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Michigan Public
Policy Survey February 2014

Michigan's local leaders generally support Detroit bankruptcy filing despite some concerns

By Thomas Ivacko and Debra Horner

This report presents Michigan local government leaders' opinions regarding issues surrounding municipal bankruptcies in general, as well as the city of Detroit's bankruptcy specifically. The findings in this report are based on a statewide survey of local government leaders in the Fall 2013 wave of the Michigan Public Policy Survey (MPPS).

>> 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 Fall 2013 wave of the MPPS include county administrators and board chairs, city mayors and managers, village presidents, managers and clerks, and township supervisors, managers and clerks from over 1,350 jurisdictions across the state.

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Key Findings

- Overall, 65% of Michigan's local leaders believe Detroit's fiscal health is important to the state of Michigan's fiscal health, and 59% say they are closely following issues surrounding the city's bankruptcy.
- As a result of Detroit's bankruptcy, over half (54%) of local leaders expect the state of Michigan's reputation to suffer, 43% expect costs to rise for other local governments to borrow money, and 41% think the chances will increase that other struggling Michigan jurisdictions will end up in bankruptcy, too.
- However, despite concerns about potential negative impacts, 56% of local officials agree that filing for bankruptcy was the right thing for Detroit to do, while only 11% disagree.
- A majority of local officials feel that neither the state of Michigan (57%) nor the federal government (54%) should provide Detroit with new financial assistance, although there are some differences in opinion based on the partisan identification of local officials. Democratic officials are more likely to support state and federal financial assistance to Detroit than are Republicans and Independents.
- Looking beyond the specifics of Detroit's bankruptcy, majorities of local officials generally agree that the top strategies a jurisdiction should pursue during bankruptcy proceedings include cutting costs by increasing service sharing agreements with neighboring jurisdictions (79%), cutting or privatizing services (64%), raising revenue by selling some of the jurisdiction's assets (62%), and cutting compensation (pay and/or fringe benefits) for current employees (58%).
 - » Out of ten potential strategies for dealing with local government bankruptcy, only one had majority opposition: 51% of local leaders think that cuts to current retirees' pensions should not be pursued during bankruptcy proceedings, including 15% who think this action should never be taken under any circumstances.

Background

In July 2013, the city of Detroit filed for bankruptcy in the US Bankruptcy Court for the Eastern District of Michigan. Detroit is the latest US city to file for bankruptcy in recent years, following others such as the California cities of Stockton, Mammoth Lakes, and San Bernardino. However, Detroit is by far the largest municipal bankruptcy case in US history.

Although appeals by Detroit's pension funds and others continue, the Bankruptcy Court ruled on December 3, 2013 that Detroit was indeed eligible for Chapter 9 bankruptcy on its estimated \$18.5 billion of debt. As of this report's publication, negotiations—led by the city's state-appointed Emergency Manager, Kevyn Orr—continue with unions, retirees, financial creditors, Michigan's state government, and other potential stakeholders to resolve difficult issues. These include the potential sale of city assets (particularly artwork at the Detroit Institute of Arts), the reorganization, privatization, or regionalization of city services (particularly the water and sewer department), and covering pension-related debt, among others. All of these must be resolved in order for the city to emerge from bankruptcy.

Detroit is not the only municipality in Michigan dealing with ongoing fiscal challenges. Although many local jurisdictions have managed to improve their fiscal health since the end of the Great Recession, hundreds still face continued fiscal decline.¹ In the months after Detroit's July 2013 bankruptcy filing, the Michigan Public Policy Survey (MPPS) was in the field surveying local government leaders from across the state regarding a range of issues related to Detroit's bankruptcy, as well as their views on possible trade-offs to be made during municipal bankruptcy proceedings in general, mirroring some of the trade-offs faced by officials in the case of Detroit.



Most local government officials say Detroit’s financial health is important to the state, and are paying close attention to the city’s bankruptcy proceedings

Although Detroit’s population has fallen dramatically since its peak in the 1950s, it continues to hold a central role as both Michigan’s largest city and the core of the state’s largest metropolitan area. Perhaps not surprisingly then, the MPPS finds that Michigan’s local government leaders believe Detroit has a broad impact on Michigan as a whole, as nearly two-thirds (65%) somewhat or strongly agree that Detroit’s fiscal health is important to the state’s overall fiscal health (see *Figure 1a*). Only 12% of local leaders disagree with that view.

