The Center for Local, State, and Urban Policy

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

Michigan Public Policy Survey August 2010

Local governments struggle to cope with fiscal, service, and staffing pressures

This report presents Michigan local government leaders' assessments of their jurisdictions' fiscal conditions and the actions they are taking in response. The report is based on statewide surveys in the Spring 2010 and Spring 2009 waves 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 include county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers from over 1,300 jurisdictions across the state.

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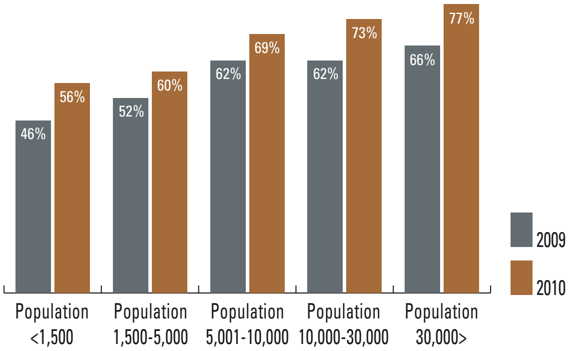
Key Findings

- The fiscal health of Michigan's local governments has declined in the last year and has become a much more widespread problem, increasingly affecting communities of all sizes, in all regions of the state. A majority of local officials predict the problems will get even worse in the coming year.
- Declining fiscal health is due in part to decreasing tax revenues. Overall, 78% of local officials report declining property tax revenue; this grows to 95% in the largest jurisdictions. Declining state aid, federal aid, and revenue from fees and licenses are also problems spreading across the state.
- Declining fiscal health also results from increasing costs, particularly related to personnel, and increasing demands for public services such as public safety, infrastructure, and human services.
- Some of the most common strategies local governments are implementing to deal with the fiscal challenges include:
  - Increasing reliance on general fund and "rainy day" fund balances;
  - Increasing intergovernmental approaches to service delivery;
  - Increasing the share of health care costs paid by employees;
  - Increasing charges for fees, licenses, etc.;
  - Decreasing spending on infrastructure;
  - Decreasing the amount of services provided;
  - And decreasing staffing levels.
- Finally, there are other options that are generally not being as widely pursued by most governments (though there is some variation across large vs. small governments). These include:
  - Outright elimination of particular services;
  - Selling public assets such as parks, buildings, etc.;
  - Increasing property tax rates;
  - Increasing debt levels;
  - Decreasing spending on human services;
  - Outright staffing layoffs (though 55% of the largest jurisdictions expect to implement layoffs this coming year).

Continued declines in fiscal health for Michigan's local governments

Confirming anecdotal evidence from recent news reports, the latest MPPS survey finds that most local governments across Michigan are less able to meet their fiscal needs now than they were last year. When compared to responses from the spring of 2009, the latest data from the spring of 2010 show even higher percentages of officials reporting declines in fiscal health (see *Figure 1*). The trend shows trouble spreading across Michigan, from the smallest communities to the largest. For instance, last year in the state's smallest communities (those with populations of less than 1,500 residents), 46% of officials reported declining ability to meet fiscal needs. This year that percentage grew to 56% of officials from the smallest communities. And while 66% of officials from the largest communities (those with populations of 30,000 or more residents) reported this problem last year, 77% do so now.

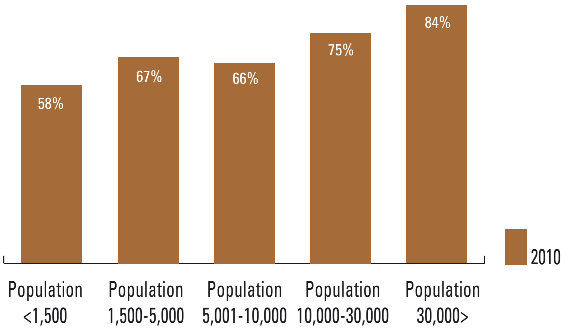
Figure 1
Percentage of local officials in 2009 and 2010 reporting they are less able to meet their jurisdictions' financial needs compared to the previous year



Looking ahead: continued struggles predicted

When asked to predict their local governments' fiscal health in the upcoming year, a large majority of officials predict even further declines. For instance, 58% of officials from the smallest communities say their local governments will be less able to meet their fiscal needs next year. Among the largest communities, 84% of officials predict declining fiscal health next year (see *Figure 2*).

