For instance, among the state’s largest EVIP-eligible jurisdictions (those with more than 30,000 residents), 100% of jurisdictions that responded to the survey reported that they were already exploring additional collaboration efforts. Meanwhile, 58% of the state’s smallest EVIP-eligible jurisdictions (those with fewer than 1,500 residents) were also planning new efforts as of the fall of 2010.

Thus, before EVIP incentives were created with the intention of fostering additional collaboration, Michigan’s local jurisdictions were already heavily involved in such collaboration, and most EVIP-eligible jurisdictions were already planning to expand these efforts.

Figure 1b
Percentage of EVIP-eligible jurisdictions in Fall 2010 engaged in collaboration, by population size

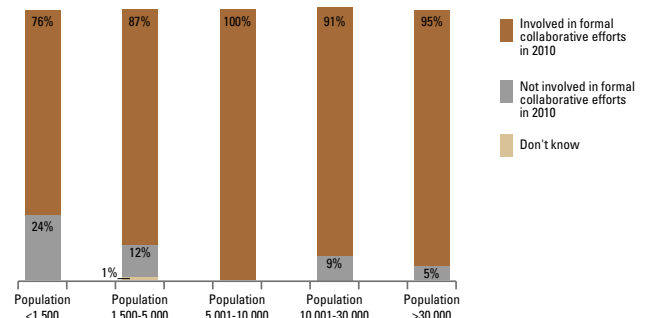


Figure 1c
Percentage of EVIP-eligible jurisdictions in Fall 2010 engaged in collaboration, by region

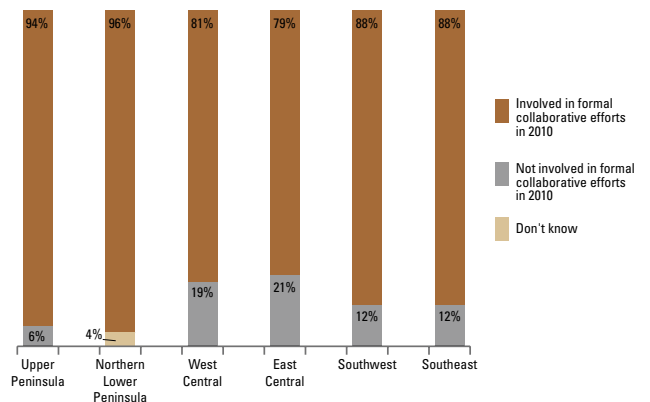
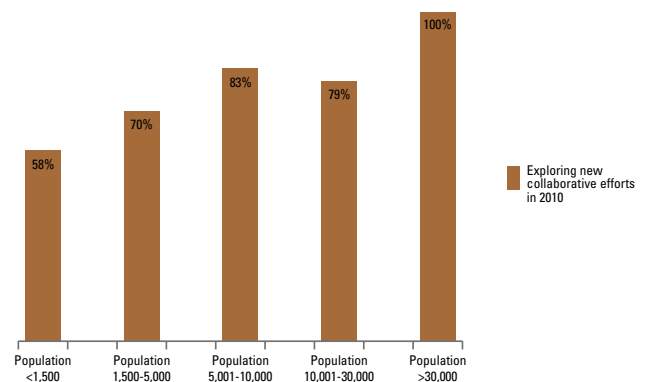


Figure 2
Percentage of EVIP-eligible jurisdictions in Fall 2010 exploring new collaborative efforts, by population size



Most EVIP-eligible jurisdictions certified plans to pursue new collaboration, securing Category 2 funds

While 72% of EVIP-eligible jurisdictions reported in the Fall 2010 MPPS survey that they were already exploring more collaboration efforts at that time, ultimately 91% submitted plans by the state's deadline, certifying they were now planning new or expanded collaboration efforts (see *Figure 3a*).³

As seen in *Figure 3b*, overwhelming percentages of jurisdictions from all population categories decided in the end to explore additional collaboration. Even among the smallest jurisdictions, 79% certified to the state that they had developed plans for additional collaboration, thereby securing their EVIP incentive funds in Category 2.

Most EVIP-eligible jurisdictions that weren't looking at new collaboration before EVIP "flipped" and decided to pursue collaboration after all

As of fall 2010, about 24% of EVIP-eligible jurisdictions said they were not exploring any new or expanded collaboration opportunities (and another 4% were unsure). Ultimately, 88% of these jurisdictions "flipped," deciding to pursue new collaboration—and EVIP funds—despite saying earlier they would not do so (see *Figure 4*).

In general, plans to launch or expand collaboration develop somewhat slowly. While it is possible that some jurisdictions "flipped" on their own between the fall 2010 MPPS survey and the time that the EVIP program was introduced in early 2011,⁴ it seems quite likely that the EVIP incentives played a significant role in fostering more collaboration.