The belief that Detroit’s fiscal health is important to Michigan’s as a whole is held by more than half of local leaders in each region of the state. While 80% of local leaders in the Southeast region express this view, the same is also true for between 55% and 68% of leaders in every other region of Michigan (see *Figure 1b*).

Similarly, more than half of local leaders from communities of all sizes, from the smallest to the largest, also believe Detroit’s fiscal health is important to Michigan’s fiscal health. This view is held by 92% of leaders from the state’s largest communities—those with more than 30,000 residents—but it is also held by 55% of leaders from the smallest communities—those with less than 1,500 residents (see *Figure 1c*).

Figure 1a
Local officials’ assessments of whether Detroit’s fiscal health is important to the state’s fiscal health

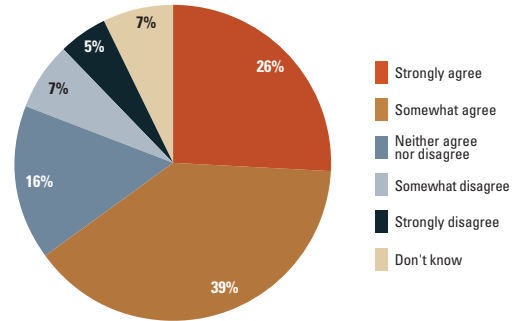


Figure 1b
Local officials’ assessments of whether Detroit’s fiscal health is important to the state’s fiscal health, by region

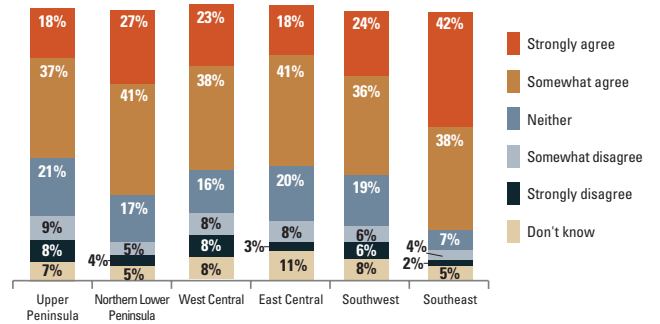
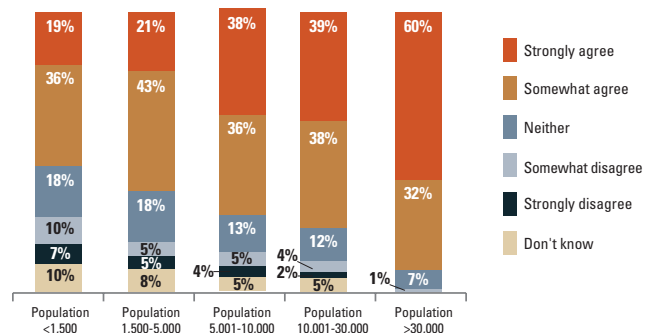


Figure 1c
Local officials’ assessments of whether Detroit’s fiscal health is important to the state’s fiscal health, by population size



Given their views on the statewide impact of Detroit’s fiscal health, it may not be surprising that 59% of Michigan’s local leaders say they are following Detroit’s bankruptcy proceedings somewhat or very closely (see *Figure 2a*). Another third of local officials (32%) report they are following the proceedings, but not very closely, while just 7% say they are not following issues surrounding Detroit’s bankruptcy at all.

Leaders from large jurisdictions are paying closer attention to Detroit’s bankruptcy compared to leaders from smaller jurisdictions. The overwhelming majority of local officials (87%) in the state’s largest jurisdictions say they are following the Detroit bankruptcy closely, including 44% who say they are following it very closely (see *Figure 2b*). However, even in Michigan’s smallest jurisdictions a majority (52%) say they are following Detroit’s bankruptcy closely.

By region, leaders in Southeast Michigan are by far the most likely to be following issues surrounding Detroit’s bankruptcy, with over three-quarters (77%) following it closely, compared with between 50-60% in other regions of the state.