Figure 2
Percentage of local officials in 2010 predicting they will be less able to meet their jurisdictions' financial needs next year



Possible signs of optimism for recovery?

Despite those troubled outlooks, the 2010 spring MPPS finds perhaps the earliest signs of hope among Michigan's local public officials when they were asked to predict general business conditions in their communities for the coming year. While large percentages of officials still predict bad business conditions in the next twelve months, these percentages have fallen from last year's highs.

Figure 3 shows responses from both the 2009 and 2010 surveys, clearly indicating that fewer officials – across communities of all sizes – now predict bad times ahead for business conditions. For instance, in communities with population sizes between 5,001 and 10,000 residents, only 47% of officials now predict bad times ahead, compared to the 67%

Figure 3
Percentage of local officials in 2009 and 2010 predicting bad business conditions in the upcoming year

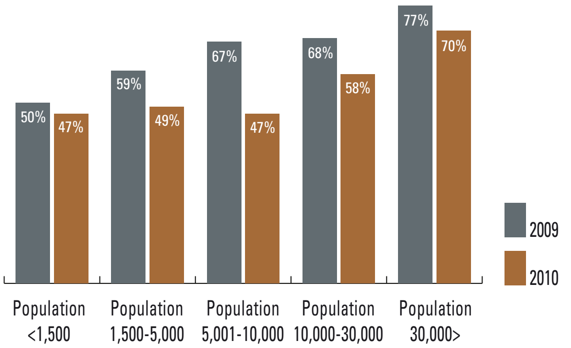


Figure 4a
Percentage of local officials in 2009 and 2010 reporting declines in property tax revenue compared with previous fiscal year, by population size

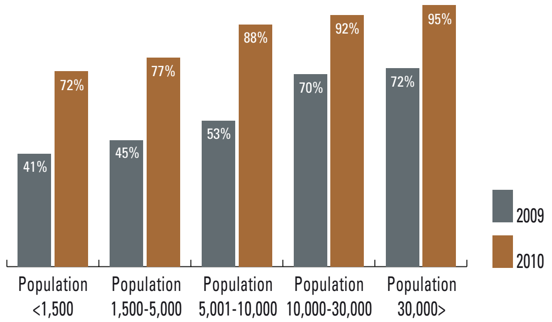
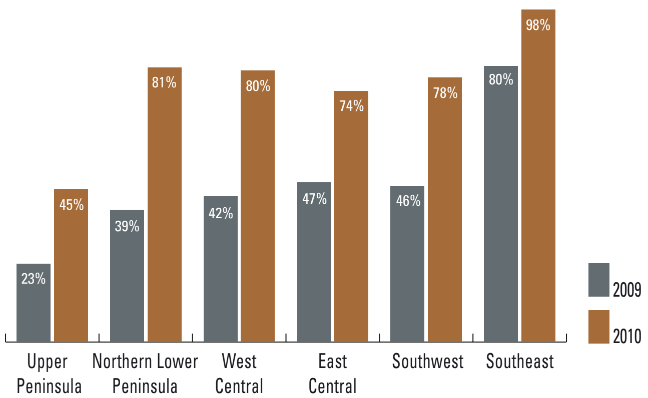


Figure 4b
Percentage of local officials in 2009 and 2010 reporting declines in property tax revenue compared with previous fiscal year, by region



who replied pessimistically in last year's survey. Although some officials may foresee an improved economy next year, the lag time before tax revenues begin to rise means they can still expect declining fiscal health for their jurisdictions next year. Still, some of these officials may finally be seeing the light at the end of a long tunnel.

Declining property tax revenue: a major problem spreading across the state

Over the last year, Michigan local governments across the board have seen significant decreases in revenue from property taxes, with nearly three in four smaller jurisdictions and over nine in ten larger jurisdictions reporting property tax revenue has "somewhat" or "greatly decreased" this year compared with last year (see *Figure 4a*). This represents a markedly larger percentage of governments suffering from reduced tax revenue compared with reports from Spring 2009 (overall, 79% of local jurisdictions in 2010 vs. 48% in 2009).

