The Center for Local, State, and Urban Policy

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

Michigan Public Policy Survey October 2014

Michigan local governments finally pass fiscal health tipping point overall, but one in four still report decline

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This report presents Michigan local government leaders' assessments of their jurisdictions' fiscal conditions and the actions they are taking in response to ongoing and widespread fiscal challenges. The findings are based on responses from six statewide survey waves of the Michigan Public Policy Survey (MPPS) conducted annually each spring from 2009 through 2014.

>> 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 2014 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 1,344 jurisdictions across the state.

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Key Findings

- For the first time in the MPPS series, more Michigan jurisdictions report that they are better able to meet their fiscal needs this year (36%) than report they are less able to do so (24%). However, an additional 40% overall report no change in their fiscal health status over the past year.
  - A trend of slow overall improvement is now in its fourth straight year, and the numbers are now up significantly from the low point in 2010, when just 9% of local governments were better able and 61% were less able to meet their needs.
  - Improving fiscal health is reported by jurisdictions of almost every size, though mid-size jurisdictions (with 10,001 to 30,000 residents) are somewhat less likely to report improvements this year (42%) compared to last year (48%).
  - Despite continued overall improvements in local government fiscal health, hundreds of Michigan jurisdictions across the state—one in four (24%)—continue to experience declining health, and face a wide range of revenue and expenditure challenges.
- Many jurisdictions report improvements in the past year on two critical sources of revenue: state aid and property taxes.
  - Larger jurisdictions are more likely than smaller ones to report improvements in these revenues. However, a deeper drill into the data reveals that Michigan's largest cities are more likely to report increases in state aid than are the largest counties and townships, but are significantly less likely to report increases in property tax revenues.
- Demands for public services (i.e., infrastructure, human services, and public safety) continue to increase, with over half (54%) of all jurisdictions across the state, and 82% of the largest jurisdictions, saying they have increased infrastructure needs this year.
- As fiscal stress continues to ease overall, more local governments report stabilization in their staffing levels and plans to increase pay, while fewer are planning to cut overall services or increase their reliance on general fund balances to plug budget gaps. The exceptions are the state's largest cities, which lag behind large counties and townships on these metrics.
- Looking to the future, more than three times as many officials predict that their communities will have good times financially in the coming year (40%) than predict bad times (12%). In addition, across jurisdictions of all sizes and types, there is now a "net" positive outlook on fiscal health for next year, with 35% feeling they will be better able to meet their needs a year from now while 22% feel they will be less able to do so.

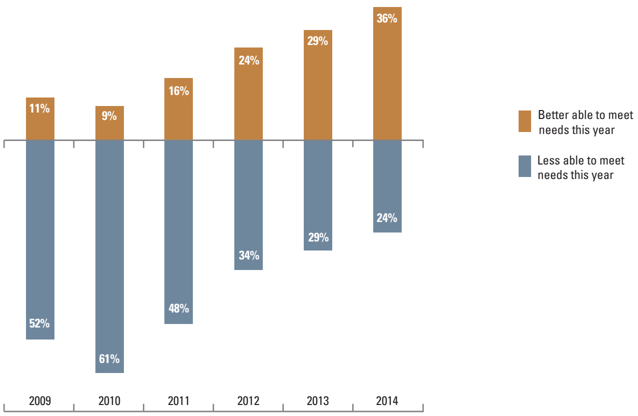
For the first time in the six-year MPPS series, more jurisdictions are doing better financially than are doing worse compared to the previous year

The Michigan Public Policy Survey (MPPS) has now gathered six years of data on the fiscal health of Michigan's local governments, covering a period of sharp economic decline in 2009 and 2010, followed by a new trend of gradual improvement that first emerged in 2011. The 2014 survey finds that trend of slow improvement continues now for a fourth straight year. However, despite this sustained improvement reported by many jurisdictions, the 2014 MPPS once again finds that fiscal health continues to decline for hundreds of other jurisdictions across the state.

The MPPS's summary question regarding changes in fiscal health asks local leaders whether their jurisdictions are *better able* or *less able* to meet their financial needs now compared to the previous year. For the first time since the MPPS program began, the 2014 survey finds local governments overall have passed a tipping point, with a higher percentage of jurisdictions reporting that they are now better able to meet their fiscal needs (36%) than reporting that they are less able to do so (24%) compared to last year. Another 40% report no significant change from last year. At the low point in 2010, 61% of local jurisdictions reported declining fiscal health compared to the previous year. The trend of improvement that began in 2011 and continues into 2014 is illustrated in *Figure 1a*.

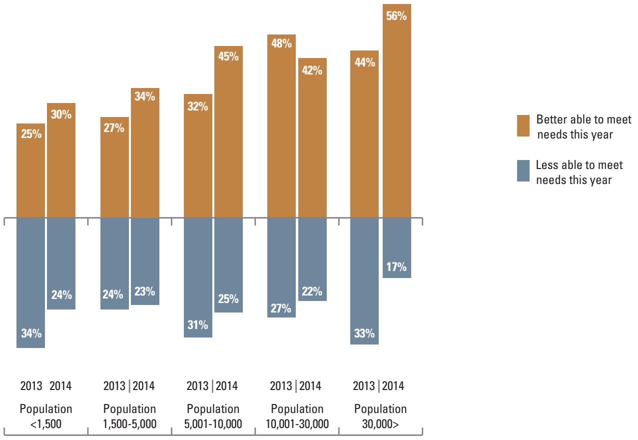
Still, the 24% of jurisdictions reporting they are in fiscal decline in 2014 represents approximately 443 local governments across Michigan. Approximately one in five (19%) of these jurisdictions have reported fiscal decline in at least four of the last six years. Such a sustained period of decline is particularly concerning, and may raise serious challenges from "compounding" decline. For jurisdictions that may already have cut staff, services, and costs, further options to manage fiscal decline may become increasingly difficult to find or implement.

Figure 1a
Percentage of jurisdictions overall reporting they are better or less able to meet their fiscal needs in current year compared to previous year, 2009-2014



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

Figure 1b
Percentage of jurisdictions reporting they are better or less able to meet their fiscal needs in current year compared to previous year, 2013-2014, by population size



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

The latest findings show fiscal health improving in jurisdictions of almost every size. Among the smallest jurisdictions (those with fewer than 1,500 residents), 30% report an increase in their ability to meet fiscal needs in 2014, up from 25% who responded this way in 2013 (see *Figure 1b*). The state's largest jurisdictions (those with populations over 30,000) have seen an even larger increase in the percentage saying they are better able to meet their fiscal needs this year, and for the first time since the MPPS began tracking this issue, over half (56%) report improving fiscal health. Meanwhile, just 17% of the state's largest jurisdictions say they are less able to meet their needs this year.

The only grouping that did not see gains in the percentage reporting improved fiscal health are mid-size jurisdictions with populations between 10,001 and 30,000. While almost half (48%) in 2013 said they were better able to meet their fiscal needs, fewer (42%) report such improvement in 2014. Still, the percentage reporting they are less able to meet their needs also declined (from 27% in 2013 to 22% in 2014), while the percentage reporting no change increased from 25% in 2013 to 36% in 2014 (not shown in *Figure 1b*).

Figure 1c presents a combined summary of these changes over the last six years. It shows "net" fiscal health in each population-size category: the percentage of jurisdictions that were better able to meet their needs *minus* the percentage that were less able. Any bar below the zero-axis shows that more jurisdictions in that category reported declining fiscal health than reported improving health in that year. Conversely, any bar above the zero-axis shows that more jurisdictions in that category reported improving fiscal health than reported declining health. Thus, as seen in *Figure 1b* above, 56% of the largest jurisdictions in 2014 report improving health while 17% report declining health, resulting in a "net" positive of 39%, which is then displayed as the final bar in *Figure 1c*.

Figure 1c provides a great deal of information. For instance, the deeper negative bars in 2010 compared to 2009 show the surge of fiscal stress during that time for jurisdictions of all sizes. Since 2011, things have generally been getting better for all types of jurisdictions, overall, but they've been getting better at different rates for jurisdictions of different sizes.

2014 represents the first year since tracking started in which Michigan jurisdictions of all sizes report positive net fiscal health (more jurisdictions report being "better able" than being "less able" to meet their needs). In 2013, the state's smallest jurisdictions continued to have a net negative status. However, in 2014, they finally broke above the zero axis with a net positive of 6%. Yet, continuing a trend from the previous year, local officials from the state's larger jurisdictions are even more likely to report that their fiscal health has improved this year.

