The Center for Local, State, and Urban Policy

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

Michigan Public Policy Survey August 2016

Michigan local governments report first declines in fiscal health trend since 2010

By Debra Horner and Thomas Ivacko

This report presents Michigan local government leaders' assessments of their jurisdictions' fiscal conditions and the actions they plan to take in the coming year given their financial situations. The findings are based on responses from eight statewide survey waves of the Michigan Public Policy Survey (MPPS) conducted annually each spring from 2009 through 2016.

>> The Michigan Public Policy Survey (MPPS) is a census survey of all 1,856 general purpose local governments in Michigan conducted by the Center for Local, State, and Urban Policy (CLOSUP) at the University of Michigan in partnership with the Michigan Municipal League, Michigan Townships Association, and Michigan Association of Counties. 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 Spring 2016 wave of the MPPS include county administrators, board chairs, and clerks; city mayors, managers, and clerks; village presidents, managers, and clerks; and township supervisors, managers, and clerks from 1,378 jurisdictions across the state.

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Key Findings

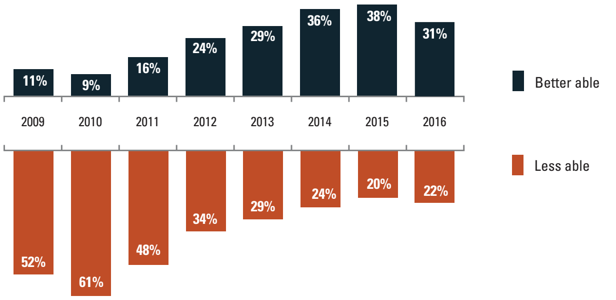
- In 2016, for the first time since the Great Recession, the trend of year-over-year improvement in Michigan local governments' reported fiscal health overall has declined. Fewer than a third (31%) of Michigan local governments report they are now better able to meet their fiscal needs, down from 38% in 2015. Conversely, 22% say they are less able to meet their needs this year, up from 20% in 2015.
  - The reversal in the trends toward improving fiscal health includes jurisdictions of every size and type.
- Still, most Michigan local governments (64%) self-rate their current level of fiscal stress as relatively low, including 71% of townships and 49%-51% of villages, cities, and counties. However, local leaders in 8% of Michigan jurisdictions—approximately 148 local governments—say that they are currently experiencing relatively high levels of fiscal stress.
  - Nearly a fifth (19%) of county officials rate their fiscal stress as high, up sharply from 3% in 2015.
  - Local governments with high and medium fiscal stress are struggling to improve, with 56% of high-stress and 37% of medium-stress jurisdictions reporting they are less able to meet financial needs this year compared to last.
- More local governments report their property tax revenues are increasing (42%) rather than decreasing (25%), but this is down from last year, when 45% reported such revenue growth. This is the first time since the end of the Great Recession that fewer jurisdictions report property tax growth compared to the prior year.
  - In addition, more jurisdictions report decreasing state aid (20%) than increasing state aid (18%) this year compared to last year.
- While most local leaders (60%) say their jurisdictions' general fund balances are at about the right levels, this is down from 64% last year. Meanwhile, the percentage saying they are "too low" increased from 20% last year to 23% this year. In addition, this year more officials (30%) predict they will be increasing their reliance on general fund balances to meet their jurisdictions' fiscal needs than did so in 2015 (26%).
- Although trends in continued fiscal health have reversed in 2016, local officials report plans to maintain overall service provision, with many continuing to increase spending on infrastructure (42%) and public safety (34%).
- Looking ahead, many officials (46%) continue to predict that their community will have good times financially in the coming year. However, when it comes their own jurisdiction's fiscal health, their outlook is more pessimistic. Only 28% believe their jurisdiction will be better able to meet its fiscal needs next year (down from 36% in 2015).

Fiscal Trends: Fewer than a third of jurisdictions report improving fiscal health, down from the previous year

The Michigan Public Policy Survey (MPPS) is in its eighth year of gathering opinions on the fiscal health of Michigan's local governments, covering a period of sharp economic decline in 2009 and 2010, followed by a trend of gradual improvement that first emerged in 2011. However, in 2016, for the first time since the end of the Great Recession, the trend of local officials' reporting gradual improvement in fiscal health overall has reversed.

Each year the MPPS asks local leaders a summary question regarding changes in fiscal health: whether their jurisdictions are *better able* or *less able* to meet their financial needs at that time, compared to the previous year. Each year since 2011, the percentage of jurisdictions saying they were better able to meet their needs increased, until now. The 2016 survey finds that less than a third (31%) of local governments say they are now better able to meet their fiscal needs, a decrease of seven percentage points from the 38% that said the same in 2015 (see *Figure 1a*). At the same time, this year 22% of local leaders report their jurisdictions are now *less able* to meet their fiscal needs compared to last year, slightly more than the 20% that said the same in 2015. Overall, 45% report no significant change in their fiscal health from last year.

Figure 1a
Percentage of jurisdictions reporting they are better or less able to meet their fiscal needs in current year compared to previous year, 2009-2016



Note: responses for "neither better nor less able" and "don't know" not shown

Reversal in the trends toward improving fiscal health includes jurisdictions of every size and type

Figure 1b presents the changes in local fiscal health over the last eight years by jurisdiction population-size category. It shows "net" fiscal health in each category: the percentage of jurisdictions that were *better able* to meet their needs minus the percentage that were *less able*. A data point below the zero-axis shows that more jurisdictions in that category reported declining fiscal health than reported improving health in that year. Conversely, a data point above the zero-axis shows that more jurisdictions in that category reported improving fiscal health than reported declining health.

Up until last year, trend lines for net improvement for almost every jurisdiction size were on an upward trajectory. In 2015, jurisdictions of all sizes posted gains over the previous year, with the state's largest jurisdictions (those with populations over 30,000) posting the highest net positive of 45% (see *Figure 1b*). In 2016, these trends have reversed course. So while net improvement continues to be positive (above the zero-axis) in all jurisdiction sizes, it is lower in each size category compared with last year. For example, among the largest jurisdictions, the percentage with improving fiscal health minus the percentage with declining health was 45% in 2015. That is down by more than half, to 21% in 2016.

When looking at the data by jurisdiction type (counties, cities, townships, and villages), the same patterns emerge, with jurisdictions of all types showing a decline in net fiscal health in 2016 compared to the 2015 (see *Figure 1c*). The most dramatic drop is among counties. While more counties (38%) still report improving fiscal health than declining health (30%) in 2016, the "net" positive calculation has dropped to just 8% this year, down from 33% last year. Similarly, townships (15%) and cities (2%) both report drops in net improvement compared with last year (21% and 18%, respectively). In 2015, villages were the only jurisdiction type that posted net negative numbers (-4%), and this year their net change continues to worsen. In 2016, a quarter of villages (25%) report they are better able to meet fiscal needs, while 31% say they are less able to meet their needs, for a "net" fiscal health change of -6%.

Figure 1b
Net fiscal health yearly change: percentage of jurisdictions reporting improving fiscal health minus percentage reporting declining health, 2009-2016, by population size

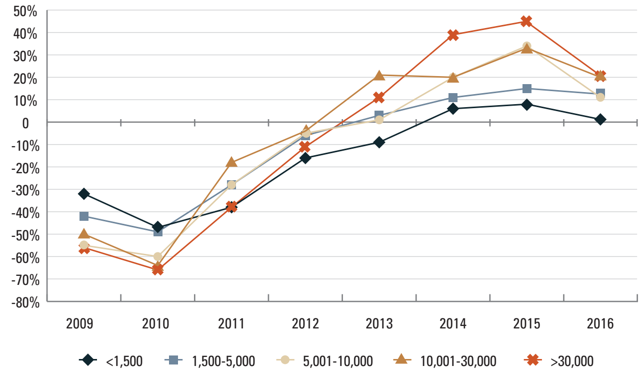


Figure 1c
Net fiscal health yearly change: percentage of jurisdictions reporting improving fiscal health minus percentage reporting declining health, 2009-2016, by jurisdiction type