While more communities across the state are now reporting declines in property tax revenue, the Upper Peninsula, Northern Lower Peninsula and West Central regions of the state have seen a particular spike in this problem, approximately doubling reports from last year (see *Figure 4b*). Last year the problem was more widespread within Southeast Michigan compared to other parts of the state. While the gaps have narrowed, there are still significant regional differences. For instance, the 2010 MPPS survey finds nearly every local jurisdiction in the southeast region (98%) reporting this problem, compared with only 45% in the Upper Peninsula.

Other major revenue problems led by declining state aid

In addition to declining revenue from property taxes, an overwhelming majority of Michigan's local governments report declining revenue from the state of Michigan, and again, the problem is growing more widespread over time.

Overall, local officials from 85% of Michigan's local governments say their jurisdictions received less state aid this year compared to last year. The problem is becoming more prevalent in communities of all sizes and in all regions of the state. For example, last year 61% of the state's smallest jurisdictions reported declining state aid; as of spring 2010 this percentage has grown to 81% of the smallest communities (see *Figure 5a*). And compared to declining property tax revenue (*Figure 4b*), which is more common in some regions (such as the Southeast) than in others (such as the Upper Peninsula), declining state aid is a more uniform problem across the state (*Figure 5b*).

Revenue from other sources is also declining for local governments. For instance, 59% of Michigan local officials report decreased revenue from fees for services and licenses, 39% report decreased federal aid, and 20% report an increase in tax delinquencies, further decreasing tax collections.

Figure 5a
Percentage of local officials in 2009 and 2010 reporting declines in state aid compared with previous fiscal year, by population size

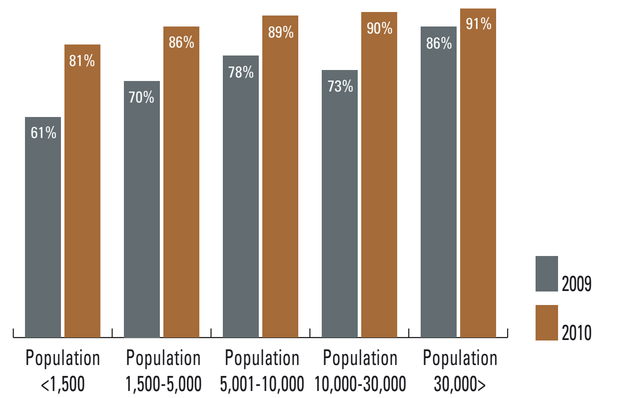
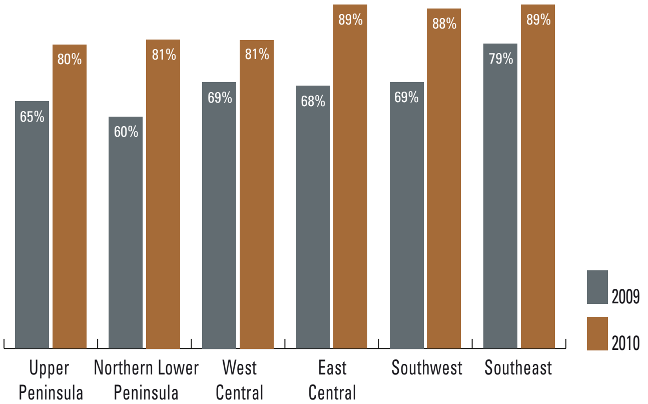


Figure 5b
Percentage of local officials in 2009 and 2010 reporting declines in state aid compared with previous fiscal year, by region



Growing service demands in the face of increasing costs

Even as jurisdictions face significant declines in revenue, they also face escalating demands for services. As with many MPPS findings, the problems tend to be most severe for the state's larger communities.

As jurisdictions increase in size, they are more likely to report growing demands for public safety services, infrastructure, and human services (see *Table 1*). Among the state's largest communities, over half (53%) report an increase in public safety needs this year compared to last year, and around three-quarters report an increase in both infrastructure needs (71%) and human service needs (77%).

Many local governments also report increasing costs related to their employees. While increases in employee wage and salary costs don't appear to be a significant issue this year – only 20% of all jurisdictions report wage increases – cost increases for employee pensions and for employee health care are much more widespread (see *Table 2*). Again, the problems are most acute in the state's larger communities (it should be noted that about 40% of the smallest jurisdictions do not provide any fringe benefits in the first place). For instance, while 35% of officials from the smallest communities report increased health care costs for current employees compared with last year, fully 80% of officials from the largest communities report this problem.