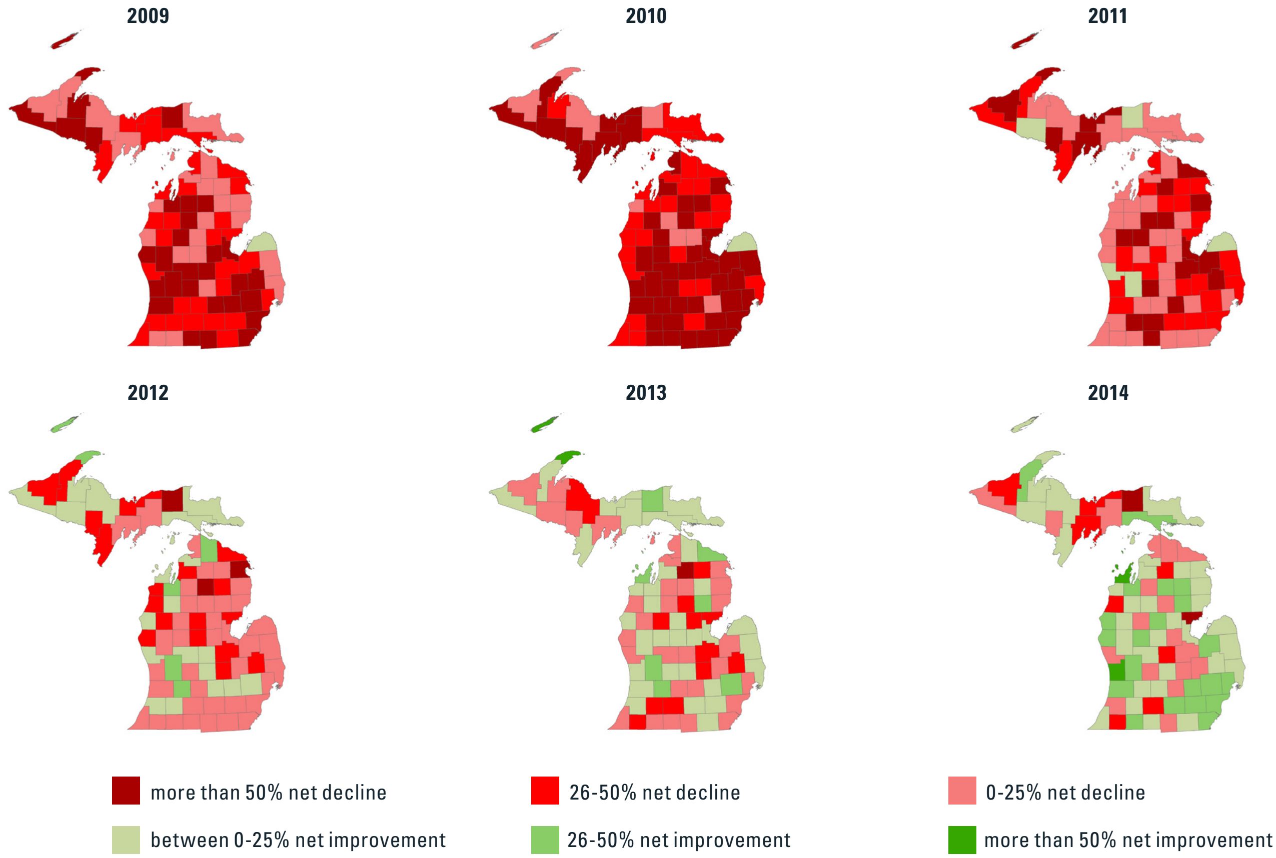
Figure 1c
Net fiscal health yearly change: percentage of jurisdictions reporting improving fiscal health minus percentage reporting declining health, 2009-2014, by population size

Figure 1d displays the same "net fiscal health" for jurisdictions across Michigan aggregated at the county level. The six 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.

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 more than 50%, 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 47% of jurisdictions in a county are improving while 53% are declining, the net calculation is 47%-53%=-6%, which results in a pink-shaded county.

At the low point in 2010, the map is almost uniformly red, showing widespread fiscal decline across the state. By 2014, there is substantially more green sprinkled across Michigan, with many counties now seeing net fiscal improvement for local governments within their borders. However, even in 2014, few counties are dark green (denoting a majority of jurisdictions improving) and many remain in shades of red (denoting more fiscal decline than improvement). For more detailed analysis of the state's jurisdictions that are in continuing decline, please see pp. 12-13 below.

Figure 1d
Net fiscal health yearly change: percentage of jurisdictions reporting improving fiscal health minus percentage reporting declining health, 2009–2014, 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.

Reported increases in state aid finally edge out reported decreases

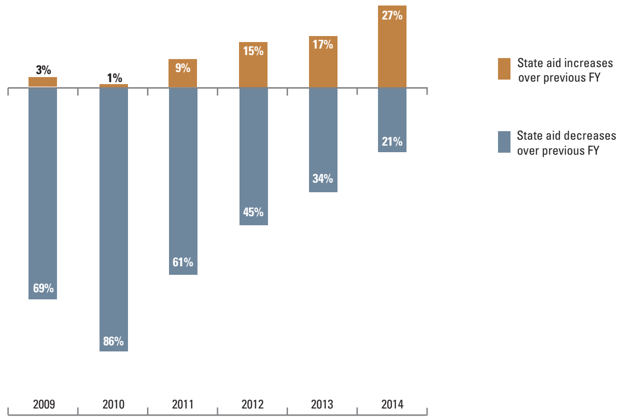
For more than a decade, reductions in state aid have been a key fiscal challenge for Michigan local governments, particularly in terms of decreased state revenue sharing.[1] Reported declines in state aid were at their worst in 2010, when 86% of jurisdictions reported the problem. However, 2014 presents another tipping point, with more jurisdictions (27%) reporting increasing aid from the state government than reporting decreasing aid (21%) (see *Figure 2a*). Another 38% of jurisdictions report no change in their state aid compared with last year.

The most substantial changes in state aid are reported by the state's largest jurisdictions. In 2013, more than half of these governments (58%) reported decreased state aid, while only 12% reported increased aid (see *Figure 2b*). In 2014, only one-quarter (26%) report decreases, while 38% report increased state aid. By comparison, among the state's smallest jurisdictions, more governments in 2014 continue to report decreases (24%) than increases (20%).

Looking even more closely at those jurisdictions with over 30,000 residents, *Figure 2c* displays how officials in the largest cities (52%) are more likely in 2014 to report an increase in state aid compared with officials from the largest counties (35%) and townships (23%). Meanwhile, reports of continued declines in state aid are similar across the various jurisdiction types, from 27% of these counties to 23% of the cities.

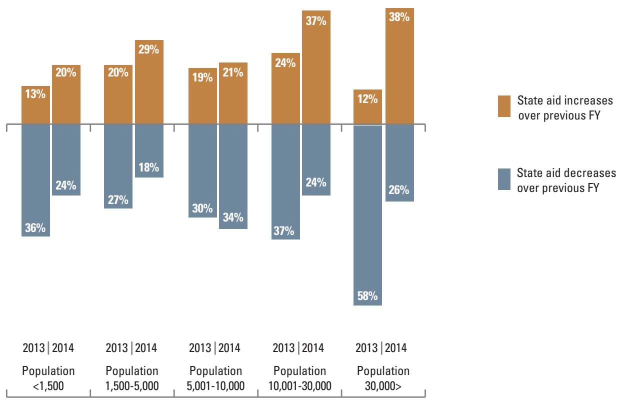
Note: Statewide, there are 48 counties with over 30,000 residents (2014 Spring MPPS response rate: 83%), 25 townships with over 30,000 residents (response rate: 88%), and 37 cities with over 30,000 residents (response rate: 78%). There are no Michigan villages with over 30,000 residents.