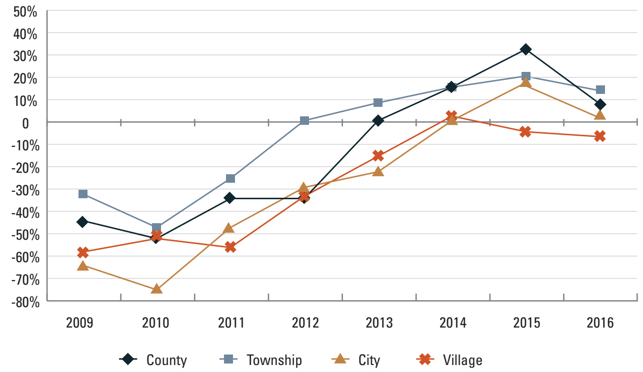


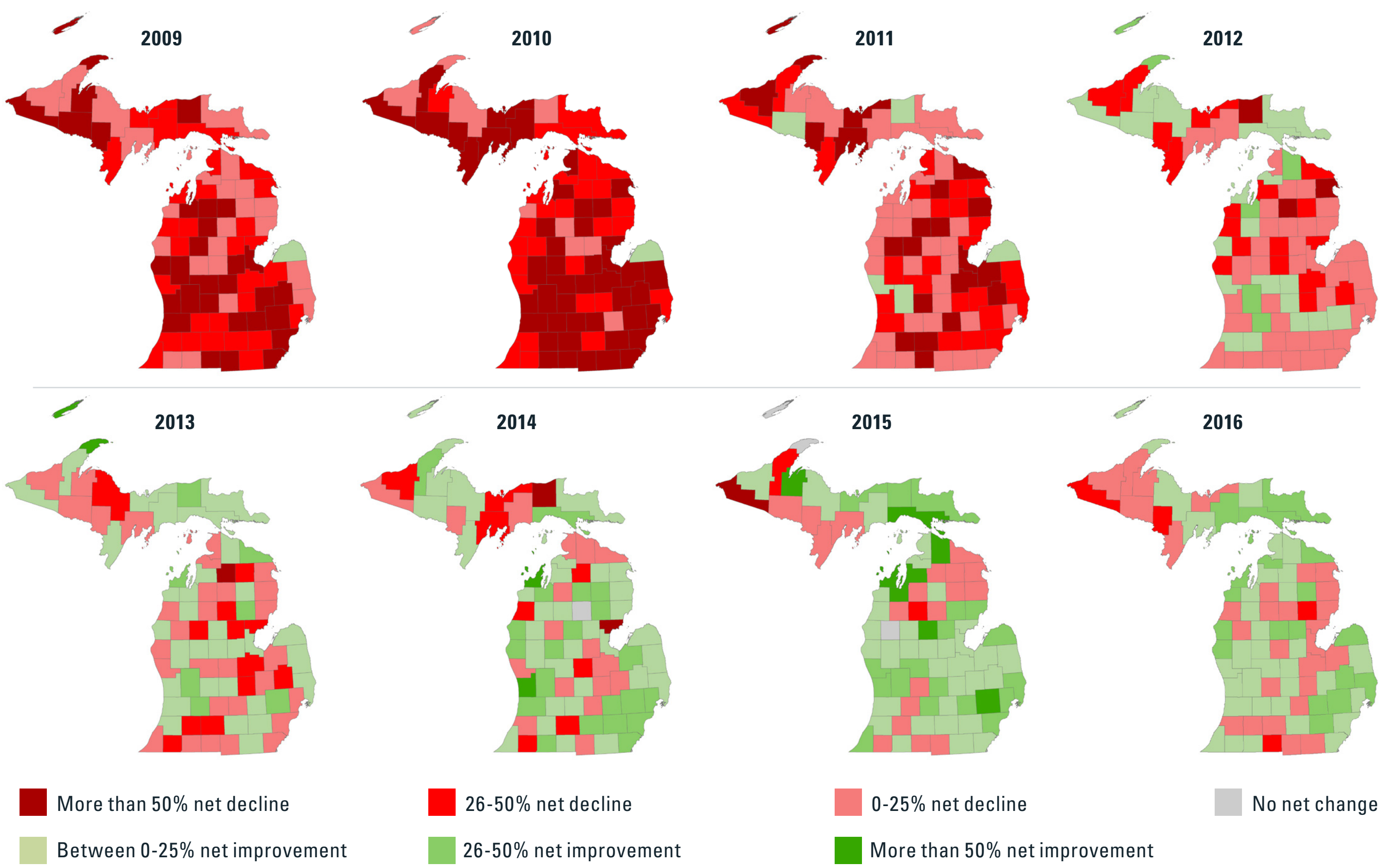
Figure 1d displays the same "net fiscal health" for jurisdictions across Michigan aggregated at the county level. The eight maps contrast those counties (in shades of red) where more jurisdictions are suffering fiscal decline than are experiencing improved fiscal health, compared with those counties (in shades of green) where more jurisdictions are experiencing improved fiscal health than decline. Counties where there are equal numbers experiencing improvement and decline are shaded grey.

The color shades are scaled by the magnitude of the aggregated fiscal changes, with three categories each for improving and declining conditions. The darkest shades of red and green show where the net calculation of jurisdictions improving minus those declining is greater than 50% (green if positive, red if negative), the middle shades show where the net calculation is between 26% and 50%, and the lightest shades show where the net calculation is between 0 and 25%. For example, if 76% of jurisdictions in a county are improving, while 24% are declining, the net calculation is 76%-24%=52% improving, which results in the darkest shade of green. Or, if 27% of jurisdictions in a county are improving while 33% are declining, the net calculation is 27%-33%=-6%, which results in a light pink-shaded county. It should be noted that in a number of counties, a large percentage of jurisdictions report no change in their fiscal health, so it may be the case that a small number of jurisdictions in those counties are included in the net calculations.

At the low point in 2010, the map is almost uniformly red, showing widespread fiscal decline across the state. By 2014 and 2015, there are substantially more green counties found across Michigan, illustrating the net fiscal improvement for local governments within their borders. However, in 2016, the number of counties in red (denoting more fiscal decline than improvement) have increased from the previous year—from 22 counties posting net decline in 2015 to 32 in 2016. Additionally, 2016 is the first year since 2013 in which there are no counties shaded dark green (which would denote a majority of their jurisdictions improving).

Appendix A at the end of this report displays the actual percentage net change for each of Michigan's 83 counties for 2016.

Figure 1d
Net fiscal health yearly change: percentage of jurisdictions reporting improving fiscal health minus percentage reporting declining health, 2009 – 2016, by county



Note: The jurisdictions responding within each county vary from wave to wave, which may result in larger longitudinal swings in counties that have only a few jurisdictions ("small N") overall.

Fiscal status today: Although most local governments report low fiscal stress, counties in particular report substantially higher stress than last year

The MPPS looks not only at year-to-year trends in fiscal health of Michigan's local governments, it also captures a snapshot of local officials' estimates of the current level of fiscal stress in their jurisdictions. The results are based on a MPPS Fiscal Stress Index (FSI) question, which asks local officials to rate their jurisdiction's current fiscal stress on a scale of 1-10, where 1 is perfect fiscal health and 10 is fiscal crisis.

Although the prior trend toward year-over-year fiscal improvement has now declined for the first time since 2011, by local officials' own assessments, a majority of jurisdictions in the state are currently experiencing relatively low levels of fiscal stress. This year, 64% of local leaders rate their jurisdiction's current fiscal stress at 4 or less on the 10-point scale, including 12% of local officials who say their jurisdiction is in perfect fiscal health (see *Figure 2a*). These figures are slightly worse compared with last year, when 66% of officials rated their fiscal stress as low. Furthermore, this year 24% of jurisdictions (up slightly from 23% last year) give themselves a score of 5 or 6, indicating medium levels of stress, and 8% (up from 7%) of jurisdictions say that they are in high fiscal stress. The 8% of jurisdictions with high stress scores today equates to about 148 of the state's local units.

Compared to other jurisdiction types, county officials (19%) are the most likely to perceive their jurisdictions to be in high stress today. This represents a significant shift compared with 2015, when only 3% of county officials reported being in high fiscal stress (see *Figure 2b*). On the other end of the spectrum, approximately half of all county (49%), city (50%), and village (51%) officials rate their jurisdictions' current fiscal stress as low. In addition, 71% of township officials report their jurisdictions are in low fiscal stress today.