[Note: consult Appendix A for a full list of these and related questionnaire items.]

Table 1
Percentage of local officials in 2010 reporting changes in demand for services from previous fiscal year

	Population <1,500	Population 1,500-5,000	Population 5,001-10,000	Population 10,000-30,000	Population >30,000	Total
Increase in infrastructure needs	41%	49%	43%	52%	71%	**47%**
Increase in human service needs	37%	38%	46%	60%	77%	**43%**
Increase in public safety needs	24%	28%	34%	38%	53%	**29%**

Table 2
Percentage of local officials in 2010 reporting changes in workforce-related costs from previous fiscal year*

	Population <1,500	Population 1,500-5,000	Population 5,001-10,000	Population 10,000-30,000	Population >30,000	Total
Increase in cost of current employee health benefits	35%	36%	72%	74%	80%	**47%**
Increase in cost of employee pensions	18%	24%	43%	60%	65%	**30%**
Increase in cost of retired employee health benefits	11%	15%	42%	56%	61%	**24%**
Increase in employee wages and salaries	16%	20%	26%	28%	27%	**20%**

* Note: 40% of jurisdictions under 5000 report they do not provide pensions to retirees, while only 5% of jurisdictions over 5000 do not; 43% of jurisdictions under 5000 report they do not provide employee fringe benefits/health care, while only 2% of jurisdictions over 5000 do not.

Coping with the spreading fiscal crisis: financial strategies

As seen in *Table 3*, despite the significant budget and operational pressures described above, only one in ten local officials predict their jurisdictions will increase property tax rates in the next fiscal year. Of course, state limitations such as the Headlee Amendment may preclude this option for some jurisdictions.

Fewer than two in ten say they will increase the amount of debt carried by their jurisdictions (and 13% say they will attempt to decrease their debt levels). Few jurisdictions (5%) expect to increase the sale of their public assets such as buildings or land. A much larger percentage of local officials predict they will increase reliance on their general fund balance (48%) and "rainy day" funds (38%) to cope with the fiscal problems. The larger the community, the more likely it is to rely on these fund balances.

[Note: the full set of questionnaire items asked about strategies being pursued by local governments is provided in Appendix B.]

Table 3
Percentage of jurisdictions in 2010 planning fiscal changes in the coming year

	Population <1,500	Population 1,500-5,000	Population 5,001-10,000	Population 10,000-30,000	Population >30,000	Total
Increase reliance on general fund balance	40%	48%	58%	62%	63%	**48%**
Increase reliance on "rainy day" funds	32%	39%	42%	45%	53%	**38%**
Increase charges for fees, licenses, etc.	14%	19%	35%	41%	38%	**22%**
Increase in amount of debt	16%	19%	21%	26%	20%	**18%**
Increase property tax rates	12%	8%	8%	18%	10%	**10%**
Increase in sale of public assets	3%	4%	11%	6%	10%	**5%**

Figure 6
Percentage of jurisdictions in 2009 and 2010 planning to increase privatization

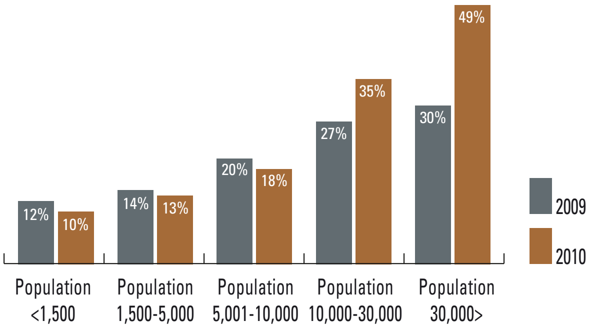
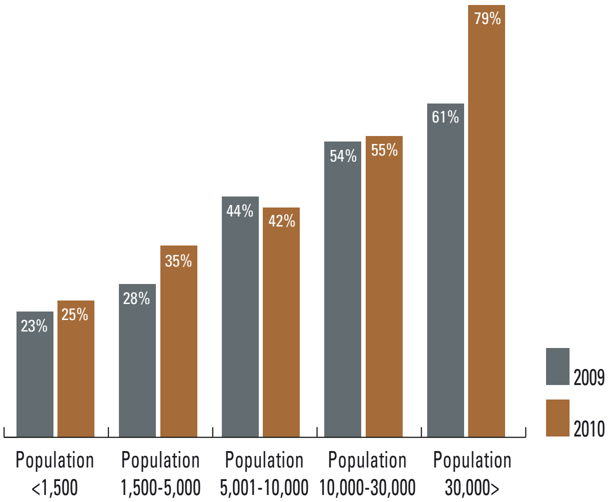