Figure 2a
Percentage of jurisdictions overall reporting changes in state aid compared with previous fiscal year, 2009-2014



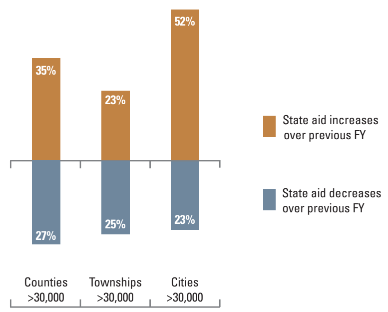
Note: responses for "no change," "not applicable," and "don't know" not shown

Figure 2b
Percentage of jurisdictions reporting changes in state aid compared with previous fiscal year, 2013-2014, by population size



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

Figure 2c
Percentage of jurisdictions reporting changes in state aid compared with previous fiscal year, 2014, among jurisdictions with over 30,000 residents



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

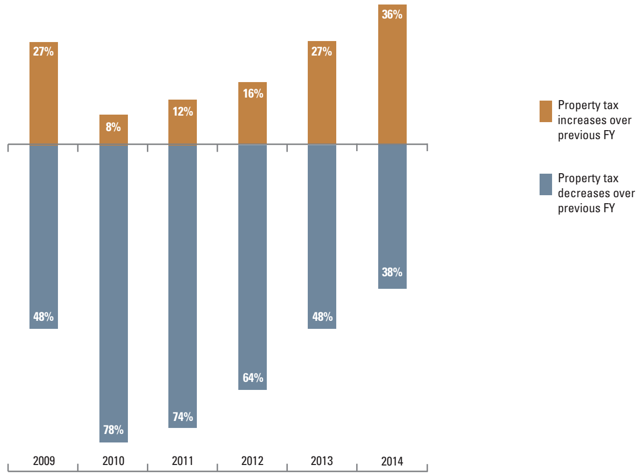
Property tax revenues almost at the tipping point, except in Michigan's largest cities

Although fiscal health overall has been improving since 2011, many jurisdictions continue to face serious fiscal challenges. Among the most difficult of these is the continuing decline in property tax revenues, which are generally the most important source of funding for local governments. Despite gradual overall improvement, property tax revenues remain a concern, with more Michigan jurisdictions continuing to report decreasing (38%) rather than increasing (36%) property tax revenues overall. However, the gap has nearly been erased in 2014 as the tipping point nears (see *Figure 3a*).

While property tax revenue declines continue to be a problem for many jurisdictions, Figure 3a shows that this problem has been less and less common in each of the last four years. Not only do fewer jurisdictions continue to report declines in property tax revenues (from 78% in 2010 down to 38% in 2014), but a greater percentage of jurisdictions continue to report outright *growth* in tax revenues as well (from 8% of jurisdictions in 2010 to 36% in 2014).

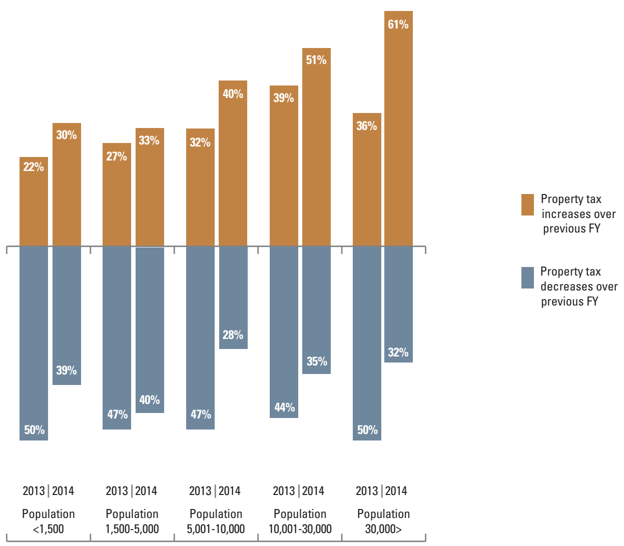
Figure 3b shows that this year, as in 2013, higher rates of improvement in property tax revenues are found among the state's larger jurisdictions than in the smaller ones. The percentage of the smallest jurisdictions reporting year-over-year growth in these revenues in 2014 increased by eight percentage points (from 22% in 2013, to 30% in 2014), while more than a third (39%) continue to report property tax declines. By comparison, there was a 25 percentage point increase among the largest jurisdictions reporting property tax revenue growth (from 36% in 2013, to 61% in 2014), while fewer than a third (32%) report continued declines in property tax revenues compared with last year.

Figure 3a
Percentage of jurisdictions overall reporting changes in property tax revenue compared with previous fiscal year, 2009-2014



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

Figure 3b
Percentage of jurisdictions reporting changes in property tax revenue compared with previous fiscal year, 2013-2014, by population size

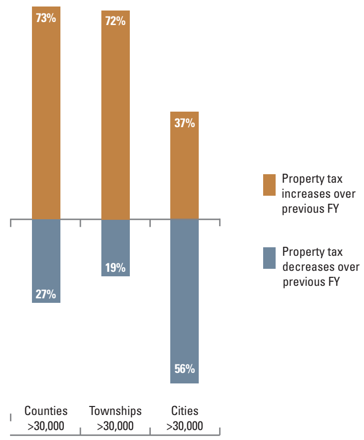


Note: responses for "no change," "not applicable," and "don't know" not shown

However, drilling still deeper into the data reveals important and statistically significant differences among the state's largest jurisdictions, depending on the jurisdiction type. As shown in *Figure 3c*, while 73% of Michigan's largest counties and 72% of the largest townships now report increased property tax revenues, the same is true of only 37% of the state's largest cities. Meanwhile, a majority (56%) of the largest cities continue to report decreased property tax revenues in 2014.

Property tax revenue growth is uniquely constrained in Michigan due to a combination of two constitutional amendments: the Headlee Amendment of 1978 and the 1994 General Property Tax Act ("Proposal A"). The Headlee Amendment requires Michigan local units of government to reduce their millage rate when annual growth on existing property community-wide is greater than the rate of inflation. As a result, the local unit's millage rate is "rolled back" so that the resulting growth in overall property tax revenue is no more than the rate of inflation. Meanwhile, Proposal A revamped the way schools are funded in Michigan, and also limits tax increases by capping increases in taxable value for individual properties by the lesser of the inflation rate or 5%. These "tax caps," along with other constraints, may continue to limit improvements in fiscal health for Michigan local governments for years into the future.[2]

Figure 3c
Percentage of jurisdictions reporting changes in property tax revenue compared with previous fiscal year, 2014, among jurisdictions with over 30,000 residents



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

Foreclosures and tax delinquencies continue to ease

In another sign of improving fiscal health, fewer local officials across the state say they are seeing a rise in home foreclosures in their communities this year (18%) than said so last year (29%). The 18% reporting increased foreclosures in 2014 is less than a third of the 60% who reported increasing foreclosures back in 2010 (see *Figure 4a*).

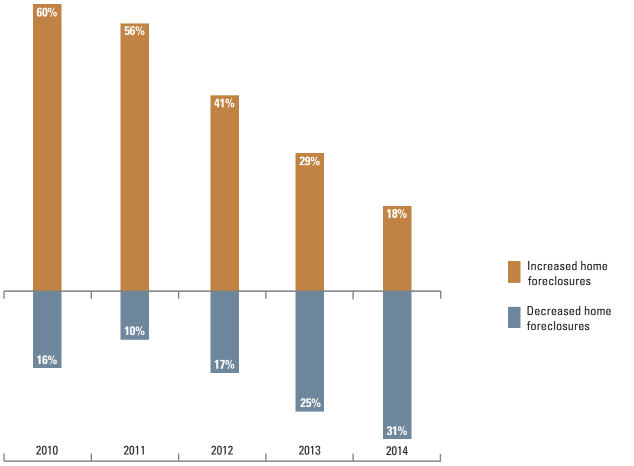
Furthermore, for the first time in the MPPS series, 2014 finds more jurisdictions reporting decreases (31%) in foreclosures than increases (18%). Another 39% say they have seen no change in foreclosures in the past year.

While jurisdictions of all sizes are less likely to report continued increases in foreclosures in 2014, again there are significant differences by jurisdiction size. For example, the state's smallest jurisdictions continue to lag larger jurisdictions, as the only group still reporting more increases (22%) in foreclosures than decreases (17%). The gap between the smallest and largest jurisdictions is particularly wide, with over two in ten (22%) of the smallest jurisdictions reporting continued increases in foreclosures compared to just 6% of the largest jurisdictions (see *Figure 4b*). And while just 17% of the smallest jurisdictions report outright *decreases* in home foreclosures in 2014, about two-thirds (64%) of the largest jurisdictions report fewer foreclosures this year, a significant jump from the 39% that said the same in 2013.

However, as seen above in regard to property taxes, the state's largest cities are not doing as well as similar-sized counties and townships when it comes to experiencing fewer foreclosures. While few of the largest jurisdictions of any type report continued increases in foreclosure rates this year, the largest counties (70%) and townships (77%) are significantly more likely to report their foreclosures have decreased than are the largest cities (46%).