Jurisdictions reporting high stress today appear to be falling even further behind over time. For example, only 14% of officials from high-stress jurisdictions say they are better able to meet their financial needs this year, compared to 38% of officials from low-stress jurisdictions (see *Figure 3*). At the same time, over half (56%) of jurisdictions reporting high fiscal stress also say they are less able to meet their fiscal needs this year, up from 43% who said the same in 2015. Those in the medium-stress category continue to be underwater as well, with more officials likely to say in 2016 that their jurisdictions' financial conditions declined (37%) than improved (23%) in the past year.

Figure 2a
Officials' assessments of their jurisdiction's current fiscal stress, 2016

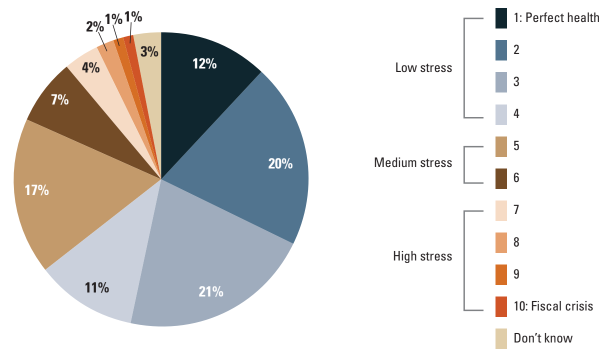


Figure 2b
Officials' assessments of their jurisdiction's current fiscal stress, 2016, by jurisdiction type

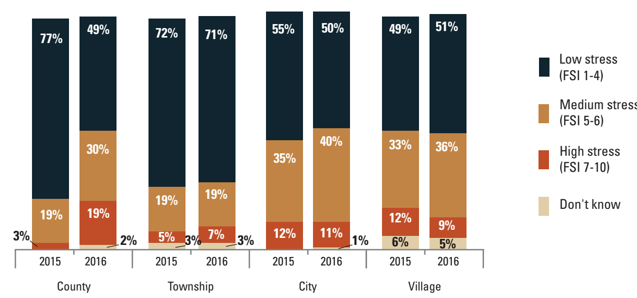
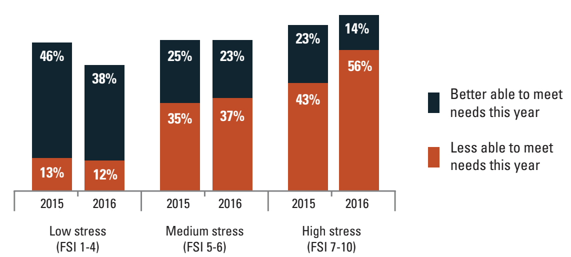


Figure 3
Percentage of jurisdictions overall reporting they are better or less able to meet their fiscal needs in current year compared to previous year, 2015-2016, by MPPS Fiscal Stress Index (FSI) score



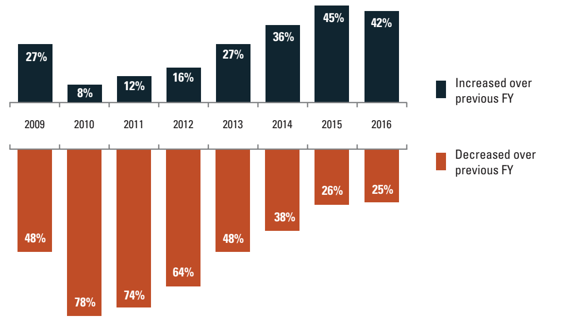
Note: responses for "neither better nor less able" and "don't know" not shown

Property tax revenues are more likely to be increasing than decreasing, however this trend has reversed, too

Among the most difficult challenges facing Michigan local governments since the Great Recession has been widespread decreases in property tax revenues, which are generally the most important source of funding for local governments. As shown in *Figure 4a*, for the second year in a row more jurisdictions report increasing property tax revenues (42%) than report decreasing property taxes (25%). However, for the first time since 2011 when the trend of gradual improvement began, the percentage of jurisdictions saying their property taxes are increasing is down slightly compared with the previous year (42% vs. 45%).

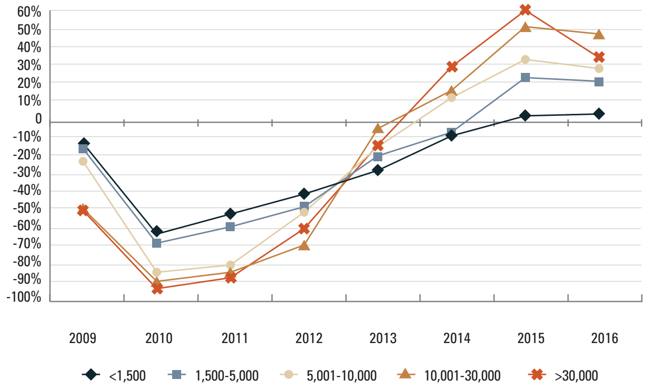
This year, the largest jurisdictions are significantly less likely to report gains in property tax revenues. Among the state's largest jurisdictions, 53% report increased property tax revenue in 2016, while 19% say their property tax revenues decreased, resulting in a net positive of 34%. However, this is down sharply from the 60% net positive reported last year (see *Figure 4b*). Only the state's smallest jurisdictions avoided declines in their net improvement on property tax revenues this year, but these jurisdictions are simply holding steady, with 3% more of these smallest jurisdictions reporting property tax revenue increases (31%) than decreases (28%).

Figure 4a
Percentage of jurisdictions overall reporting changes in property tax revenue compared with previous fiscal year, 2009-2016



Note: responses for "no change" and "don't know" not shown

Figure 4b
Net property tax revenue yearly change: percentage of jurisdictions reporting increasing property tax revenues minus percentage reporting decreasing revenues, 2009-2016, by population size



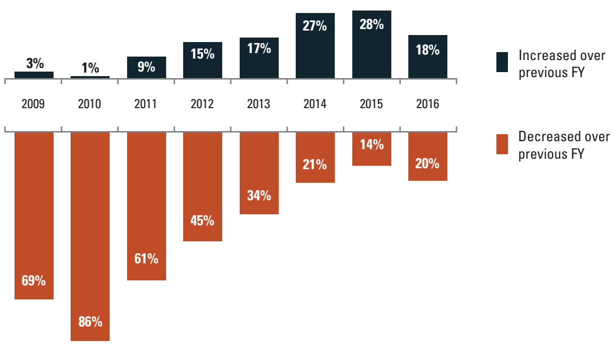
More jurisdictions reporting declines in state aid than increases, particularly among the state's largest jurisdictions, as spending pressures continue

Another important source of revenue for local governments is state aid. As shown in *Figure 5a*, for the first time since 2011, reports of increasing state aid (18%) declined substantially compared with the previous year (28%). In addition, this is the first year since 2013 that more jurisdictions report decreases (20%) rather than increases (18%) in state aid. These reports by local officials coincide with the recent year-over-year changes in revenue sharing from the state government. Between 2014 and 2015 the combined constitutional and statutory revenue sharing totals statewide grew by 3.5%,[1] But in the past year, from 2015 to 2016, those monies provided to local governments were decreased slightly by .5%.[2]

Net improvements in reported state aid declined for jurisdictions of every size. For example, among the state's largest jurisdictions, 34% report declines in state aid this year while 22% report increases, resulting in a net -12% (see *Figure 5b*). Even in the state's smallest jurisdictions—which are less likely to receive statutory revenue sharing—there is a reported net -5%.

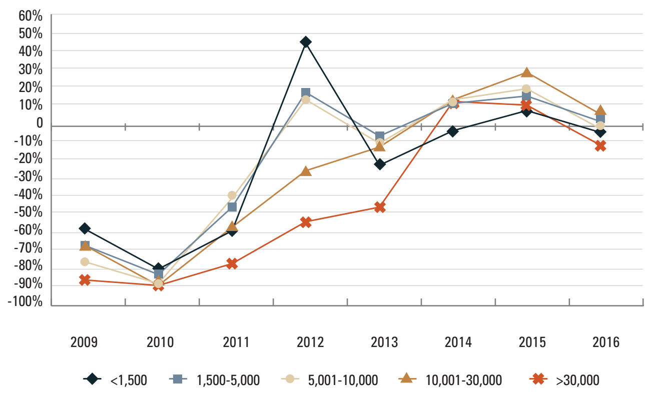
At the same time that property tax and state revenue sources appear to be stagnating or declining for many jurisdictions, demands for certain types of spending are rising (see *Appendix B*). Local officials in more than half (56%) of the state's jurisdictions report an increase in infrastructure needs, up from 52% last year. In addition, needs are slightly up this year compared to last for public safety services (33% of jurisdictions reporting so today, compared to 29% last year). (Note: for population-size breakdowns on these and other metrics, see the MPPS online data tables at http://closup.umich.edu/michigan-public-policy-survey/spring-2016-data.)