Figure 2a
Local officials’ assessments of how closely they are following issues surrounding Detroit’s bankruptcy

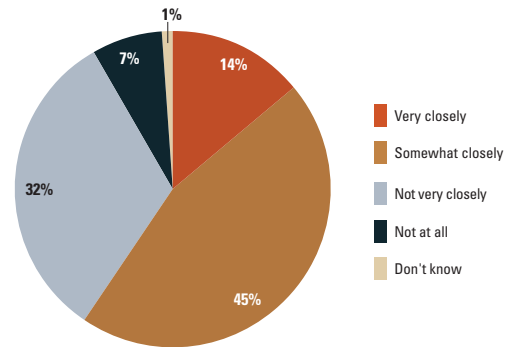
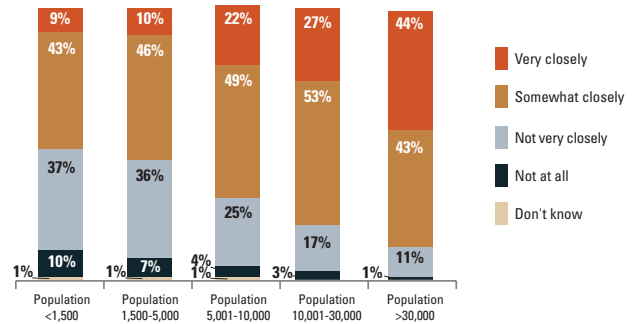


Figure 2b
Local officials’ assessments of how closely they are following issues surrounding Detroit’s bankruptcy, by population size





Many local leaders expect Detroit’s bankruptcy to have negative impacts on the state’s reputation, cost of issuing local debt, likelihood of more local bankruptcy filings, and more

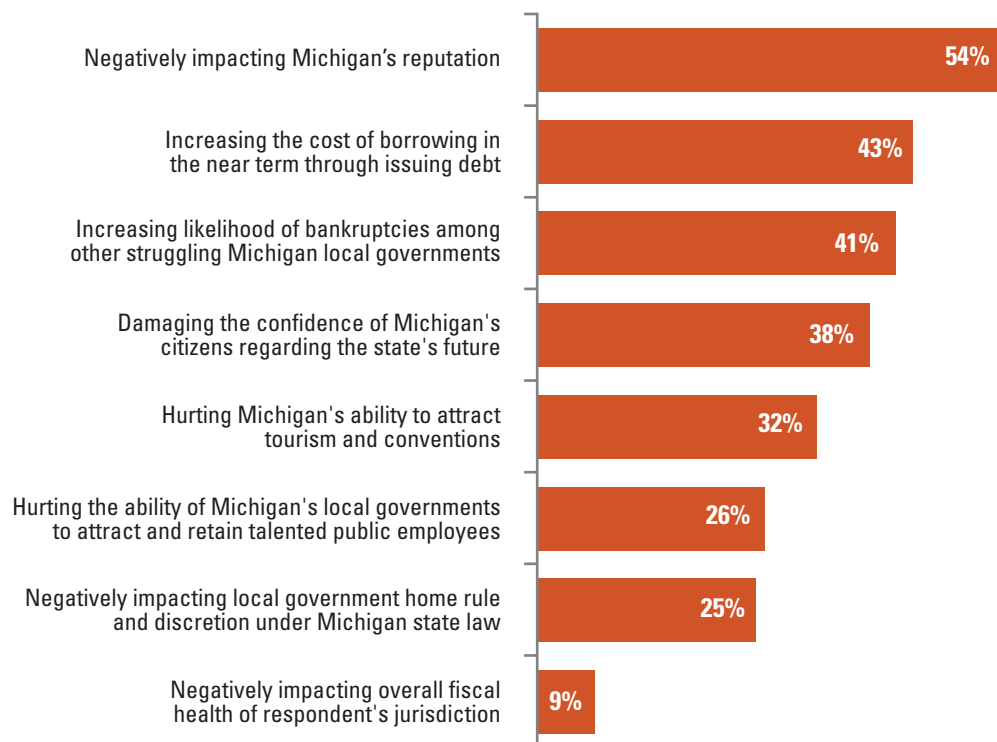
When asked about a variety of potential impacts—positive, negative, and mixed—that Detroit’s bankruptcy might have on Michigan as whole and on other individual local governments around the state, local leaders expressed a range of views.