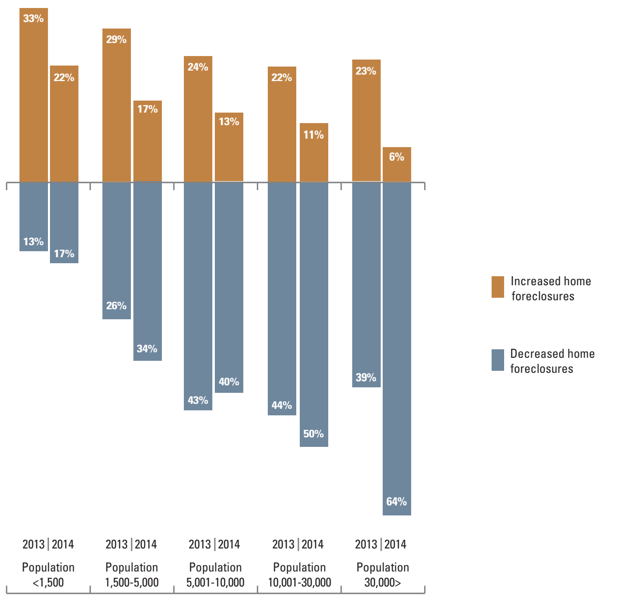
Tax delinquencies can be another serious challenge to local governments' fiscal health. Progress in 2014 continues on this metric, but only gradually. Nearly one quarter of local jurisdictions statewide (23%) still report increasing tax delinquencies, but this is down from 30% in 2013. Meanwhile, only 15% are reporting that their tax delinquencies have decreased in the past year, compared to 13% in 2013. Overall, jurisdictions of 10,000 or more residents are more likely to report that the incidence of tax delinquencies is decreasing (32%) over the previous year's levels, compared with just 12% of jurisdictions with fewer than 5,000 residents.

Figure 4a
Percentage of jurisdictions overall reporting changes in home foreclosures compared with previous fiscal year, 2010-2014



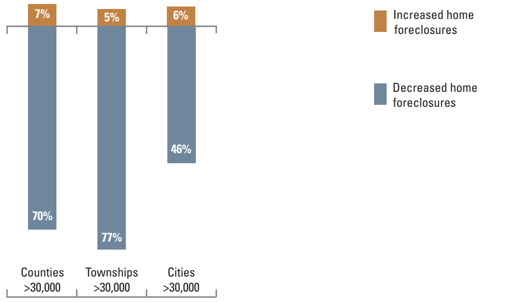
Note: responses for "no change," "not applicable," and "don't know" not shown

Figure 4b
Percentage of jurisdictions reporting changes in home foreclosures compared with previous fiscal year, 2013-2014, by population size



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

Figure 4c
Percentage of jurisdictions reporting changes in home foreclosures compared with previous fiscal year, 2014, among jurisdictions with over 30,000 residents



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

Infrastructure and service demands continue to increase, especially in large jurisdictions

Although, as seen above, most larger jurisdictions are more likely than small jurisdictions to report improvements on many indicators of fiscal health in 2014, they are also more likely to report continuing pressures for spending on a variety of services. While jurisdictions of all sizes continue to report increased service demands, officials from the largest jurisdictions are the most likely to report these spending pressures, as seen in *Figures 5-7* below.

Across the state there is little easing evident among local governments when it comes to the need for infrastructure spending. Over half (54%) of all jurisdictions across the state say their infrastructure needs have increased this year, up from 50% that said their needs increased in 2013, and from 45% who said the same in 2012. Michigan's largest jurisdictions—regardless of jurisdiction type—report the greatest increase in infrastructure demands this year, including 82% of these local governments, up from 71% in 2013 (see *Figure 5*). Only 2% of all jurisdictions statewide say they've experienced an actual decrease in their infrastructure needs in the past year.

Overall, one in three (30%) jurisdictions report a year-over-year increase in human service needs in 2014, while 1% report an actual decrease, and 58% report no significant change from the previous year. The largest relative growth in human service needs this year is among jurisdictions with 10,001-30,000 residents, with almost half (49%) reporting increased needs this year, up from 37% last year (see *Figure 6*). And while 57% of the largest jurisdictions report increased human service demands this year, this is down from 68% in 2013.

In addition, 28% of Michigan jurisdictions overall report continued increases in public safety needs in 2014. As seen in *Figure 7*, jurisdictions with between 5,001 and 30,000 residents report the greatest increases in public safety needs this year overall, while fewer of the state's largest jurisdictions report increases in such needs today (53% in 2014 vs. 62% in 2013). Meanwhile, only 2% of jurisdictions statewide say that they've seen an actual decrease in the need to spend on public safety services.

And for the first time, the 2014 MPPS asked local leaders about the need to spend on general government operations, a category not previously covered on the survey. These expenses are required to run the government organization itself, and might include activities such as administrative and clerical services, support for boards and councils, policymaking operations, and more. In 2014, just over one-third (34%) of local governments report experiencing increased general government operations needs compared to the previous year. As might be expected, increasing government operations demands are more commonly reported by larger jurisdictions than small ones, including nearly half (47%) of the state's largest jurisdictions and 49% of jurisdictions with between 10,001 and 30,000 residents.

Figure 5
Percentage of jurisdictions reporting increases in infrastructure needs compared with previous fiscal year, 2013-2014, by population size

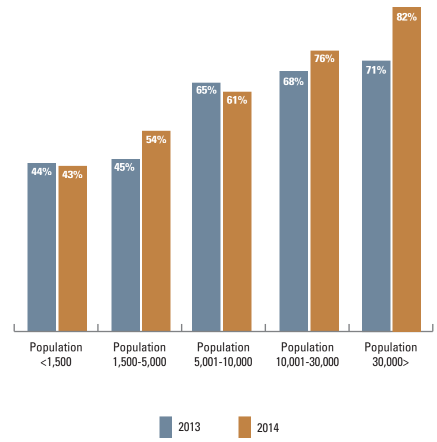


Figure 6
Percentage of jurisdictions reporting increases in human service needs compared with previous fiscal year, 2013-2014, by population size

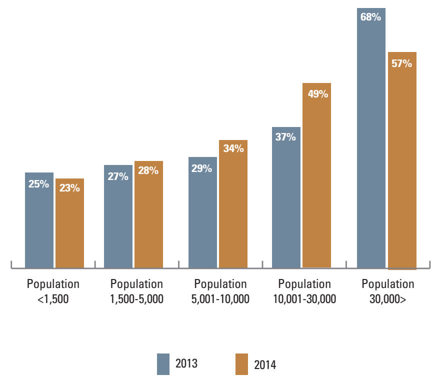
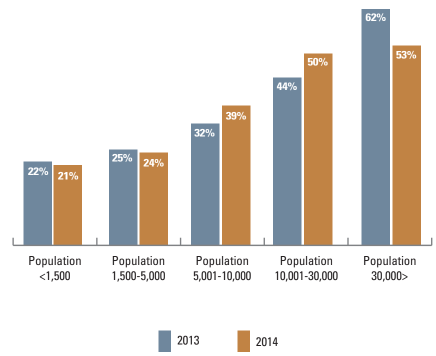


Figure 7
Percentage of jurisdictions reporting increases in public safety needs compared with previous fiscal year, 2013-2014, by population size



Local jurisdictions continue to report increased health care and pension costs

Concerns about local government fiscal challenges often focus on health care benefit costs, pensions, and other legacy costs. Only 45% of Michigan's jurisdictions statewide report on the MPPS that they offer fringe benefits to their current employees (with smaller governments being least likely either to have any employees or to offer benefits to employees they do have). But for those jurisdictions that provide benefits, many continue to report ongoing increases in employee and retiree benefit costs.

Among jurisdictions that report offering some kind of fringe benefits to employees, six in ten (60%) report that health care costs for current employees increased this year (up from 57% of such jurisdictions last year). Only 8% say their costs have decreased in 2014 (down from 14% that said the same last year). While jurisdictions with fewer than 1,500 residents are less likely to report increases in 2014 than in 2013, 41% report health care costs are continuing to rise (see *Figure 8*). All larger jurisdiction groups report greater increases in their health care costs for current employees, including 77% of jurisdictions with over 10,000 residents.

Among jurisdictions that offer pension benefits, the number that report increasing pension costs is lower than those reporting rising health care costs. Overall, 35% of these jurisdictions report increases in their pension costs this year, over and above the increases they experienced in 2013. This includes nearly 62% of the largest jurisdictions (see *Figure 9*).

Figure 8
Percentage of jurisdictions reporting increases in health care costs for current employees, 2013-2014, by population size, among those that provide health care benefits

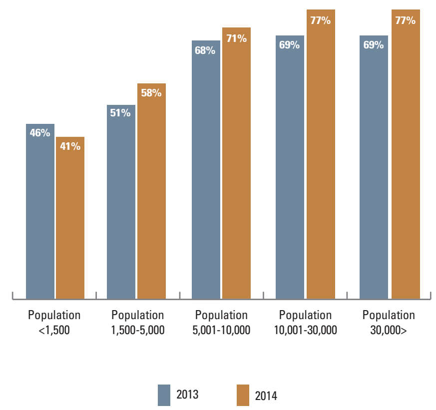
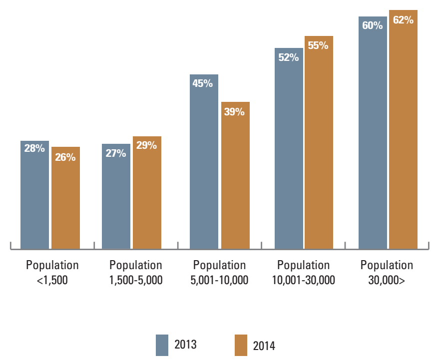


Figure 9
Percentage of jurisdictions reporting increases in pension costs, 2013-2014, by population size, among those that provide retirement benefits



General fund balances and cash flow not concerns for most jurisdictions

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 the peak of the Recession's effects on Michigan local governments in 2010, 49% of jurisdictions reported increasing their reliance on their unreserved general fund balances. And even as overall local government fiscal stress has gradually eased statewide, in 2014, 2% of jurisdictions report having no general fund balances available at the end of their last fiscal year.