Figure 5a
Percentage of jurisdictions overall reporting changes in state aid compared with previous fiscal year, 2009-2016



Note: responses for "no change" and "don't know" not shown

Figure 5b
Net state aid yearly change: percentage of jurisdictions reporting increases in state aid minus percentage reporting decreases in state aid, 2009-2016, by population size



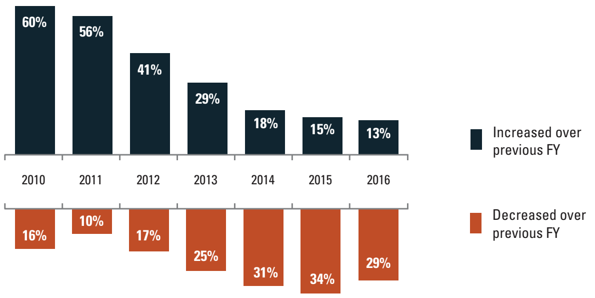
Slight improvements overall in foreclosures and tax delinquencies

One relatively positive sign for Michigan local governments' fiscal health is the continued easing in challenges from home foreclosures, overall. Continuing the trend of recent years, only 13% of local officials across the state report a rise in home foreclosures in their communities this year, slightly fewer than the 15% that reported increases last year (see *Figure 6a*). Overall, 43% report no change in home foreclosures this year.

Looking at different regions across the state, jurisdictions in Southeast Michigan report the greatest net decline in foreclosures (-45%), although this is slightly worse than last year's -53% (see *Figure 6b*). In the Upper Peninsula, which has lagged behind other regions in reported foreclosure improvements, 9% of officials say foreclosures decreased in 2016, compared with 19% who say they increased, for a net positive of 10%. There appears to have been little progress on foreclosures in the U.P. since 2013, and this remains the only region of the state still above the home foreclosure tipping point (above the zero axis).

Reports by local officials regarding changes in tax delinquencies also show very slight improvement overall. This year, 19% of jurisdictions overall report increases in tax delinquencies, down slightly from 20% last year. Meanwhile 17% of jurisdictions report outright decreases in delinquencies, slightly better than the 16% that said the same last year. As with home foreclosures, Southeast Michigan still leads all regions with a greater number of jurisdictions reporting decreased rather than increased tax delinquencies (for a net of -15%), but this percentage is not quite as strong as last year's -19% (see *Figure 7*). Meanwhile, whereas the Upper Peninsula hasn't seen much improvement in home foreclosures, it has seen a strong improvement in reported tax delinquencies. In the U.P. last year, 32% of jurisdictions reported increased delinquencies while 6% reported decreases, for a net of 26%. This year only 19% report increases while 9% report decreases, for a net of only 10%.

Figure 6a
Percentage of jurisdictions overall reporting changes in home foreclosures compared with previous fiscal year, 2010-2016



Note: responses for "no change" and "don't know" not shown

Figure 6b
Net home foreclosure yearly change: percentage of jurisdictions reporting increasing home foreclosures minus percentage reporting decreasing foreclosures, 2010-2016, by region

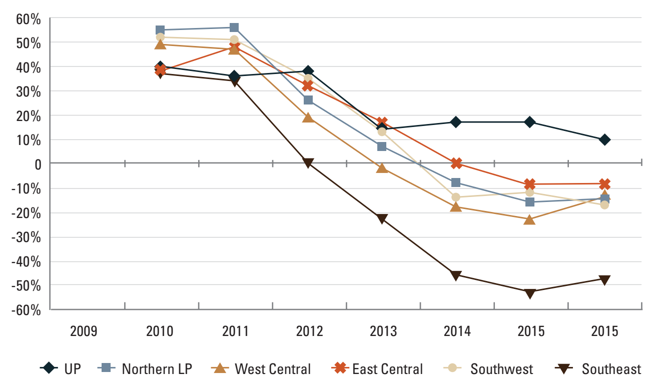
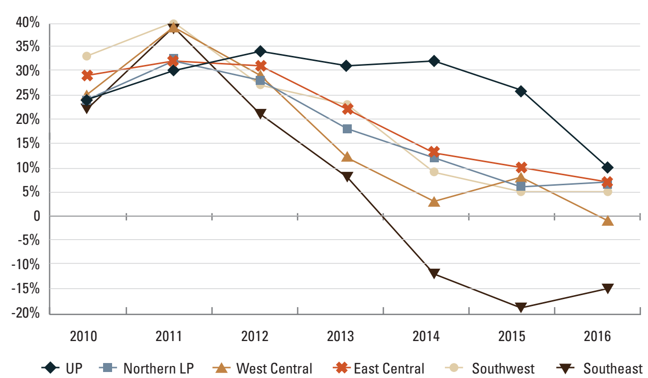


Figure 7
Net tax delinquencies yearly change: percentage of jurisdictions reporting increasing tax delinquencies minus percentage reporting decreasing delinquencies, 2010-2016, by region



More officials say their general fund balances are too low, more predict they will have to rely on them in the coming year

As another indicator of fiscal health, the MPPS asks local leaders whether they consider their jurisdiction's unreserved general fund balance to be too high, about right, or too low. Most jurisdictions (60%) in 2016 say they believe their current fund balances are at about the right levels, but this is down from 64% last year. In addition, almost a quarter statewide (23%) think their current fund balances are too low, up from 20% last year.

Since 2012, officials from the state's largest jurisdictions have been much more likely than other local officials to be concerned with low general fund balances. However, in 2016, 24% of officials from the largest jurisdictions believe their general fund balance is too low, down from 32% who felt this way last year (see *Figure 8*). By contrast, officials from jurisdictions of every other size category are now more likely to say their general fund balances are too low compared with the percentages who felt this way last year. As a result, the state's largest jurisdictions are no longer outliers on this metric.

By jurisdiction type, officials from villages (38%) and cities (34%) are more likely to say their current fund balances are too low this year, compared with those from counties (27%) or townships (17%).

Reliance on unreserved general fund balances to plug budget gaps is another indicator that shows a reversal in the prior trend of gradual improvements in fiscal health. In response to the Great Recession and its aftermath, when revenues were falling as costs continued to rise, many local governments in Michigan previously reported drawing on their general fund balances in order to cover budget gaps.[3] At its peak, in 2010, 49% of jurisdictions reported increasing their reliance on their unreserved general fund balances, but those percentages decreased each subsequent year. This year, that number has ticked up slightly from 26% in 2015 to 30% in 2016 (see *Figure 9*). City officials (45%) are more likely than county (30%), village (29%) or township (26%) officials to indicate their jurisdictions are likely to increase their reliance on their general fund balances in the coming year.

As in the past, cash flow does not appear to be a problem for the vast majority of Michigan's local governments. Overall, only 1% of jurisdictions say that cash flow is a significant problem in 2016 (the same as in 2015), and just 5% more say it is somewhat of a problem (nearly the same as 4% in 2015). By comparison 25% say cash flow is not much of a problem (the same as in 2015) and 68% report cash flow is not a problem at all (down slightly from 70% last year).