Figure 3a
Percentage of EVIP-eligible jurisdictions certifying under EVIP Category 2 for consolidation of services

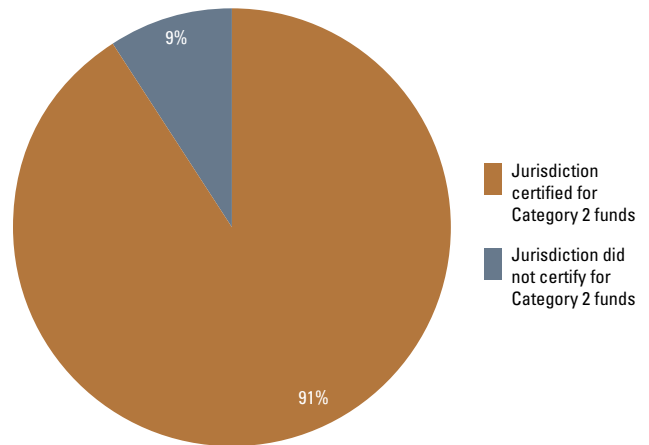


Figure 3b
Percentage of EVIP-eligible jurisdictions certifying under EVIP Category 2 for consolidation of services, by population size

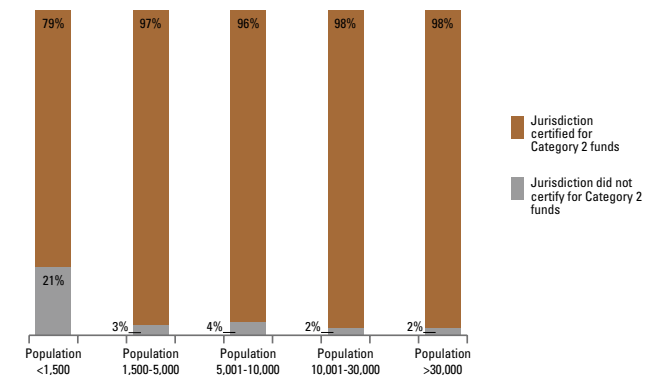
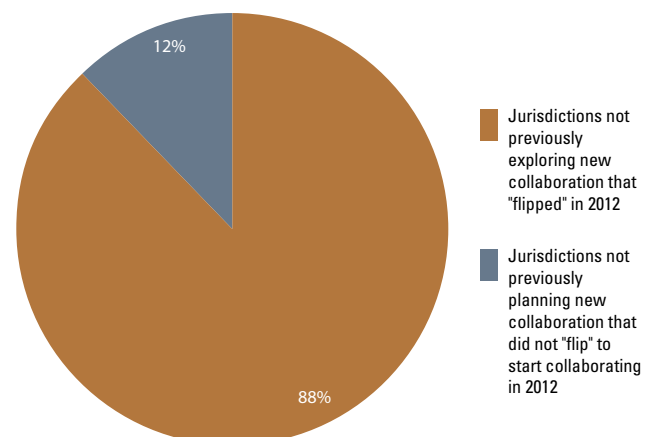


Figure 4
Percentage of EVIP-eligible jurisdictions not previously exploring new or expanded collaboration in Fall 2010 that ultimately certified for Category 2 EVIP funds





Why did some EVIP-eligible jurisdictions still not pursue the funding?

Drilling down further into the data reduces the number of jurisdictions in the analysis and decreases confidence in generalizing the findings. Still, there remains a group of jurisdictions that, even with the new EVIP funding incentives on the table, decided not to pursue additional collaboration and the associated EVIP funding. What do we know about these jurisdictions and why they may have decided not to pursue the funding?

The first thing that stands out is that the great majority of these jurisdictions are from the smallest MPPS population size category: jurisdictions with fewer than 1,500 residents. Most of this report section looks at only these small jurisdictions.

One difference between jurisdictions that flipped and those that did not flip was the amount of EVIP funding available to them for choosing to expand collaborative activities. Among the small jurisdictions that flipped from the fall 2010 MPPS findings, the average amount of EVIP funding they received for pursuing expanded collaboration was \$4,995 (and the median was \$5,202). By comparison, among the small jurisdictions that did not flip, the average amount of EVIP funding they would have received was only \$1,964 (and the median was \$1,727). While not conclusive, this raises the question of whether the EVIP funds were simply not large enough to convince those remaining jurisdictions to change their minds and decide to pursue additional collaboration after all.