Figure 7
Percentage of jurisdictions in 2009 and 2010 planning to increase number and/or scope of interlocal agreements



Coping with the spreading fiscal crisis: privatization and cooperation

Beyond the direct fiscal policies described above, many Michigan jurisdictions are also increasingly looking to change how they provide services to deal with the growing fiscal pressures. Jurisdictions with the largest populations are most likely to report increasing plans to privatize service delivery (49%) and even more (79%) say they will increase intergovernmental cooperative efforts (see *Figures* 6 and *7*, respectively).

When comparing the latest plans to privatize services with reports from last year's MPPS survey, we find very similar levels for the state's smaller and mid-sized communities (those with up to 10,000 residents). However, plans to increase privatization are growing more widespread from last year's findings among the state's larger communities. For instance, the 2009 MPPS found that 30% of the state's largest communities expected to increase privatization in the subsequent 12-month period. The latest data from the 2010 MPPS shows that 49% of the state's largest jurisdictions now expect to increase levels of privatization in the coming year.

Reports of expected increases in intergovernmental cooperative efforts are relatively similar between 2009 and 2010 for most jurisdiction-size categories. However, intergovernmental approaches are now expected to increase significantly for the state's largest communities. While the 2009 MPPS found that 61% of these communities expected to increase intergovernmental efforts in the subsequent 12 months, the 2010 MPPS finds this percentage has now increased to 79% of the state's largest jurisdictions.

Maintaining a pattern from last year, jurisdictions of all sizes say they are more likely to increase intergovernmental approaches than they are to increase privatization (see *Figure 7* vs. *Figure 6*).

Coping with the spreading fiscal crisis: decreasing and eliminating services

Nearly one in three Michigan jurisdictions overall (29%) report they will "somewhat" or "greatly decrease" the amount of services they provide in the upcoming year, with larger communities most likely to plan service cutbacks (see *Figure 8*). Even though Michigan officials report increased need for services such as infrastructure and public safety (see *Table 1*) many communities are likely to see decreased spending in these areas (see *Figure 8*). One option that is generally not being as widely implemented is decreased spending on human services. Local governments appear to be prioritizing human services above infrastructure spending in these difficult economic times.

Some local governments may also respond to fiscal distress by completely eliminating a service or multiple services. While this rather drastic step has not been common so far among most local jurisdictions, almost a quarter (23%) of the largest jurisdictions completely eliminated one or more services this year. Looking ahead, 35% of the state's largest jurisdictions expect to completely eliminate at least one service in the next 12 months (see *Figure 9*).

Coping with the spreading fiscal crisis: staffing costs

Many local governments are looking at their personnel costs to offset declining revenue, and the MPPS finds growing activity on this front across the state.

Perhaps the most drastic option in terms of cutting personnel costs is outright reduction in staffing sizes. Overall, 27% of local governments report decreasing their employment levels over the last year. Again, this strategy grows more widespread as the community size increases, with 85% of Michigan's largest jurisdictions reporting that they cut staffing levels in the last 12 months (see *Figure 10*). In comparison, only 13% of the smallest communities report decreasing staff sizes in the last year, although it should be noted that many of these small communities have very few employees to begin with.

Looking forward to plans for the coming year, many of the larger local governments in Michigan expect to cut their staffing levels through

Figure 8
Percentage of jurisdictions in 2009 and 2010 planning to decrease amount of spending on services in the coming year