Figure 8
Percentage of officials saying their general fund balance is too low, 2010-2016, by population size

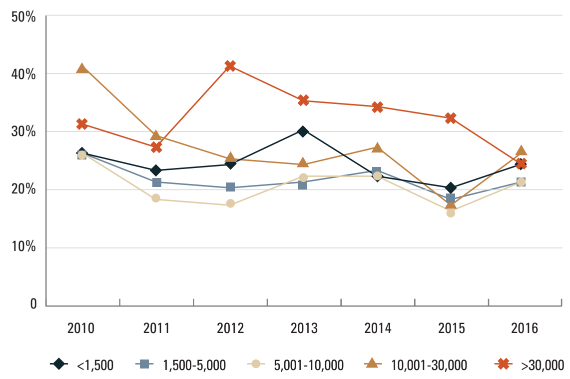
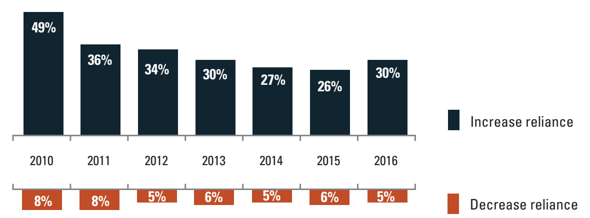


Figure 9
Percentage of jurisdictions overall predicting upcoming changes in reliance on general fund compared with previous fiscal year, 2010-2016



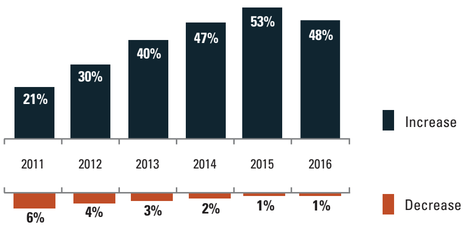
Note: responses for "no change" and "don't know" not shown

Plans for the coming year: reversal in trend of pay increases but continued drop in health insurance cost-sharing expansion

Looking ahead, almost half (48%) of the state's local governments are planning to increase employee pay rates in the coming year, down from 53% last year. This is the first time since 2012 that fewer jurisdictions expect to boost pay rates, compared with the previous year (see *Figure 10*). Nonetheless, compared to the 48% of jurisdictions that expect to increase pay rates, just 1% expect to outright decrease these rates. As with last year, increases in employee pay are much more likely than decreases in all regions of the state and in jurisdictions of all sizes. This is particularly the case in the state's larger jurisdictions, where about 80% of officials from jurisdictions with over 10,000 residents say they will be increasing wages.

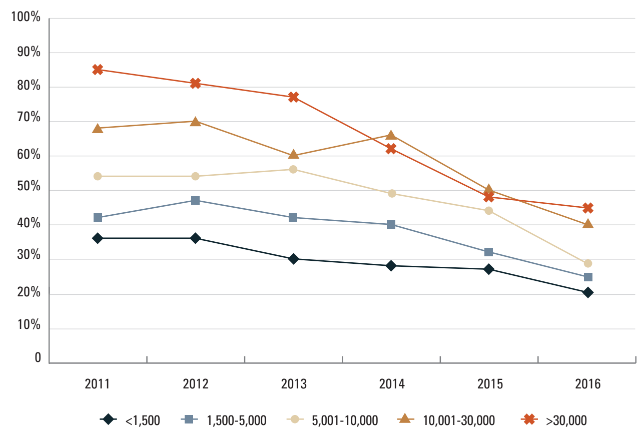
Meanwhile, continuing a multi-year downward trend, significantly fewer local governments expect to shift more of their fringe benefit costs to their employees compared to last year. Among jurisdictions for which this issue is applicable (that is, those that offer health benefits to employees[4]), only 28% plan to have those employees cover more of their premiums, deductibles, and/or co-pays on health insurance in the coming year (down from 37% last year). This downward trend is found among jurisdictions of all sizes (see *Figure 11*). There are also fewer jurisdictions that plan to increase retirees' share of health insurance premiums: 22% plan to do so in the coming year, compared to 26% that said the same in 2015. Meanwhile, the percentage of jurisdictions that plan to increase their employees' share of retirement contributions (16%) is essentially unchanged from the 2015 survey. *Appendix C* provides time-series data for these questions (among all jurisdictions, not just those that offer employees or retirees these benefits).

Figure 10
Percentage of jurisdictions reporting planned changes to employee pay rates in the coming year, 2011-2016



Note: responses for "no change," "not applicable," and "don't know" not shown

Figure 11
Percentage of jurisdictions reporting planned increases in current employees' share of contributions to health insurance in the coming year, 2011-2016, by population size, among those that offer health benefits to employees

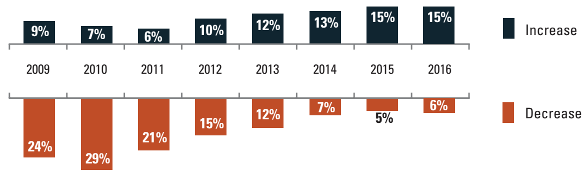


Plans for the coming year: spending on services likely to hold steady, while increases in privatization and intergovernmental cooperation continue to slow

In the wake of the Great Recession as revenues declined and costs continued to rise, Michigan local governments took numerous actions to close their budget gaps, including increasing levels of intergovernmental cooperation, increasing reliance on general fund balances, increasing employees' shares of fringe benefit costs, and more. Previous MPPS fiscal health reports showed jurisdictions tried to protect services from cuts, by using these other strategies more frequently, compared to making cuts in services (for example, see *Appendix C* in the 2010 MPPS fiscal health report).[5] Nonetheless, as fiscal challenges continued, cutting the amount of services provided became a necessity too, especially among large jurisdictions. At its worst point in 2010, 29% of all jurisdictions planned to cut services (including 63% of the largest jurisdictions), while just 7% planned to increase service levels (see *Figure 12*). Since then there has been a very gradual increase in the percentage of jurisdictions boosting service provision levels each year, until today, when this trend has flat-lined. Still, while the trend of gradual improvement has stalled, more jurisdictions expect to increase services levels in the coming year (15%) than to decrease them (6%).

Looking at different types of services, 34% of local governments overall expect to increase public safety spending, compared to just 4% that expect to decrease spending on these services in the coming year, essentially unchanged from 2015. For infrastructure, 42% expect to increase spending while 6% predict cuts (also similar to 2015). Other service level expectations are also largely unchanged from last year, including general government operations spending (39% increase vs. 5% decrease), economic development (12% increase vs. 4% decrease), and human services (8% increase vs. 2% decrease). Data from 2009-2016 on local officials' plans for the coming year on a range of topics are available in *Appendix C*. And again, population size breakdowns are available online at http://closup.umich.edu/michigan-public-policy-survey/spring-2016-data.

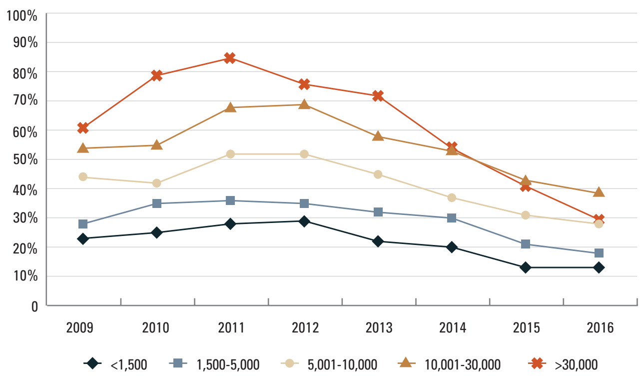
Figure 12
Percentage of jurisdictions reporting planned changes in overall service provision in the coming year, 2009-2015



Note: responses for "no change," "not applicable," and "don't know" not shown

In terms of how those services will be provided, plans to increase efforts to privatize, or outsource, service provision are holding steady or dropping slightly compared with previous years. Overall, only 10% of Michigan jurisdictions expect to increase service privatization efforts in the coming year (the same percentage as in 2014 and 2015), while just 1% expect to decrease these efforts. The MPPS finds a similar trend with intergovernmental service sharing activities. This year, 18% of Michigan local jurisdictions expect to increase the number and/or scope of their cooperative service sharing activities with other governments, down from 22% last year and continuing a longer-term downward trend. For a second year in a row, the drop-off is particularly notable in the state's largest jurisdictions, where 28% expect to boost intergovernmental approaches to service delivery in the coming year, down from 41% last year and from a high of 85% in 2011 (see *Figure 13*). However, while fewer jurisdictions are expanding their cooperative efforts, only 1% statewide say they are actively decreasing the number and/or scope of their intergovernmental agreements; most (64%) expect the number and/or scope of their interlocal agreements to remain unchanged.