The highest levels of concern among local leaders relate to Michigan’s reputation, for which 54% think Detroit’s bankruptcy will have an overall negative impact (see *Figure 3*). Smaller, but still sizable percentages express concerns about additional statewide impacts, with approximately 38% saying the bankruptcy will have a purely negative impact on citizens’ confidence in Michigan’s future, and 32% predicting a negative impact on tourism in the state.

When it comes to potential repercussions for other Michigan local governments, 43% of officials expect the bankruptcy will increase the costs of borrowing through issuing new debt in the near term. Meanwhile, 41% believe Detroit’s bankruptcy will make it more likely that other struggling jurisdictions in Michigan will end up in bankruptcy as well.

Fewer local officials believe Detroit’s bankruptcy will have overall negative consequences for Michigan local jurisdictions’ ability to attract or retain talented public employees (26%). Similarly, only 25% expect the bankruptcy to have a purely negative impact on “home rule” (that is, the amount of authority local jurisdictions have to make their own decisions free from state-level directives). Finally, only 9% believe Detroit’s bankruptcy will have a negative impact overall on the fiscal health of their own jurisdictions, while 55% believe it won’t have any impact on their local fiscal health at all.

Figure 3
Local officials’ views of potential effects of Detroit’s 2013 bankruptcy filing



Note: Figure 3 includes questionnaire items from two separate sets of questions: one asking respondents about potential impacts and another asking whether they agree or disagree with statements about Detroit’s bankruptcy. Exact question wording can be found on the CLOSUP website, <http://closup.umich.edu/michigan-public-policy-survey/mpps-2013-fall.php>.

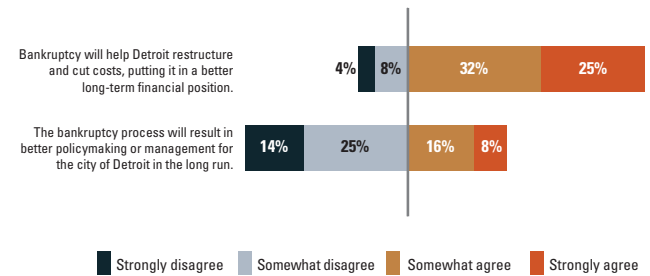
Despite concerns, a majority of local officials think filing for bankruptcy was the right thing to do

In terms of the bankruptcy’s outcomes for the city of Detroit itself, 57% of Michigan’s local leaders believe it will help Detroit cut costs, restructure its operations, and come out of the process in a better financial position for the long term (see *Figure 4*). This view is held by 83% of leaders from Michigan’s largest local jurisdictions. However, only 24% of local leaders overall believe the bankruptcy will help bring about better long-term local policymaking and/or management for the city of Detroit, including only 35% of leaders from the state’s largest jurisdictions.

Despite the range of concerns identified above, including the view that bankruptcy won’t help Detroit improve its self-governance capabilities, a majority (56%) of Michigan’s local leaders agree that filing for bankruptcy was the right thing to do, and only 11% disagree (see *Figure 5*).

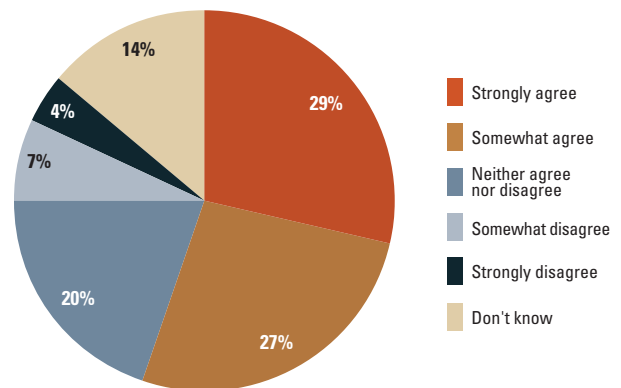
Support for the bankruptcy decision does not appear to be divided along partisan lines: both 58% of self-identified Republican and 59% of Independent local officials agree that bankruptcy was the right thing for Detroit to do, and 55% of Democratic officials say the same. Meanwhile, the decision to file for bankruptcy in Detroit has even higher support among leaders from Michigan’s larger jurisdictions, with officials from the largest jurisdictions (82%) more likely to agree that it was the right thing to do, compared with only 45% of officials from the smallest jurisdictions.