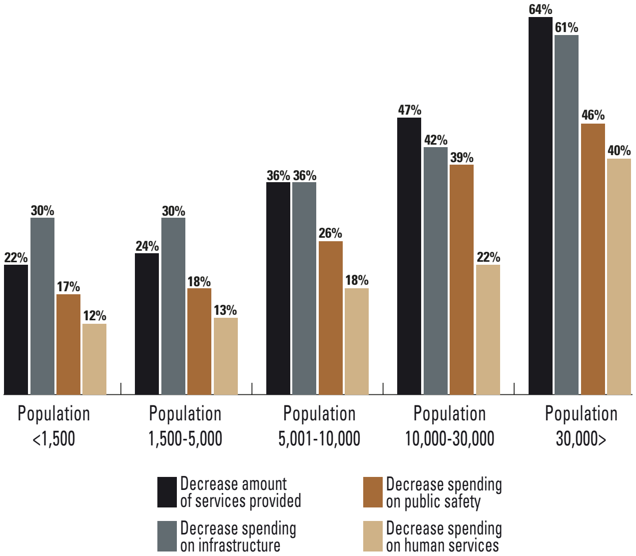


Figure 9
Percentage of jurisdictions in 2010 that completely eliminated particular services last year, or that plan to do so in the coming year

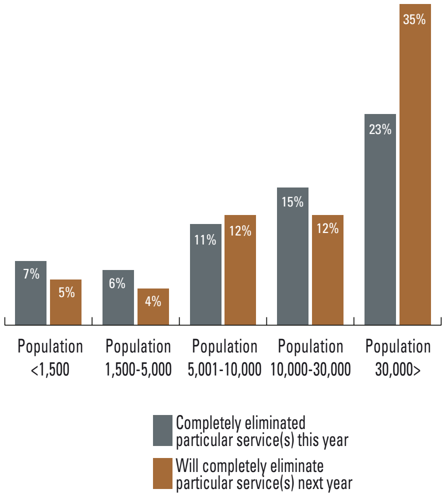
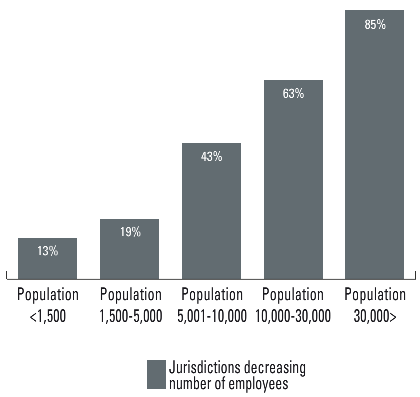


Figure 10
Percentage of jurisdictions in 2010 reporting staff reductions in the last year



employee layoffs or leaving vacant positions unfilled, with 55% of the state's largest jurisdictions expecting to increase layoffs and 68% not filling open positions (see *Table 4*). The state's smaller jurisdictions are significantly less likely to take these steps.

Michigan's local governments are also planning to address personnel costs by having their employees and retirees cover more of their own health care costs. Among the two smallest population size categories (communities with 5,000 or fewer residents), 43% of jurisdictions report that they don't provide any fringe benefits to their employees at all. Another 22% of the small jurisdictions plan to have their employees pay a larger share of their health care costs in the coming year. Meanwhile, 71% of the state's largest jurisdictions expect to have their employees pay more toward their health care costs in the next year (see *Table 4*). Although the percentages are lower in terms of having retirees pay more toward their health care costs, the pattern is the same.

Many local governments also plan to have their employees pay a higher share of their retirement contributions in the coming year. This strategy is less common than the health care cost strategy, but still over a third (38%) of the largest jurisdictions plan to have their employees pay more for their retirement funds next year.

Table 4
Percentage of jurisdictions in 2010 planning workforce changes in the coming year

	Population <1,500	Population 1,500-5,000	Population 5,001-10,000	Population 10,000-30,000	Population >30,000	Total
Increase in employees' share of health benefit costs	20%	25%	47%	57%	71%	**33%**
Increase in not filling vacant positions	8%	16%	37%	56%	68%	**23%**
Increase in retirees' share of health benefit costs	12%	17%	31%	31%	52%	**22%**
Increase in employees' share of retirement contributions	6%	11%	21%	29%	38%	**15%**
Increase in layoffs	5%	7%	21%	40%	55%	**14%**

Are local governments enacting furloughs or four-day work weeks?

Finally, employee furloughs and 4-day work weeks have recently grabbed news headlines as strategies for coping with revenue shortfalls. The MPPS finds that the use of furloughs was relatively rare across most types of jurisdictions last year. Looking forward to the coming year, the MPPS finds that the practice is expected to become more common in jurisdictions of all sizes (see *Figure 11*). Again, furloughs will be most common in larger jurisdictions: while only 5% of the state's smallest jurisdictions expect to implement employee furloughs next year, almost half (47%) of the largest jurisdictions expect to take this action.