Figure 13
Percentage of jurisdictions reporting plans to increase number and/or scope of interlocal agreements next year, 2009-2016, by population size

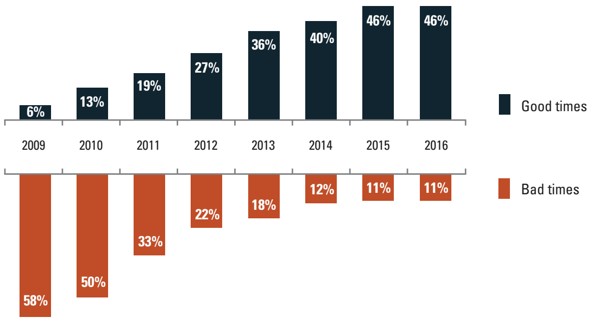


Trends of increasing optimism about future fiscal health also stall or reverse

As shown throughout this report, many of the MPPS' longitudinal questions about fiscal health now show reversals or stalling of prior positive trends established since the end of the Great Recession. As of 2016, local officials' expectations for their local economic conditions follow a similar pattern. The MPPS asks respondents to think about general business conditions in their communities and to predict whether their communities will have good times or bad times financially in the next twelve months. The 2016 survey finds a plateau in the number of officials predicting good times economically rather than bad times in the coming year. In fact, in 2016 an identical percentage of local officials predict their communities will have good times financially in the coming year (46%) as did in last year's survey (see *Figure 14*). Similarly, the same percentage (11%) predicts bad economic times ahead for their communities as did in 2015.

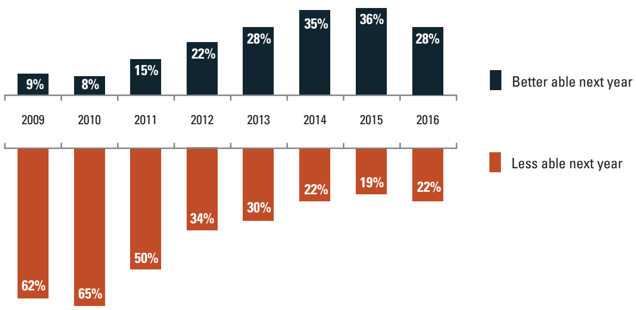
When focusing on their own jurisdiction's fiscal health in particular, rather than on the local economy as a whole, local officials' views have outright worsened. The MPPS asks local leaders to predict whether their jurisdiction will be better able or less able to meet its fiscal needs in the coming year compared to the current year, and the 2016 survey finds yet another reversal of prior positive trends. Whereas 36% of local leaders predicted improving fiscal health for their jurisdictions in the 2015 survey, this has declined to 28% in the 2016 survey. And whereas 19% predicted declining fiscal health in 2015, this has grown to 22% today (see *Figure 15a*).

Figure 14
Percentage of jurisdictions overall predicting their community will have good or bad times financially, 2009-2016



Note: responses for "neither" and "don't know" not shown

Figure 15a
Percentage of jurisdictions predicting they will be better or less able to meet their fiscal needs in coming year, 2009-2016

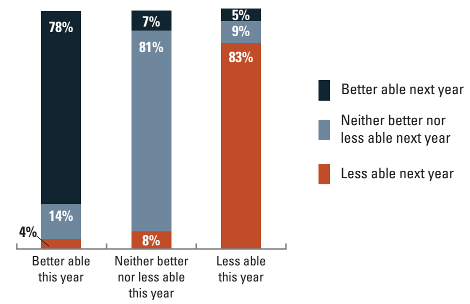


Note: responses for "neither better nor less able" and "don't know" not shown

Furthermore, there is growing pessimism for the future among those jurisdictions that report currently being in fiscal decline. Among the jurisdictions in decline today, 83% expect to be even less able to meet their needs next year (see *Figure 15b*). This is up from 71% who said the same in 2015. By contrast, among jurisdictions that report better health this year compared to last, 78% expect continued improvement in the coming year, while only 4% expect to be worse off. Interestingly, among the 40% of jurisdictions that report no change in their fiscal health this year compared to last, the vast majority (81%) expect to hold steady again in the year to come, while nearly equal numbers expect to be better (7%) and less (8%) able to meet their needs next year. In summary, those jurisdictions that are improving today expect continued improvement, those in decline expect to continue declining, and those that are seeing no change expect more of the same.

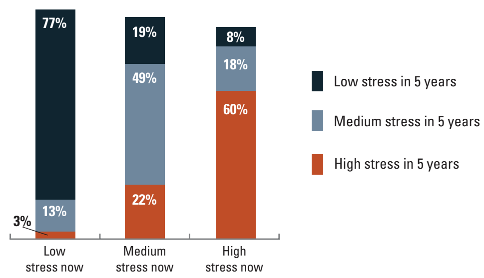
Looking further down the road, this pattern is repeated in jurisdictions' future expectations of their fiscal stress five years in the future. *Figure 16* shows that only 26% of those that are in high stress today expect to pull out of that category within the next five years (and only 8% of them foresee getting all the way to good fiscal health in that time). This percentage is down from the 34% of high-stress jurisdictions in 2015 who were optimistic about the future. Conversely, 16% of those in low stress today expect to be in medium (13%) or high levels of stress (3%) within the next five years, about the same percentage as reported this last year. Among those experiencing medium levels of stress today, 19% believe they will manage to climb to better fiscal health in the next five years, while 22% are concerned they will fall into the high-stress category.

Figure 15b
Percentage of jurisdictions predicting they will be better or less able to meet their fiscal needs in coming year, 2016, by ability to meet fiscal need this year



Note: responses for "don't know" not shown

Figure 16
Officials' predictions of their jurisdiction's fiscal stress in 5 years, 2016, by their current fiscal stress index score



Note: responses for "don't know" not shown

Conclusion

The 2016 MPPS finds numerous indicators that show a reversal in the positive trends of gradually increasing fiscal health that Michigan local governments have reported since the end of the Great Recession. These reversals are being reported by local officials despite the fact that the state's economy has generally continued to improve over the past year.

Statewide, 31% of local officials say their governments are now better able to meet their fiscal needs, down from 38% that said the same in 2015. Meanwhile, 22% say they are less able to meet their needs this year, up from 20% last year. Until this year, net improvement among every jurisdiction size on this general fiscal health measure was on an upward trajectory; in 2016, those trends have turned down across the board. Furthermore, positive trends over the past few years in reports of higher property tax revenues, state aid, and general fund balances have also reversed.

On a positive note, most local governments (64%) still self-rate their levels of fiscal stress as relatively low today, and just 8% rate themselves as experiencing high fiscal stress. However, these current high-stress ratings do represent approximately 148 jurisdictions, including 18% of Michigan county governments.

Looking to the near future, only 28% of local officials predict their jurisdictions will be better able to meet fiscal needs next year, down from 36% in 2015.

Local officials' decline in optimism about local fiscal health may stem from a variety of factors, including the relatively tepid pace of the economic recovery and potential concerns about a coming downturn, state-imposed limits on revenues, pressures on the spending side of the ledger for needs today (such as infrastructure maintenance), and future needs (such as retiree pension and health care obligations).

Forecasts for Michigan's economy from the U-M Research Seminar in Quantitative Economics (RSQE) anticipate continued growth in the next few years, but predict gains will taper off soon after that.[6] Similarly, the Michigan Senate Fiscal Agency expects both the U.S. and Michigan economies to expand at a slightly slower rate in the coming year, and Michigan is generally expected to grow more slowly than the nation as a whole.[7] Should Michigan's economy begin to falter, local governments which are already seeing increased fiscal stress and predicting little improvement in the future may be at even greater risk for fiscal declines.

Notes

1. Michigan Department of Treasury. (2015, May 15). *Constitutional and CVTRS Revenue Sharing Projections FY2014 Actuals and FY2015 Projections - May Consensus*. Lansing, MI: Office of Revenue and Tax Analysis. Retrieved from http://www.michigan.gov/documents/treasury/FY2014FY2015RevenueSharing_20150515_490193_7.pdf

2. Michigan Department of Treasury. (2016, May 17). *Constitutional and CVTRS Revenue Sharing Projections FY2015 Actuals and FY2016 Projected - 2015 P.A. 84 - May Consensus*. Lansing, MI: Office of Revenue and Tax Analysis. Retrieved from http://www.michigan.gov/documents/treasury/FY2015FY2016RevenueSharing_20160517_525209_7.pdf

3. Ivacko, T., Horner, D., & Crawford, M. (2012). *Fiscal stress continues for hundreds of Michigan jurisdictions, but conditions trend in positive direction overall.* Ann Arbor, MI: Center for Local, State, and Urban Policy at the Gerald R. Ford School of Public Policy, University of Michigan. Retrieved from http://closup.umich.edu/michigan-public-policy-survey/18/fiscal-stress-continues-for-hundreds-of-michigan-jurisdictions-but-conditions-trend-in-positive-direction-overall/

4. The percentages for questions related to employee and retiree benefits are derived by excluding those jurisdictions who answer the questions as “Not applicable.” There may be some jurisdictions who do not have employees and/or offer these benefits who chose another response option such as “No change.” As a result, the reported percentages may be somewhat lower than actual percentages, particularly among jurisdictions with less than 10,000 residents.