Figure 4
Percentage of local leaders who agree or disagree with various statements about Detroit’s bankruptcy filing and fiscal health



Note: responses for “neither agree nor disagree” and “don’t know” not shown; also, Figure 4 labels are not exact question wording but are presented for ease of comparative analysis; see CLOSUP website for exact question wording: <http://closup.umich.edu/michigan-public-policy-survey/mpps-2013-fall.php>.

Figure 5
Percentage of local leaders who agree or disagree that Detroit’s bankruptcy filing was the right thing to do





Majority of local leaders reject idea of new federal or state financial assistance

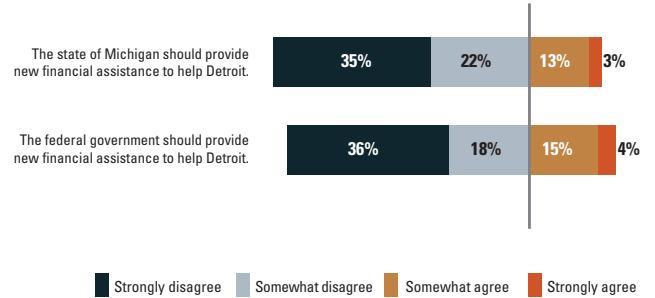
The MPPS survey was completed before it was announced that philanthropic foundations were working to raise funds to help underwrite Detroit’s pensions and to help protect the collection of the Detroit Institute of Arts, potentially with matching support from the state of Michigan. Before this news became public, the MPPS asked Michigan’s local leaders whether or not Detroit should receive new financial help from the state or federal government as it makes its way through bankruptcy. The survey found few Michigan local officials support such assistance from either the state or federal government.

Overall, only 16% of local officials agree that the state of Michigan should provide new financial assistance to Detroit to help it through bankruptcy, while a majority (57%) think new state assistance should not be provided (see *Figure 6a*). Similarly, only 19% think the federal government should provide Detroit with new financial assistance, while a majority of local officials (54%) reject the idea of new federal government financial assistance for the city.

Although there are only minor differences by region or jurisdiction size when it comes to these local leaders’ views about state or federal financial assistance to Detroit, there are some differences on this issue among local officials when broken down by partisan identification. While two-thirds (67%) of self-identified Republican local officials and over half (57%) of Independent local officials say the state of Michigan should not provide new financial assistance to Detroit, only one third (33%) of Democratic local officials feel this way (see *Figure 6b*). Conversely, 36% of Democratic officials believe the state government should provide Detroit with additional financial assistance, while only 9% of Republican officials and 13% of Independent officials agree.

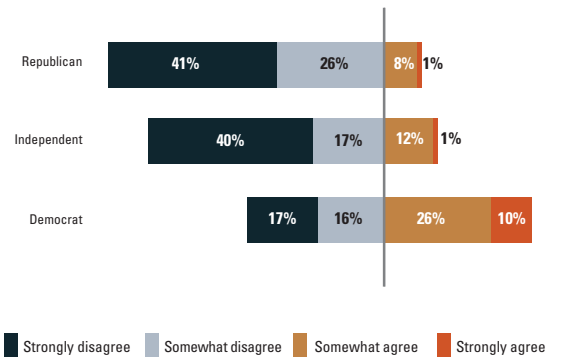
The MPPS finds similar percentages and breakdowns apply to the question of any potential new federal government assistance for Detroit.