Figure 12 illustrates that 4-day work weeks are also expected to become more common next year compared to this year in communities of all sizes.

In the smallest communities, 4-day work weeks are more common than furloughs (see *Figure 12* vs. *Figure 11*). Meanwhile, among the largest jurisdictions, furloughs are more common than 4-day work weeks.

Figure 11
Percentage of local officials in 2010 reporting use of employee furloughs this year and predicting their use in the coming year

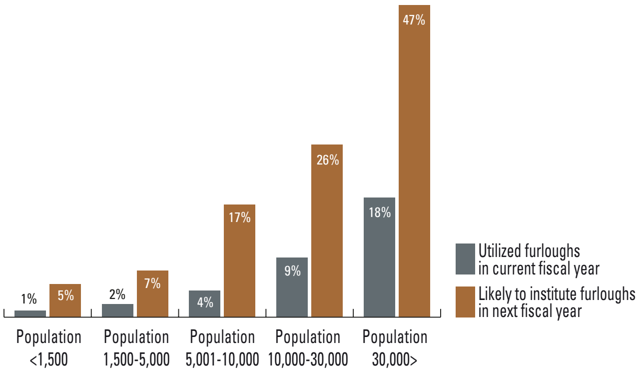
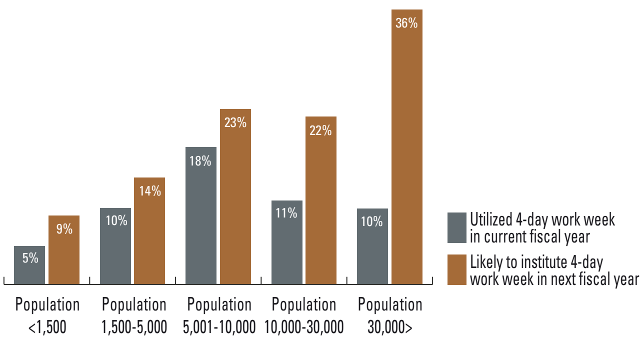


Figure 12
Percentage of local officials in 2010 reporting use of 4-day work weeks this year and predicting their use in the coming year



Conclusion

Based on a variety of metrics, fiscal distress among Michigan's local governments has grown more widespread over the last year in communities of all sizes and in all regions of the state. Overall, six in ten (61%) local officials report being less able to meet their jurisdictions' fiscal needs compared to last year, and 65% predict their ability to meet needs will continue to decrease in the coming year as well. The percentages are much worse among the state's largest communities.

Local government fiscal capacity is shrinking at the same time demands for public services are growing. Larger communities report the most severe declines in property tax revenue and increases in pressures for service provision and public workforce costs, while jurisdictions across the board report striking decreases in state aid.

In response to these fiscal strains, many local officials report plans to increase their reliance on general fund and "rainy day" fund balances, while few will turn to property tax rate increases or increases in debt levels. Many jurisdictions plan to reduce services as well as spending on infrastructure and public safety. Compared with 2009, more of Michigan's larger communities report plans to turn to privatization and intergovernmental cooperation to address budget shortfalls, and many are looking to ask those employees who receive fringe benefits to pay more toward their health care and retirement contributions.

One bright spot in the future outlook is local officials' assessments of business conditions in their communities over the next 12 months, with significantly fewer officials predicting bad times ahead than did in 2009. While the coming year will be perhaps the most challenging in recent memory for Michigan's local governments, there may be light at the end of the tunnel if the economy finally stabilizes or even begins to grow again.

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 via the internet and hardcopy to top elected and appointed officials in all 83 counties, 274 cities, 259 villages, and 1,240 townships. A total of 1,204 jurisdictions in the Spring 2009 wave and 1,305 jurisdictions in the Spring 2010 wave returned valid surveys, resulting in 65% and 70% response rates by unit, respectively. The key relationships discussed in the above report are statistically significant at the p>.05 level or above, unless otherwise specified.

Missing responses are not included in the tabulations, unless otherwise specified. Data are weighted to account for non-response.

The MPPS is funded in part by a grant from the W.K. Kellogg Foundation. The views reported herein are those of local Michigan officials and do not necessarily reflect the views of the University of Michigan or the W.K. Kellogg Foundation.