As an 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. In 2014, most local officials (61%) overall say their current fund balances are at about the right levels, even after significant reliance on these funds by many jurisdictions since 2009. By contrast, approximately one-quarter (24%) of officials statewide consider their jurisdiction's general fund balances to be too low. Other than in the smallest jurisdictions, these opinions have held relatively steady over the past year. For example, 34% of officials from the largest jurisdictions say their fund balances are too low in 2014, compared to 35% who said the same in 2013 (see *Figure 10)*. However, among the state's smallest jurisdictions there has been a noticeable change, with the percentage of officials reporting their general fund balance as too low decreasing from 30% in 2013 to 22% in 2014.

Meanwhile, cash flow can provide another indicator of local government fiscal health. Overall, only 7% of jurisdictions statewide report that cash flow is either somewhat of a problem or a significant problem, while 70% say it's not a problem at all, levels about equal to the responses in 2013. One area of concern is in jurisdictions with 10,001-30,000 residents, among which the percentage saying cash flow is somewhat of a problem or a significant problem increased from 6% in 2013 to 11% in 2014 (see *Figure 11*). But on the other end of spectrum, the percentage of officials who say cash flow is not a problem at all increased among many jurisdiction groups. For example, in jurisdictions with 10,001-30,000 residents, the percentage saying cash flow is not a problem at all grew from 71% in 2013 to 74% in 2014. And in the largest jurisdictions, the percentage of leaders expressing no cash flow concerns grew by 15 percentage points, from 54% in 2013 to 69% in 2014.

Figure 10
Percentage of officials saying their general fund balance is too low, 2013-2014, by population size

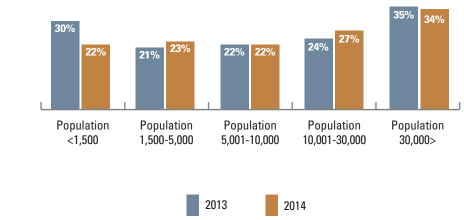
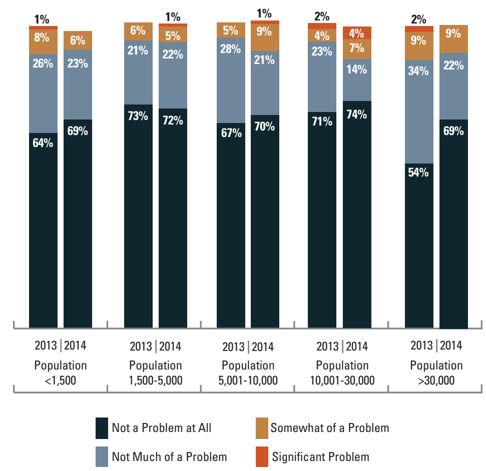


Figure 11
Officials' assessments of cash flow, 2013-2014, by population size



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

Despite improvements for many, those in decline face widespread challenges

The relatively good news about improving fiscal health in many jurisdictions across the state is tempered by reports from those 24% of officials whose governments are less able to meet their needs today, compared to last year.

These jurisdictions in fiscal decline today are found in all corners of the state, among all jurisdiction types, and within all population categories, though there are some differences within these groups. By jurisdiction type, cities (35%) are more likely than villages (28%), counties (26%) and townships (20%) to report suffering fiscal decline in 2014. By region, jurisdictions in decline account for 30% all jurisdictions in the Upper Peninsula, 28% in the East Central Lower Peninsula, 26% in Southwest Michigan, 20% in both the West Central Lower Peninsula and Southeast Michigan, and 18% in the Northern Lower Peninsula.

The estimated 443 jurisdictions in fiscal decline report a wide range of challenges compared to those that are experiencing improving fiscal health, as shown in *Table 1*. On the revenue side, perhaps most importantly, they are much more likely to say that property tax revenue decreased in the last year (63% of jurisdictions in decline say this, compared to just 25% of those with improving health), and much less likely to say it increased (17% vs. 55%). They are also much more likely to say state aid decreased (38% vs. 14%) and that federal aid also decreased (27% vs. 10%). At the same time, they are more likely to say that tax delinquencies increased (36% vs. 14%).

In terms of cost pressures, service demands, and other challenges, jurisdictions in fiscal decline today are more likely to say the cost of their employee health care increased (69% vs. 57%), as did the cost of their retiree health care (51% vs. 39%). They are also more likely to say their infrastructure needs increased (69%) compared to jurisdictions with improving health (54%) and that human service needs have increased (44% vs. 29%). In jurisdictions with declining fiscal health, home foreclosures increased (27% vs 11%), their needs for general government operations increased (52% vs. 32%), while at the same time the population of their jurisdiction decreased (28% vs. 13%).

Finally, although these jurisdictions in decline are more likely to say their general fund balances are now too low (42% vs. 19%), relatively few of them report that cash flow is somewhat of a problem or a significant problem (17% vs. 5% for jurisdictions with improving health).

Clearly, fiscal health for local governments is a complex thing, and can be impacted by a wide range of factors.

Table 1
Percentage of jurisdictions reporting challenges with revenue and expenditures, by ability to meet fiscal needs this year

	Among jurisdictions less able to meet needs		Among jurisdictions better able to meet needs	
	Decreased	Increased	Decreased	Increased
Revenue from property tax	63%	17%	25%	55%
Revenue from fees for services, licenses, transfers, etc.	31%	10%	11%	27%
Amount of debt	17%	21%	27%	11%
Amount of federal aid to jurisdiction	27%	5%	10%	7%
Amount of state aid to jurisdiction	38%	24%	14%	34%
Number of tax delinquencies	15%	36%	21%	14%
Home foreclosures in jurisdiction	24%	27%	39%	11%
Population in jurisdiciton	28%	15%	13%	29%
Public safety needs	2%	37%	2$	29%
Infrastructure needs	4%	69%	1%	54%
Human service needs	2%	44%	0%	29%
General government operations needs	2%	52%	1%	32%
Number of employees	15%	4%	8%	12%
Pay rates for employee wages and salaries	4%	44%	4%	58%
Cost of government employee pensions	2%	36%	4%	38%
Cost of current government employee health benefits	5%	69%	10%	57%
Cost of retired government employee health benefits	3%	51%	7%	39%
	Too low	About right	Too low	About right
Jurisdiction’s General Fund balance	42%	44%	19%	69%
	Somewhat/ significant problem	Not much/ not a problem	Somewhat/ significant problem	Not much/ not a problem
Jurisdiction’s cash flow	17%	81%	5%	95%

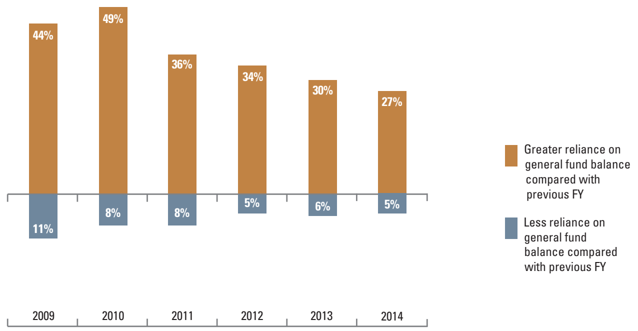
Plans for the coming year: reliance on general fund balance continues for many jurisdictions

Now turning to the future, more than a quarter (27%) of Michigan local jurisdictions overall report plans to once again increase their reliance on their general fund balances in the year ahead. However, this is down from previous years, particularly from the high point of 49% of jurisdictions that responded this way in 2010 (see *Figure 12a*).

Figure 12b illustrates that the smallest and the largest communities overall in Michigan are less likely to be planning a greater reliance on their general fund balances in the coming year—compared to their plans in 2013—while most other jurisdictions are holding steady. In fact, only 20% of the state's largest jurisdictions say they plan to rely more on their general fund balances this year, while 17% say they will be relying less on general fund balances in the same timeframe.