Other factors were likely at play too. In open-ended responses on the Fall 2011 MPPS, local leaders mentioned challenges such as a lack of potential nearby partners for collaboration, logistical problems encountered in previous collaborative efforts, and a belief that their jurisdictions are already collaborating on all the services they can possibly provide jointly. In particular, this last comment was common among those providing open-ended responses. Among small jurisdictions, there is frustration that they are not eligible for EVIP funding based on existing collaborative efforts. Since some small jurisdictions provide relatively few services in the first place, there is a sense among some of these leaders that they have been effectively shut-out of the EVIP program since they may already be collaborating on service sharing, and they have few (if any) additional services that they could provide jointly with neighbors.

Voices Across Michigan

Quotes from local leaders, on particular difficulties jurisdictions encountered in the process of certifying, or why they won't certify for EVIP Category 2:

- “We are a small village and have developed many shared services over past years in response to budget challenges, we have few options left to develop that are feasible. It appears that small villages will likely be penalized for responding in past years and for having foresight.”
- “The most difficult will be the consolidation/cooperation information. We are unsure of what qualifies or how to measure current or potential savings.”
- “We already have several shared services. Creating a shared service without cost savings or that will result in an increase in costs may not be in our best interest.”
- “The collaboration requirement is flawed in that it doesn't recognize in a meaningful way previous or ongoing collaboration initiatives.”
- “The sharing is very hard in rural areas. The reward for complying is not as great as not doing it.”
- “The City is facing difficulty in consolidation efforts. For the last three years, the City has been in discussions with neighboring communities [on consolidating numerous potential services]. There seems to be problems with other cities moving forward and/or exchanging financial and managerial data to help make the decision.”
- “Competition among communities to engage in shared services has set in motion a practice of underbidding which would dissolve existing shared services. City A provided a service to City B. City C, without invitation, sends a bid to City B. City B will save money. An existing shared service will be dismantled and City A will lose revenue. This is happening and competition will create ill will among these cities.”

Small proportion of jurisdictions are familiar with EVIP’s grant program for collaboration, and few say their jurisdictions are likely to apply

Finally, as part of the EVIP program, the Department of Treasury also set aside \$5 million in grant funding (above and beyond the other incentive funds) available to all local jurisdictions to offset the costs associated with mergers, inter-local agreements, and cooperative efforts, or to offset costs for a shared service analysis. This grant assistance is available to all jurisdictions regardless of whether or not they are eligible for EVIP incentive funds, or received statutory revenue sharing in the past.

Overall, only 9% of officials from jurisdictions across the state say they are “very” familiar with the grant funding program, while 28% report being “somewhat” familiar with it. Officials from larger jurisdictions are more likely to be familiar with the grant program, with nearly seven in ten (69%) saying they have at least some familiarity with it (see *Figure 5*). Fewer than one in three of the state’s smallest jurisdictions report familiarity with the EVIP grant program to assist in collaboration.

Only 21% of Michigan officials predict that their jurisdictions will apply for an EVIP assistance grant. Even among the state’s largest jurisdictions, fewer than half (43%) say it is either somewhat or very likely that they will apply (see *Figure 6*).

Officials responding to a question about why they are unlikely to apply cite a variety of reasons, including a lack of staff or time to complete grant applications, negative perceptions about the grant process itself (such as concerns about “strings” attached and competition for small amounts of money, or misunderstanding about eligibility) and other issues.

Figure 5
Local officials’ familiarity with EVIP assistance grant program (among all jurisdictions), by population size

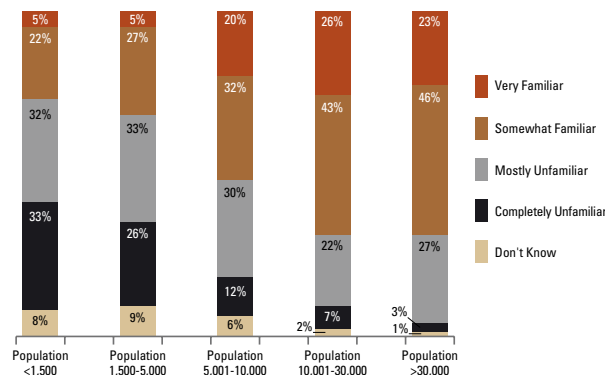
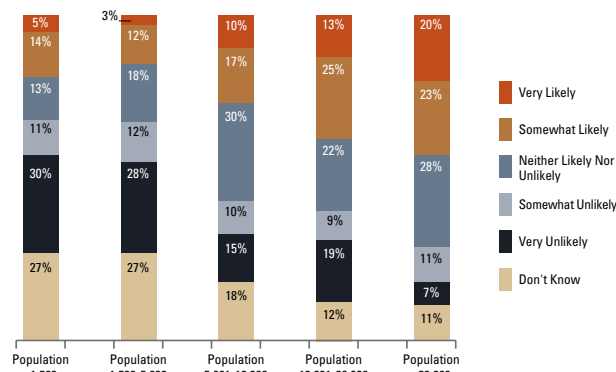