Figure 6a
Percentage of local leaders overall who agree or disagree that Detroit should be given new financial assistance by state or federal government



Note: responses for “neither agree nor disagree” and “don’t know” not shown

Figure 6b
Percentage of local leaders who agree or disagree that Detroit should be given new financial assistance by Michigan’s state government, by partisan identification



Note: responses for “neither agree nor disagree” and “don’t know” not shown

To fix a jurisdiction’s bankrupt finances, local leaders generally support cutting services and employee pay, selling some assets, but not cutting pensions of current retirees

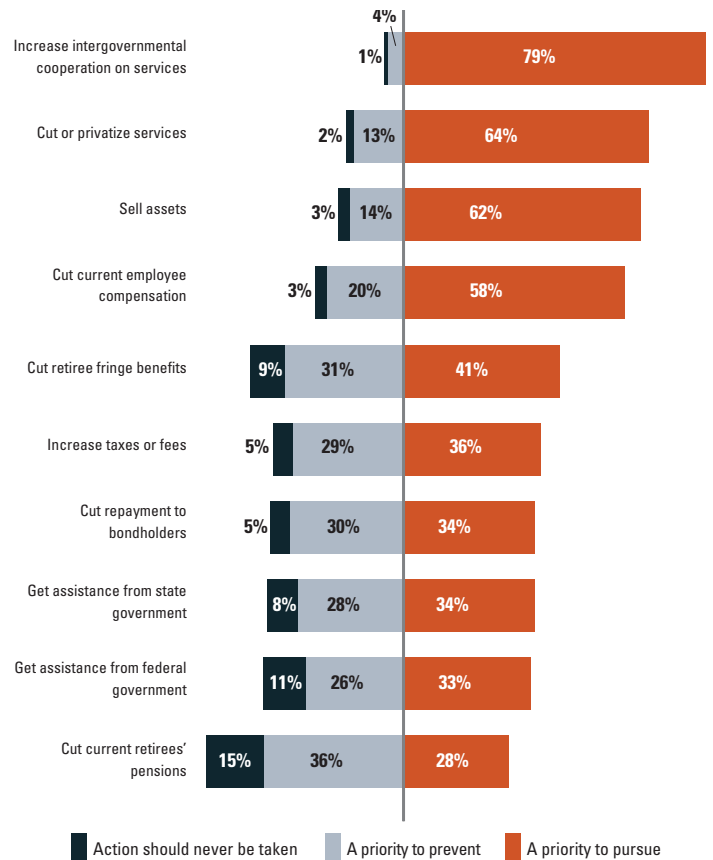
So what advice would Michigan’s local leaders offer when it comes to the difficult decisions and trade-offs inherent in bankruptcy proceedings? The MPPS asked local leaders to look beyond the specifics of the Detroit case and to think about local government bankruptcy in a more general sense, to identify which types of actions should be pursued and which types should be prevented when trying to fix a local government’s broken finances through the bankruptcy process.

As shown in *Figure 7*, the overwhelming majority of local officials (79%) believe that a bankrupt jurisdiction should first attempt to increase intergovernmental cooperation and collaboration with neighboring jurisdictions in order to help cut service delivery costs. Large majorities also favor strategies of cutting or privatizing services to cut costs (64%), selling some of the jurisdictions’ assets in order to raise revenue (62%), and cutting compensation—i.e., pay and/or fringe benefits—for current employees (58%) in order to cut costs.

Local leaders are more evenly divided in their support and opposition to a range of other possible actions. There is a nearly equal split in the percentage who say it is a priority to pursue or to prevent cutting fringe benefits (such as health care) for current retirees, increasing revenue through taxes or fees, and forcing cuts in repayments to the jurisdiction’s bondholders. In addition, 36% say local jurisdictions in bankruptcy should not seek new financial help from the state, while 34% say such help should be pursued. This is more than twice as many (16%) who believe the state of Michigan should provide new financial help to Detroit (as shown in *Figure 6a*).

Out of the list of ten possible strategies presented to local leaders, the only one with majority opposition (51%) is the strategy of cutting pensions of current retirees. In fact, 15% of Michigan’s local leaders say this strategy should never be taken under any circumstances.

Figure 7
Percentage of local leaders who believe various actions should be pursued or prevented in general circumstances of municipal bankruptcy



Note: responses for “neither pursue nor prevent” and “don’t know” not shown



Conclusion

As Detroit works its way through the largest municipal bankruptcy case in US history, the MPPS finds that local government leaders from all over the state of Michigan are paying close attention to the proceedings, including 87% of leaders from Michigan's largest communities. In all, the state's local leaders believe Detroit's fiscal health impacts the state's overall fiscal health, and they predict a number of negative outcomes from the bankruptcy process, including higher borrowing costs for other local jurisdictions and an increased likelihood of more bankruptcy filings by other struggling cities.