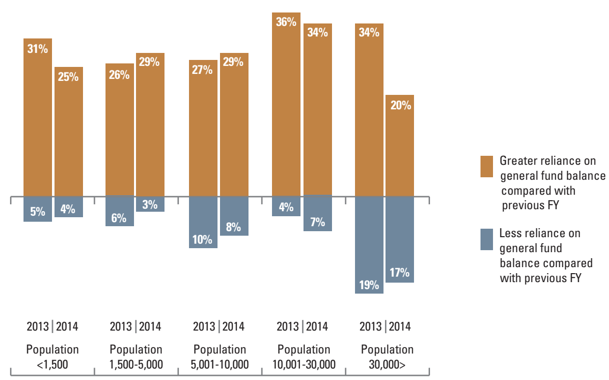
However, when again diving deeper into the data, differences are found between large jurisdiction types. Among Michigan's largest counties, 20% say they will decrease their reliance on general fund balances this year, while only 5% expect to increase this reliance (see Figure 12c). By comparison, among Michigan's largest townships, 24% expect to increase reliance on general fund balances, and 39% of the state's largest cities say their reliance will likewise increase.

Figure 12a
Percentage of jurisdictions reporting planned changes to reliance on general fund balance in the coming year, 2009-2014



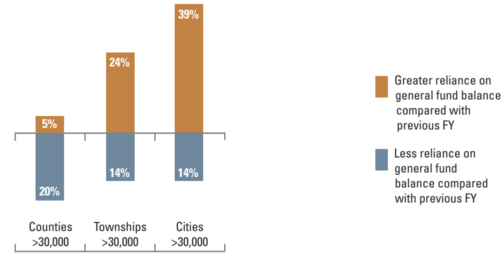
Note: responses for "no change," "not applicable," and "don't know" not shown; the questionnaire wording for this item changed slightly starting in 2010

Figure 12b
Percentage of jurisdictions reporting planned changes to reliance on general fund balance in the coming year, 2013-2014, by population size



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

Figure 12c
Percentage of jurisdictions reporting planned changes to reliance on general fund balance in the coming year, 2014, among jurisdictions with over 30,000 residents



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

Plans for the coming year: fewer staff reductions, more pay increases

For many jurisdictions, personnel costs can be one of the largest budget expenses. Many local governments have cut these expenses over recent years through a variety of methods, from cutting staff levels, to reducing pay and benefits for new hires, to shifting health care and retirement costs to be paid increasingly by employees, and more.

However, over the last year, only 10% of all Michigan jurisdictions (among those that have employees) say they decreased the number of their employees, which is down from 16% that reported reduced staffing levels in 2013 (this includes 28% of Michigan's largest jurisdictions in 2014, down from 48% among this group in 2013).

Looking ahead, few officials predict they are planning further reductions in staffing levels (keeping in mind that the smallest jurisdictions often have few or no employees to begin with). Overall, only 3% of local governments plan to decrease hiring, while 7% plan to increase the practice of leaving vacant positions unfilled in the coming year. Meanwhile, a bare 1% of local governments in 2014 say they plan increased layoffs. This continues a consistent trend over time, particularly among the state's largest jurisdictions (see *Figure 13*). Most jurisdictions (among those that have employees) say they plan to hold steady on their workforce levels in the coming year, with 87% overall planning no change in hiring, and 96% planning no change in layoffs.

Meanwhile, many local governments continue to shift their fringe benefit costs to be paid increasingly by their employees, particularly targeting their current employees' contributions to health care costs. Among all jurisdictions that offer some kind of fringe benefits to their employees, 43% plan to have those employees cover more of their own health care costs in the coming year (down slightly from 46% last year). This includes 62% of the state's largest jurisdictions and 66% of those with 10,001-30,000 residents (see *Figure 14*). Some jurisdictions are also planning to increase their employees' share of retirement contributions (18% overall), as well as asking retired employees to take on more of their own health care costs (31% overall).

On the other hand, in all but the smallest jurisdictions, half or more of officials report their jurisdictions are planning to increase employee pay rates in the coming year. Among jurisdictions with over 10,000 residents, two-thirds (66%) report plans to increase employee pay this year, while only 2% say they plan to decrease it (see *Figure 15)*. This is up substantially from reports in 2013 among these jurisdictions.

Figure 13
Percentage of jurisdictions reporting planned increases in layoffs in the coming year, 2011-2014, by population size

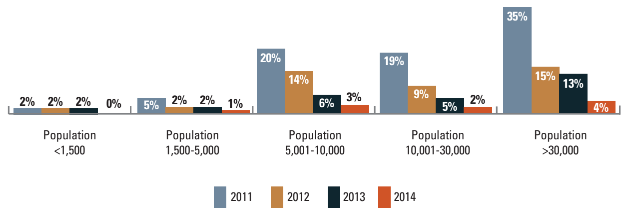


Figure 14
Percentage of jurisdictions reporting planned increases in current employees' share of contributions to health insurance in the coming year, 2011-2014, by population size, among those that provide fringe benefits

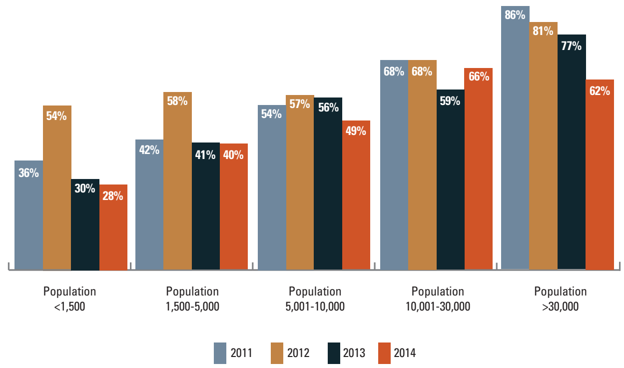
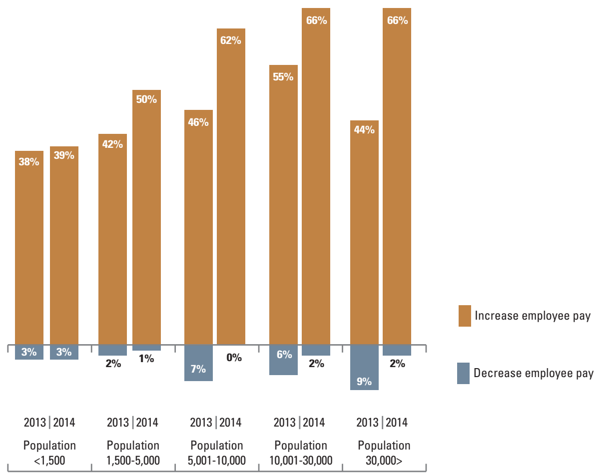


Figure 15
Percentage of jurisdictions reporting planned changes to employee pay in the coming year, 2013-2014, among those that have employees



Plans for the coming year: levels of overall service provision likely to hold steady or even rise, except in cities

Cutting the amount of services provided has been a fairly common practice among local governments in the past few years to help close budget gaps. At the peak of such cuts in 2010, 29% of all jurisdictions planned to reduce services (including 63% of the largest jurisdictions), while just 7% planned to increase service levels. Looking ahead to the coming year, most jurisdictions (77%) plan to continue providing essentially the same level of services to their citizens that they provided this year; however, more say they will increase the amount of services they provide (13%) than say they will cut back on the amount of these services (7%).

Despite the overall stable outlook for service levels, there are differences by jurisdiction size (see *Figure 16a*). Compared to the 10% of Michigan's smallest jurisdictions that plan to increase services this year (equal to findings from 2013), 20% of the state's largest jurisdictions plan to increase services now (up from 14% last year).

Furthermore, the state's largest jurisdictions are significantly less likely to say they will be continuing to cut services in the coming year (8%) compared to last year (25%).

Again, officials from larger counties and townships are more optimistic about plans to increase overall service levels than are officials from the largest cities. Among counties with over 30,000 residents, 22% say they are planning to increase services and only 7% say they will be decreasing service levels. By comparison, only 14% of officials from the largest Michigan cities predict they will increase services in the coming year, and 10% predict continued service cuts (see *Figure 16b*). When it comes to cities of *all* sizes, only 11% of cities statewide report plans to increase service levels while 18% predict they will decrease services in the coming year.