Figure 6
Percentage of jurisdictions predicting they will apply for EVIP assistance grant (among all jurisdictions), by population size



Voices Across Michigan

Quotes from local leaders on why their jurisdictions are unlikely to apply for EVIP grant funding:

- “We have no staff and therefore no time to apply for a grant.”
- “At this point we have been separating from other agreements because we have found we can do things more cost effectively on our own.”
- “Because we have been turned down so many times, and the expense.”
- “Due to the rural location of the City there are limited (essentially zero) opportunities for mergers - the “geographic penalty.” Inter-local agreements have been either concluded or are being negotiated now but the number of resources that can be reasonably shared are limited. Informal cooperative efforts to combine government operations have been in effect for years, but again the number of resources easily or economically shared are of limited scope.”
- “Grant writing is time consuming, and requires an expertise that we don’t have. In the past, our experiences with the process have been confusing, frustrating and disappointing.”
- “Lack of information or knowledge of what an EVIP grant is and under what circumstances a township may apply.”



Conclusion

In 2011 the state of Michigan enacted a major change in its relationship with local governments, replacing the former statutory revenue sharing program with the Economic Vitality Incentive Program, using revenue to incentivize reform in local government operations. One major goal was to foster greater levels of intergovernmental collaboration among local jurisdictions.

The EVIP incentive funds do appear to encourage local governments to expand the amount of collaboration they engage in. In particular, the MPPS surveys find that about 88% of jurisdictions that were not previously planning to expand collaborative activities ultimately decided to pursue new collaboration, and the associated EVIP funds.

However, it is important to know that most local jurisdictions that are eligible for EVIP were already engaged in collaboration, and most were already planning to expand their efforts, before the EVIP program was announced.

Meanwhile, there are likely numerous reasons why some jurisdictions chose not to expand collaborative activities. Local leaders cite problems such as already providing all the collaborative services that they can provide jointly, a lack of partnering jurisdictions within range to make collaboration work, and problems with prior collaborations.

Leaders from small jurisdictions in particular say the EVIP funding in some cases is not large enough to make the process worthwhile, and the MPPS finds evidence that jurisdictions that did not pursue expanded collaboration (and the associated EVIP funds) indeed had lesser funding amounts on the table, compared to their peers that did pursue the funds.

In many cases, especially for larger jurisdictions, there are still plenty of opportunities to further expand collaboration on service sharing. However, continuing to find new opportunities for additional collaboration in the future—especially for smaller jurisdictions—will presumably become a process of diminishing returns at some point. As jurisdictions provide more services jointly each year, they will have fewer options remaining for expansion in future years.

State policymakers should be aware of the possibility of perverse incentives, such that tying revenue sharing to expansion of collaborative activities may eventually lead to dissolution of existing collaborations in order to create new ones, decreased trust between local jurisdictions, or new collaborations that don't make financial sense on their own.

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, 277 cities, 256 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 1,331 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—are 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. Center for Local, State, and Urban Policy. "Local officials react to state policy innovation tying revenue sharing to dashboards and incentive funding." January 2012. <http://closup.umich.edu/files/mpps-evip-dashboards.pdf>.
2. Center for Local, State, and Urban Policy. "Local leaders are mostly positive about intergovernmental cooperation and look to expand efforts." March 2011. <http://closup.umich.edu/files/mpps-intergovernmental-collaboration.pdf>.
3. Memo printed on January 24, 2012 by the office of Revenue and Tax Analysis, Michigan Department of Treasury, received via the Michigan Municipal League.
4. State of Michigan Executive Office. "A Special Message from Governor Rick Snyder: Community Development and Local Government Reforms." March 21, 2011. http://www.michigan.gov/documents/snyder/2011Special_Message-1_348148_7.pdf

University of Michigan

Center for Local, State, and Urban Policy

Gerald R. Ford School of Public Policy

Joan and Sanford Weill Hall

735 S. State Street, Suite 5310

Ann Arbor, MI 48109-3091

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.

www.closup.umich.edu >> 734-647-4091



Regents of the University of Michigan

Julia Donovan Darlow
Ann Arbor

Laurence B. Deitch
Bingham Farms

Denise Ilitch
Bingham Farms

Olivia P. Maynard
Goodrich

Andrea Fischer Newman
Ann Arbor

Andrew C. Richner
Grosse Pointe Park

S. Martin Taylor
Grosse Pointe Farms

Katherine E. White
Ann Arbor

Mary Sue Coleman
(ex officio)