But despite these and other concerns, Michigan's local leaders think filing for bankruptcy was the right thing for Detroit to do, and while they don't think bankruptcy itself will improve Detroit's self-governance capabilities, they do think it will help "right the ship" in terms of the city's services and finances.

To address the broken finances of a bankrupt city in general, Michigan's local leaders say they would pursue budget cuts through greater service sharing with neighboring jurisdictions, service cuts or privatization, and cuts to current employee compensation. They would also look to raise revenue by selling some of the jurisdiction's assets. However, 51% of local leaders say that they would prevent cuts to pensions for current retirees, the only strategy of ten options presented that had majority opposition.

Notes

1. Center for Local, State, and Urban Policy. (2013, September). Michigan local government fiscal health continues gradual improvement, but smallest jurisdictions lagging. 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/files/mpps-fiscal-health-2013.pdf>

Survey Background and Methodology

The MPPS is a biannual census survey of Michigan's 1,856 units of general purpose local government (83 counties, 277 cities, 256 villages, and 1,240 townships), 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 Fall 2013 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, managers and clerks, and township supervisors, managers and clerks).

The Fall 2013 wave was conducted from October 7 to December 17, 2013. A total of 1,353 jurisdictions in the Fall 2013 wave returned valid surveys, resulting in a 73% response rate by unit. The margin of error for the survey as a whole is +/- 1.4%. 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. Data are weighted to account for non-response. Contact CLOSUP staff for more information.

Detailed tables of the data analyzed in this report—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.

Previous MPPS reports

- Michigan local governments increasingly pursue placemaking for economic development (January 2014)
- Views on right-to-work legislation among Michigan's local government leaders (December 2013)
- Michigan local governments continue seeking, and receiving, union concessions (October 2013)
- Michigan local government fiscal health continues gradual improvement, but smallest jurisdictions lagging (September 2013)
- Local leaders evaluate state policymaker performance and whether Michigan is on the right track (August 2013)
- Trust in government among Michigan's local leaders and citizens (July 2013)
- Citizen engagement in the view of Michigan's local government leaders (May 2013)
- Beyond trust in government: government trust in citizens? (March 2013)
- Local leaders support reforming Michigan's system of funding local government (January 2013)
- Local leaders support eliminating Michigan's Personal Property Tax if funds are replaced, but distrust state follow-through (November 2012)
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- Michigan's local leaders are divided over the state's emergency manager law (September 2012)
- Fiscal stress continues for hundreds of Michigan jurisdictions, but conditions trend in positive direction overall (September 2012)
- Michigan's local leaders more positive about Governor Snyder's performance, more optimistic about the state's direction (July 2012)
- Data-driven decision-making in Michigan local government (June 2012)
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- Local officials react to state policy innovation tying revenue sharing to dashboards and incentive funding (January 2012)
- MPPS finds fiscal health continues to decline across the state, though some negative trends eased in 2011 (October 2011)
- Public sector unions in Michigan: their presence and impact according to local government leaders (August 2011)
- Despite increased approval of state government performance, Michigan's local leaders are concerned about the state's direction (August 2011)
- Local government and environmental leadership: views of Michigan's local leaders (July 2011)
- Local leaders are mostly positive about intergovernmental cooperation and look to expand efforts (March 2011)
- Local government leaders say most employees are not overpaid, though some benefits may be too generous (February 2011)
- Local government leaders say economic gardening can help grow their economies (November 2010)
- Local governments struggle to cope with fiscal, service, and staffing pressures (August 2010)
- Michigan local governments actively promote U.S. Census participation (August 2010)
- Fiscal stimulus package mostly ineffective for local economies (May 2010)
- Fall 2009 key findings report: educational, economic, and workforce development issues at the local level (April 2010)
- Local government officials give low marks to the performance of state officials and report low trust in Lansing (March 2010)
- Local government fiscal and economic development issues (October 2009)

All MPPS reports are available online at: <http://closup.umich.edu/mpps.php>



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