5. Center for Local, State, and Urban Policy. (2010, August). *Local governments struggle to cope with fiscal, service, and staffing pressures.* Ann Arbor, MI: Center for Local, State, and Urban Policy at the Gerald R. Ford School of Public Policy, University of Michigan. Retrieved from http://closup.umich.edu/michigan-public-policy-survey/6/local-governments-struggle-to-cope-with-fiscal-service-and-staffing-pressures/

6. Fulton, G.A. (2015, November 20). *Some highlights from the most recent RSQE Michigan forecast*. Ann Arbor, MI: Research Seminar in Quantitative Economics Retrieved from http://rsqe.econ.lsa.umich.edu/Docs/RSQE-MI-ForecastHighlights(2015.11).pdf#zoom=100

7. Jeffries, E., Zin, D., Pratt, E., and Summers, K. (2016, May 13). *Michigan’s Economic Outlook and Budget Review*. Lansing, MI: Senate Fiscal Agency. Retrieved from http://www.senate.michigan.gov/sfa/Publications/BudUpdates/EconomicOutlookMay16.pdf

Survey Background and Methodology

The MPPS is a biannual survey of each of Michigan’s 1,856 units of general purpose local government, conducted once each spring and fall. While the spring surveys consist of multiple batteries of the same “core” fiscal, budgetary and operational policy questions and are designed to build-up a multi-year time-series of data, the fall surveys focus on various other topics.

In the Spring 2016 iteration, 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, clerks, and managers; and township supervisors, clerks, and managers) from all 83 counties, 278 cities, 255 villages, and 1,240 townships in the state of Michigan.

The Spring 2016 wave was conducted from April 4 – June 6, 2016. A total of 1,378 jurisdictions in the Spring 2016 wave returned valid surveys (62 counties, 222 cities, 190 villages, and 903 townships), resulting in a 74% response rate by unit. The margin of error for the survey for the survey as a whole is +/- 1.34%. 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. Some report figures may not add to 100% due to rounding within response categories. Quantitative data are weighted to account for non-response. “Voices Across Michigan” verbatim responses, when included, may have been edited for clarity and brevity. Contact CLOSUP staff for more information.

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 survey responses presented here are those of local Michigan officials, while further analysis represents the views of the authors. Neither necessarily reflects the views of the University of Michigan, or of other partners in the MPPS.

Appendices

Appendix A
Net fiscal health yearly change: percentage of jurisdictions reporting improving fiscal health minus percentage reporting declining health, 2009 – 2016, by county

County Name	% Less Able to Meet Fiscal Needs	% Neither Better nor Less Able	% Better Able to Meet Fiscal Needs	% Don't Know	Net Yearly Change for 2016
ALCONA	36.44	45.34	18.22	0.00	-18.22
ALGER	24.37	63.45	12.18	0.00	-12.19
ALLEGAN	23.20	40.59	36.21	0.00	13.01
ALPENA	20.67	61.60	17.72	0.00	-2.95
ANTRIM	13.39	54.74	31.87	0.00	18.48
ARENAC	27.83	51.35	20.83	0.00	-7.00
BARAGA	38.10	28.04	33.86	0.00	-4.24
BARRY	18.25	54.62	27.13	0.00	8.88
BAY	15.63	70.53	13.84	0.00	-1.79
BENZIE	7.97	29.50	46.69	15.84	38.72
BERRIEN	22.16	48.11	26.30	3.43	4.14
BRANCH	39.41	53.50	7.09	0.00	-32.32
CALHOUN	39.32	35.93	18.96	5.79	-20.36
CASS	16.71	55.30	27.99	0.00	11.28
CHARLEVOIX	7.17	48.12	44.72	0.00	37.55
CHEBOYGAN	10.81	62.76	26.43	0.00	15.62
CHIPPEWA	23.57	19.88	56.54	0.00	32.97
CLARE	15.37	43.31	41.32	0.00	25.95
CLINTON	19.28	43.96	36.75	0.00	17.47
CRAWFORD	19.54	58.85	21.61	0.00	2.07
DELTA	22.58	45.11	32.31	0.00	9.73
DICKINSON	36.40	53.51	10.09	0.00	-26.31
EATON	21.29	45.28	33.43	0.00	12.14
EMMET	7.28	63.09	29.64	0.00	22.36
GENESEE	18.47	37.00	40.50	4.03	22.03
GLADWIN	25.49	16.91	57.59	0.00	32.10
GOGEBIC	58.51	31.63	9.86	0.00	-48.65
GRAND TRAVERSE	32.56	17.45	50.00	0.00	17.44
GRATIOT	26.58	41.62	31.81	0.00	5.23
HILLSDALE	22.83	54.61	22.57	0.00	-0.26
HOUGHTON	28.20	49.39	22.40	0.00	-5.80
HURON	15.98	37.06	42.89	4.07	26.91
INGHAM	38.69	30.57	25.39	5.35	-13.30
IONIA	31.08	45.59	23.32	0.00	-7.76
IOSCO	31.26	38.97	29.77	0.00	-1.49
IRON	29.44	59.20	11.37	0.00	-18.07
ISABELLA	29.47	56.74	13.79	0.00	-15.68
JACKSON	13.27	52.93	29.20	4.59	15.93
KALAMAZOO	38.98	33.43	27.59	0.00	-11.39

KALKASKA	22.10	66.30	11.60	0.00	-10.50
KENT	26.98	30.68	42.33	0.00	15.35
KEWEENAW	0.00	75.64	24.36	0.00	24.36
LAKE	12.64	75.82	0.00	11.55	-12.64
LAPEER	4.25	51.45	44.30	0.00	40.05
LEELANAU	13.26	46.28	40.46	0.00	27.20
LENAWEE	34.12	36.39	29.49	0.00	-4.63
LIVINGSTON	19.13	19.81	61.06	0.00	41.93
LUCE	24.10	42.36	33.55	0.00	9.45
MACKINAC	0.00	52.70	47.30	0.00	47.30
MACOMB	24.87	37.01	38.12	0.00	13.25
MANISTEE	28.21	55.69	16.10	0.00	-12.11
MARQUETTE	15.36	62.78	21.86	0.00	6.50
MASON	0.00	59.92	30.96	9.12	30.96
MECOSTA	11.42	44.01	32.73	11.84	21.31
MENOMINEE	29.29	43.72	19.66	7.32	-9.63
MIDLAND	17.80	52.17	30.03	0.00	12.23
MISSAUKEE	22.31	66.54	11.15	0.00	-11.16
MONROE	21.39	31.68	41.40	5.53	20.01
MONTCALM	26.35	38.47	30.44	4.75	4.09
MONTMORENCY	44.11	33.10	22.79	0.00	-21.32
MUSKEGON	28.20	39.28	32.52	0.00	4.32
NEWAYGO	28.59	32.89	32.35	6.17	3.76
OAKLAND	13.93	35.23	50.84	0.00	36.91
OCEANA	4.95	50.69	39.01	5.36	34.06
OGEMAW	46.06	38.61	15.33	0.00	-30.73
ONTONAGON	43.50	30.15	26.35	0.00	-17.15
OSCEOLA	25.56	47.74	26.70	0.00	1.14
OSCODA	0.00	49.06	25.18	25.76	25.18
OTSEGO	20.48	55.38	24.14	0.00	3.66
OTTAWA	5.28	66.84	27.88	0.00	22.60
PRESQUE ISLE	15.87	39.57	44.56	0.00	28.69
ROSCOMMON	36.41	37.16	26.43	0.00	-9.98
SAGINAW	20.83	63.30	15.88	0.00	-4.95
SANILAC	13.11	53.16	33.73	0.00	20.62
SCHOOLCRAFT	10.75	32.25	57.00	0.00	46.25
SHIAWASSEE	27.82	49.50	22.68	0.00	-5.14
ST CLAIR	6.54	47.24	41.97	4.25	35.43
ST JOSEPH	11.13	60.89	22.17	5.81	11.04
TUSCOLA	34.92	36.04	29.04	0.00	-5.88
VAN BUREN	35.55	43.94	20.51	0.00	-15.04
WASHTENAW	13.29	45.49	41.22	0.00	27.93
WAYNE	23.18	29.33	41.28	6.21	18.10
WEXFORD	7.06	66.87	19.68	6.39	12.62
Total	**21.71**	**45.15**	**31.34**	**1.81**	