Figure 16a
Percentage of jurisdictions reporting planned changes in overall service provision in the coming year, 2013-2014, by population size

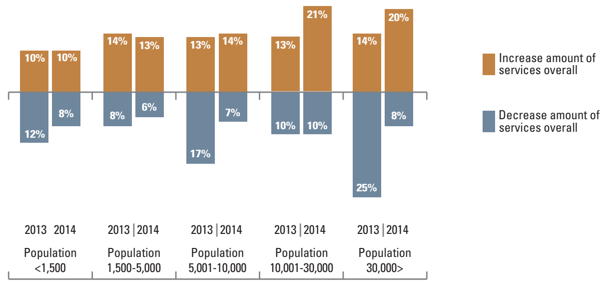
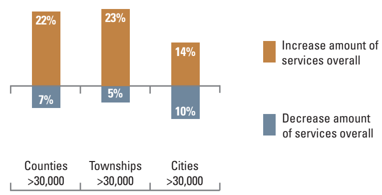


Figure 16b
Percentage of jurisdictions reporting planned changes in overall service provision in the coming year, 2014, among jurisdictions with over 30,000 residents



Plans for the coming year: fewer jurisdictions increasing their intergovernmental cooperation and privatization

Overall, one in three (30%) Michigan local jurisdictions expect to increase the number and/or scope of their cooperative service sharing activities with other governments in the coming year, down from 34% last year, and from 40% in 2012. Across jurisdictions of all sizes, fewer officials predict further expansion of such cooperative activities this year. The drop off is particularly notable in the state's largest jurisdictions, where 54% expect to boost intergovernmental approaches to service delivery in the coming year, down from 72% in 2013 (see *Figure 17*). 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.

At the same time, plans to increase privatization or outsourcing of service provision are also holding steady or dropping slightly compared with 2013. Overall, only 10% of Michigan jurisdictions expect to increase service privatization efforts in the coming year, while just 1% expect to decrease these efforts, similar percentages as were found last year. While the statewide picture has stayed relatively consistent with the previous year, fewer jurisdictions with more than 5,000 residents expect to increase their levels of outsourcing in the coming year compared to their expectations in 2013 (see *Figure 18*), with the biggest change in jurisdictions of over 30,000 residents.

Additional analysis of local government policies regarding the privatization of services and operations will be available in a separate CLOSUP report to be released later in the year.

Figure 17
Percentage of jurisdictions reporting plans to increase number and/or scope of interlocal agreements next year, 2013-2014, by population size

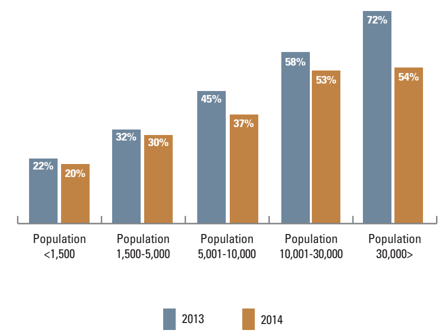
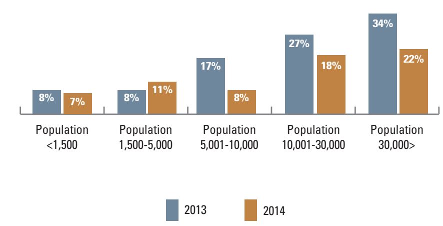


Figure 18
Percentage of jurisdictions reporting plans to increase privatization next year, 2013-2014, by population size



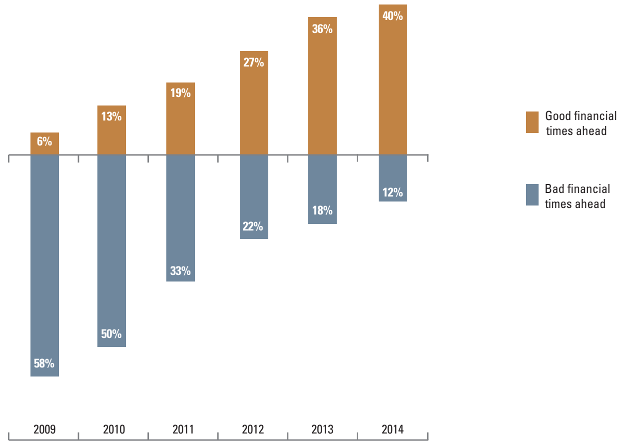
Increasing optimism among many local officials for the coming year, but continued decline expected for those in decline today

Many indicators presented above show continued easing of the fiscal stresses that Michigan local jurisdictions have faced in the wake of the Great Recession. Local officials' improved expectations for fiscal health compared to years past are tied to some extent to growing optimism about where the economy is headed. The MPPS asks respondents to think about general business conditions in their communities and to predict whether their community will have good times or bad times financially in the next twelve months. Once again, the 2014 survey shows continued growth in the number of officials predicting good times economically rather than bad times in the coming year. Four in ten (40%) local officials now predict their communities will have good times financially in the coming year, compared with 12% who predict bad times ahead (see *Figure 19*). This continues a step-wise improvement found in each successive year of the MPPS waves so far. However, even though 40% predict good times, one third (34%) say the next year will be neither good nor bad and 14% are uncertain about what their communities' future economic conditions.

The highest levels of optimism about improving economic times are found among officials from the state's largest jurisdictions, where more than two-thirds (68%) believe that their communities will have good financial times ahead (see *Figure 20*), up from 57% last year. Only 3% of officials from the largest jurisdiction foresee bad times for their communities in the coming year (with no substantial differences among the largest counties, townships, or cities). By contrast, officials from less than a third (30%) of the state's smallest jurisdictions predict good times ahead, while 18% predict bad times for their communities.

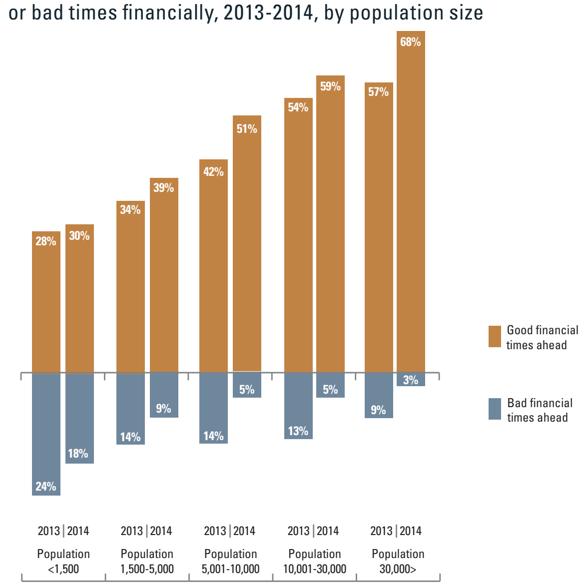
Looking forward, the MPPS also asks local officials to predict whether their local government will be better able or less able to meet its financial needs in the next year compared to the current year. For the first time since the MPPS began, more local officials predict their governments will be better able to meet their fiscal needs than predict they will be less able. Overall, more than one-third (35%) of local leaders predict their jurisdictions will be somewhat or significantly better able to meet fiscal needs next year compared to this year, an increase from 2013, when 28% of officials predicted this kind of improvement (see *Figure 21*). By comparison, 22% say they will be less able to meet their fiscal needs next year compared to this year, which is down from 30% who had the same negative outlook in 2013.

Figure 19
Percentage of jurisdictions overall predicting their community will have good or bad times financially, 2009-2014



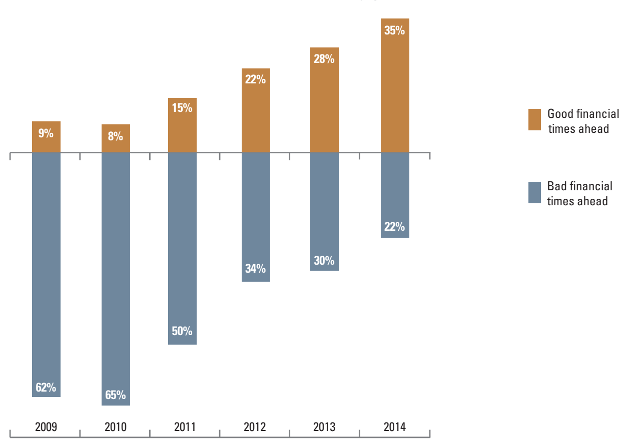
Note: responses for "neither" and "don't know" not shown

Figure 20
Percentage of jurisdictions predicting their community will have good or bad times financially, 2013-2014, by population size



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

Figure 21
Percentage of jurisdictions overall predicting they will be better or less able to meet their fiscal needs in coming year, 2009-2014



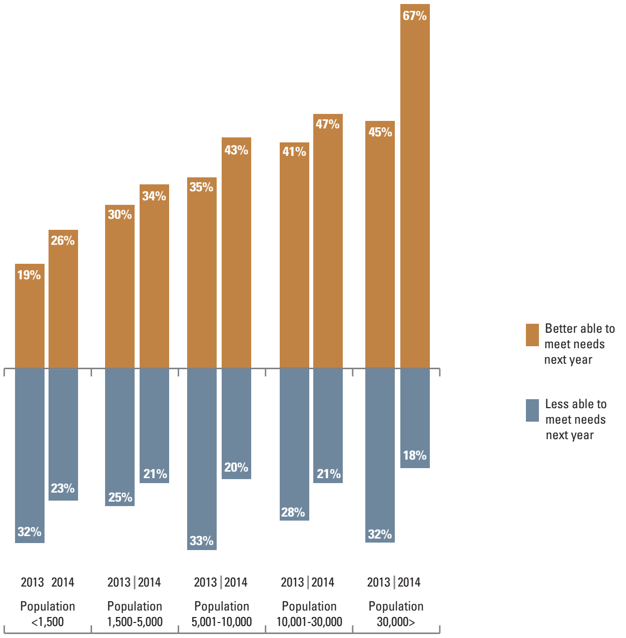
Note: responses for "neither better nor less able" and "don't know" not shown

Across jurisdictions of all sizes, there is now a "net" positive outlook on their fiscal health for next year, with larger jurisdictions leading the way. In 2013, less than one-half (45%) of the state's largest jurisdictions expected to be better able to meet their fiscal needs in the year to come, while 32% expected to be less able. Now, two-thirds (67%) expect to be better able to meet their financial needs in the year to come and only 18% expect to be less able (see *Figure 22*).