Appendix A
Revenue, expenditure, and related changes Michigan jurisdictions experienced in the previous fiscal year, by population size

	<1500		1500-5000		5001-10000		10001-30000		>30000		
Description	Rank	Percent Reporting	Rank	Percent Reporting	Rank	Percent Reporting	Rank	Percent Reporting	Rank	Percent Reporting	Total
Decrease in amount of state aid to jurisdiction	1	81	1	86	1	89	2	90	2	91	**85**
Decrease in revenue from property tax	2	72	2	77	2	88	1	92	1	95	**78**
Increase in home foreclosures in jurisdiction	3	53	3	67	5	64	6	61	9	63	**60**
Decrease in revenue from fees for services, licenses, transfers, etc.	4	49	4	59	3	75	3	75	6	74	**59**
Increase in cost of current employee health benefits	10	35	10	36	4	71	4	74	4	80	**47**
Increase in infrastructure needs	7	41	5	49	8	44		51	7	71	**47**
Increase in tax delinquincies	5	42	6	43	6	54	10	54		56	**46**
Increase in human service needs	8	37	7	38	7	46	7	60	5	77	**43**
Decrease in amount of federal aid to jurisdiction	5	42	9	37		36		35		41	**39**
Decrease in population of jurisdiction	8	37	7	38		36		45		49	**38**
Increase in cost of employee pensions		18		24	10	43	7	60	8	65	**30**
Increase in public safety needs		24		27		34		37		53	**29**
Decrease in number of employees		13		19	10	43	5	64	3	85	**27**
Increase in cost of retired employee health benefits		11		15	10	43	9	55	10	61	**24**
Increase in employee wages and salaries		16		20		26		28		26	**20**

* "Rank" indicates actions with the largest percentage of jurisdictions reporting a predicted change in policy, sorted within each population size category.

Appendix B
Actions Michigan jurisdictions are likely to take in next fiscal year, by population size

	<1500		1500-5000		5001-10000		10001-30000		>30000		
Description	Rank	Percent Reporting	Rank	Percent Reporting	Rank	Percent Reporting	Rank	Percent Reporting	Rank	Percent Reporting	Total
Increase in reliance on general fund balance	1	40	1	48	1	58	1	62	6	63	**48**
Increase in number and/or scope of interlocal agreements	4	25	3	35	4	42	4	55	1	79	**38**
Increase in reliance on rainy day funds	2	33	2	39	3	42	7	45	9	53	**38**
Decrease in actual infrastructure spending	3	30	4	30	6	36	8	42	7	61	**34**
Increase in employees' share of premiums, deductibles and/or co-pays on health insurance	6	20	5	25	2	47	2	57	3	71	**33**
Decrease in amount of services provided	5	22	6	24	7	36	5	48	5	64	**29**
Increase in jurisdiction not filling vacant positions		8		16	5	37	3	56	4	68	**23**
Decrease in jurisdiction's workforce hiring		11		13	10	31	6	47	2	79	**22**
Increase in retirees' share of premiums, deductibles and/or co-pays on health insurance		12	10	17	9	31		31	10	52	**22**
Decrease in actual public safety spending	8	17	9	18		26		39		46	**22**
Increase in charges for fees, licenses, etc.	10	14	8	19	8	35	9	41		38	**22**
Decrease in funding for economic development programs	7	20		15		24		29		30	**20**
Increase in privatizing or contracting out of services		10		13		18		35		49	**18**
Increase in jurisdiction's amount of debt	9	16	7	19		21		26		20	**18**
Decrease in actual human services spending		12		13		18		22		40	**17**
Increase in employees' share of contributions to retirement funds		6		11		21		29		38	15
Likelihood of instituting 4-day work week		9		15		23		22		36	15
Increase in jurisdiction's workforce layoffs		5		7		21	10	40	8	55	14
Likelihood of instituting employee furloughs		5		7		17		26		47	12
Decrease in amount of employee compensation		6		6		14		24		31	10
Increase in property tax rates		12		8		8		18		10	10
Plans to completely eliminate particular services, no one else provide them		3		3		8		10		28	6
Increase in sale of public assets (i.e., parks, buildings, etc.)		3		4		11		6		10	5
Plans to completely eliminate particular services, someone else provide them		1		1		5		2		14	2

* "Rank" indicates actions with the largest percentage of jurisdictions reporting a predicted change in policy, sorted within each population size category.

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