Appendix B
Conditions in the current fiscal year compared to the previous fiscal year, 2009-2016

		2009	2010	2011	2012	2013	2014	2015	2016
Revenue from property tax	Increased	27%	8%	12%	16%	27%	36%	45%	42%
	Decreased	48%	78%	74%	64%	48%	38%	26%	25%
Revenue from fees for services, licenses, transfers, etc.	Increased	7%	4%	7%	10%	13%	17%	18%	19%
	Decreased	54%	59%	47%	34%	26%	18%	13%	12%
Amount of debt	Increased			12%	12%	14%	12%	15%	14%
	Decreased			18%	21%	22%	21%	20%	21%
Ability of jurisdiction to repay its debt	Increased			7%	12%	14%	15%	18%	13%
	Decreased			7%	7%	6%	4%	4%	6%
Amount of federal aid to jurisdiction	Increased	9%	8%	3%	5%	4%	5%	6%	4%
	Decreased	38%	39%	29%	22%	21%	14%	11%	13%
Amount of state aid to jurisdiction	Increased	3%	1%	9%	15%	17%	27%	28%	18%
	Decreased	69%	86%	61%	45%	34%	21%	14%	20%
Number of tax delinquencies	Increased		46%	47%	40%	30%	23%	20%	19%
	Decreased		20%	12%	12%	13%	15%	16%	17%
Number of home foreclosures	Increased		60%	56%	41%	29%	18%	15%	13%
	Decreased		16%	10%	17%	25%	31%	33%	29%
Public safety needs	Increased	36%	29%	28%	29%	29%	28%	29%	33%
	Decreased	9%	6%	3%	3%	3%	2%	1%	2%
Infrastructure needs	Increased	55%	47%	43%	45%	50%	54%	52%	56%
	Decreased	12%	7%	5%	5%	3%	2%	2%	2%
Human service needs	Increased	45%	43%	35%	35%	29%	30%	28%	27%
	Decreased	8%	6%	3%	1%	1%	1%	1%	1%
General government operations needs	Increased						34%	34%	34%
	Decreased						1%	1%	2%
Number of employees	Increased		2%	2%	3%	4%	8%	10%	10%
	Decreased		27%	23%	19%	16%	9%	7%	6%
Pay rates for employee wages and salaries	Increased	36%	20%	21%	27%	39%	46%	53%	51%
	Decreased	15%	13%	10%	7%	5%	3%	1%	1%
Cost of employee pensions	Increased	40%	30%	22%	21%	24%	25%	26%	28%
	Decreased	4%	4%	3%	4%	3%	3%	2%	2%
Cost of current employee health benefits	Increased	51%	47%	35%	32%	31%	34%	34%	33%
	Decreased	6%	8%	7%	8%	8%	4%	5%	4%
Cost of retired employee health benefits	Increased	31%	24%	17%	16%	16%	17%	15%	16%
	Decreased	4%	4%	3%	3%	4%	2%	3%	2%

Notes: Responses for “no change,” “don’t know,” and “not applicable” not shown.
Percentages are based on all responding jurisdictions (not just those that selected an option other than “not applicable”).
The “not applicable” response option was added in 2011, so direct comparisons with earlier waves may be compromised.
Question text for “pay rates for employee wage & salaries” changed slightly between 2010 and 2011. See web tables for exact question text.

Appendix C
Predicted actions for the coming fiscal year compared to the current fiscal year, 2009-2016

		2009	2010	2011	2012	2013	2014	2015	2016
Property tax rates	Increase	18%	10%	15%	15%	22%	23%	27%	22%
	Decrease	17%	32%	19%	15%	12%	7%	5%	6%
Charges for fees for services, licenses, etc.	Increase	23%	22%	20%	19%	21%	18%	18%	18%
	Decrease	7%	7%	3%	2%	2%	2%	1%	1%
Reliance on general fund balance	Increase		49%	36%	34%	30%	27%	26%	30%
	Decrease		8%	8%	5%	6%	5%	6%	5%
Reliance on “rainy day” funds	Increase		38%	25%	21%	19%	17%	17%	17%
	Decrease		7%	4%	4%	5%	5%	5%	5%
Amount of services provided	Increase	9%	7%	6%	10%	12%	13%	15%	15%
	Decrease	24%	29%	21%	15%	12%	7%	5%	6%
Actual public safety spending	Increase	26%	22%	20%	22%	27%	33%	34%	34%
	Decrease	18%	22%	16%	9%	7%	4%	3%	4%
Actual infrastructure spending	Increase	28%	25%	23%	32%	34%	42%	43%	42%
	Decrease	30%	34%	21%	10%	10%	7%	5%	6%
Actual human services spending	Increase		6%	5%	6%	8%	9%	9%	8%
	Decrease		17%	10%	6%	4%	2%	1%	2%
Actual general government operations spending	Increase						39%	40%	39%
	Decrease						6%	6%	5%
Funding for economic development programs	Increase	14%	12%	8%	11%	13%	12%	13%	12%
	Decrease	17%	20%	12%	9%	8%	5%	5%	4%
Amount of debt	Increase	21%	18%	11%	14%	15%	13%	15%	15%
	Decrease	12%	13%	15%	16%	17%	18%	17%	15%
Sale of public assets(i.e., parks, buildings, etc.)	Increase		5%	5%	6%	6%	7%	7%	7%
	Decrease		1%	1%	1%	1%	0%	1%	1%
Privatizing or contracting out of services	Increase	16%	18%	15%	12%	12%	10%	10%	10%
	Decrease	4%	2%	1%	1%	1%	1%	1%	1%
Number and/or scope of interlocal agreements or cost-sharing plans	Increase	32%	38%	40%	40%	34%	30%	22%	18%
	Decrease	2%	1%	1%	1%	1%	1%	1%	1%
Jurisdiction’s workforce hiring	Increase	3%	1%	2%	2%	4%	8%	8%	
	Decrease	20%	22%	14%	8%	8%	3%	3%	
Jurisdiction not filling vacant positions	Increase	22%	23%	16%	10%	9%	7%	5%	
	Decrease	3%	3%	2%	2%	1%	1%	1%	
Number of employees	Increase								9%
	Decrease								4%
Employee pay rates	Increase			21%	30%	40%	47%	53%	48%
	Decrease			6%	4%	3%	2%	1%	1%
Employees’ share of premiums, deductibles, and/or co-pays on health insurance	Increase		33%	30%	30%	27%	26%	22%	17%
	Decrease		2%	1%	0%	1%	1%	1%	0%
Employees’ share of contributions to retirement funds	Increase		15%	14%	13%	13%	11%	11%	11%
	Decrease		1%	0%	0%	0%	0%	1%	1%
Retirees’ share of premiums, deductibles, and/or co-pays on health insurance	Increase		22%	18%	15%	15%	14%	13%	11%
	Decrease		1%	0%	0%	0%	0%	0%	0%

Notes: Responses for “no change,” “don’t know,” and “not applicable” not shown.
Percentages are based on all responding jurisdictions (not just those that selected an option other than “not applicable”).
The “not applicable” response option was added in 2011, so direct comparisons with earlier waves may be compromised.

Previous MPPS reports

Michigan local leaders' doubts continue regarding the state's direction (July 2016)

Hospital access primary emergency medical concern among many Michigan local officials (July 2016)

Firefighting services in Michigan: challenges and approaches among local governments (June 2016)

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Michigan local government leaders say transit services are important, but lack of funding discourages their development (April 2015)

Michigan local leaders see need for state and local ethics reform (March 2015)

Local leaders say Michigan road funding needs major increase, but lack consensus on options that would raise the most revenue (February 2015)

Michigan local government leaders' views on employee pay and benefits (January 2015)

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Most Michigan local officials are satisfied with their privatized services, but few seek to expand further (November 2014)

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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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