And despite the disparities among the state's largest counties, townships, and cities on some of the metrics analyzed earlier in the report, officials from each of these types of populous jurisdictions are similarly optimistic about their ability to meet their fiscal needs in the year ahead. Approximately two-thirds of townships (66%) and cities (65%) with more than 30,000 residents say their governments will be better able to meet their financial needs next year compared to this year, while 71% of Michigan's largest counties say the same. However, it's important to note that nearly one-quarter of the largest townships (25%) and cities (22%) are still predicting that they will have decreased fiscal health in the coming year.

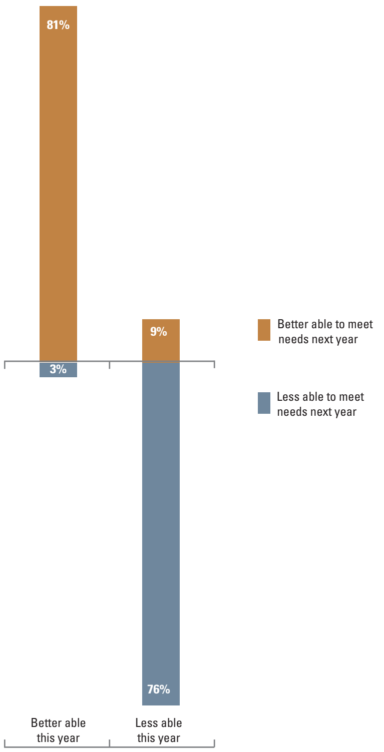
In fact, looking at all jurisdictions in fiscal decline today reveals acute differences in their outlooks for the future, when compared with jurisdictions currently on the rise. Among jurisdictions in decline today, 76% expect to be even less able to meet their needs next year, while just 9% expect to be better able (see *Figure 23*). By contrast, among jurisdictions with improving health today, 81% expect to be in even better fiscal health a year from now, while just 3% expect to be worse off.

Figure 22
Percentage of jurisdictions predicting they will be better or less able to meet their fiscal needs in coming year, 2013-2014, by population size



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

Figure 23
Percentage of jurisdictions predicting they will be better or less able to meet their fiscal needs in coming year, 2014, by ability to meet fiscal need this year



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

Conclusion

For the fourth consecutive year, the MPPS finds gradual improvement in fiscal health for Michigan local governments overall, with 2014 marking a "tipping point." For the first time since the survey began in 2009, more local officials now say their jurisdictions are better able to meet their financial needs (36%) than say they are less able to do so (24%). Another 40% say their fiscal status has not changed one way or another in the last year.

The 24% of jurisdictions in fiscal decline as of 2014 represents approximately 443 struggling local governments across the state. These jurisdictions are found in every region, and among all jurisdiction types and sizes. Further, approximately 19% of these jurisdictions have reported fiscal decline in at least four of the last six years, and these jurisdictions may face compounded problems, with fewer options now than they had years ago to manage ongoing decline.

Meanwhile, the state's largest jurisdictions overall continue to show more improvement than the smallest jurisdictions on many indicators, but at least some of these gains are not reflected in the largest cities. For example, Michigan's largest counties and townships are much more likely to report higher property tax revenues and lower foreclosure rates this year, compared to Michigan's largest cities.

Despite ongoing struggles for hundreds of jurisdictions–and expectations of worse times ahead for most of them–Michigan local officials overall are at their most optimistic point in years, with more than one-third (35%) predicting their jurisdictions will be somewhat or significantly better able to meet fiscal needs next year and only 22% saying they will be less able to do so.

Notes

1. Bean, M. (2013, May). *Local governments' fiscal distress worsened by state's actions*. Lansing: Bridge Magazine. Retrieved from http://bridgemi.com/2013/05/guest-commentary-local-governments-fiscal-distress-worsened-by-states-actions

2. Audia, F. W., & Buckley, D. A. (2004, March). *System failure: Michigan's broken municipal finance model*. Detroit: Plante and Moran. Retrieved from http:// www.mml.org/advocacy/resources/system_failure_executive_summary.pdf

3. Ivacko, T., Horner, D., & Crawford, M. (2012, September). *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/

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 2014 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 and managers, and township supervisors, clerks, and managers) from all 83 counties, 277 cities, 256 villages, and 1,240 townships in the state of Michigan.

The Spring 2014 wave was conducted from April 8 to June 10, 2014. A total of 1,344 jurisdictions in the Spring 2014 wave returned valid surveys (67 counties, 211 cities, 175 villages, and 891 townships), resulting in a 72% response rate by unit. The margin of error for the survey 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. Quantitative data are weighted to account for non-response. 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
Conditions in 2014 Compared to Previous Fiscal Year

	<1500		1500-5000		5001-10000		10001-30000		>30000		Total	
	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank
Increase in infrastructure needs	43%	1	54%	1	61%	2	76%	2	82%	1	**54%**	**1**
Increase in pay rates for employee wages and salaries	38%	3	47%	2	57%	3	63%	3	58%	5	**46%**	**2**
Decrease in revenue from property tax	39%	2	40%	3	28%	9	35%	9	32%	9	**38%**	**3**
Increase in general government operations needs	29%	4	33%	4	41%	4	49%	6	47%	8	**34%**	**4**
Increase in cost of current government employee health benefits	18%	12	28%	6	63%	1	76%	1	77%	2	**34%**	**5**
Increase in human service needs	23%	8	28%	5	34%	7	49%	7	57%	6	**30%**	**6**
Increase in public safety needs	21%	11	24%	8	39%	5	50%	5	53%	7	**28%**	**7**
Increase in cost of government employee pensions	16%	13	19%	9	35%	6	53%	4	62%	4	**25%**	**8**
Increase in number of tax delinquencies	26%	5	24%	7	21%	11	16%	13	8%	15	**23%**	**9**
Decrease in amount of state aid to jurisdiction	24%	7	18%	10	21%	10	24%	10	26%	12	**21%**	**10**
Decrease in population of jurisdiction	24%	6	15%	13	12%	17	12%	16	14%	13	**18%**	**11**
Decrease in revenue from fees for services, licenses, transfers, etc.	21%	10	17%	11	17%	12	15%	14	6%	17	**18%**	**12**
Increase in home foreclosures in jurisdiction	22%	9	17%	12	13%	16	11%	17	6%	16	**18%**	**13**
Increase in cost of retired government employee health benefits	6%	16	11%	15	29%	8	46%	8	66%	3	**17%**	**14**
Decrease in amount of federal aid to jurisdiction	14%	14	10%	16	17%	13	19%	11	29%	10	**14%**	**15**
Increase in amount of debt	10%	15	13%	14	16%	14	15%	15	12%	14	**12%**	**16**
Decrease in number of employees	4%	17	8%	17	14%	15	17%	12	28%	11	**9%**	**17**
Decrease in ability of jurisdiction to repay its debt	3%	18	4%	18	5%	18	3%	18	3%	18	**4%**	**18**

Appendix B
Predicted Actions for the Coming Year

	<1500		1500-5000		5001-10000		10001-30000		>30000		Total	
	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank	% Reporting	Rank
Increase in number and/or scope of interlocal agreements or cost-sharing plans	20%	3	30%	1	37%	2	53%	2	54%	2	**30%**	**1**
Increase in reliance on general fund balance	25%	1	29%	2	29%	3	34%	5	20%	8	**27%**	**2**
Increase in employees' share of premiums, deductibles, and/or co-pays on health insurance	13%	6	20%	4	43%	1	64%	1	62%	1	**26%**	**3**
Increase in property tax rates	22%	2	23%	3	22%	5	25%	8	35%	5	**23%**	**4**
Increase in charges for fees for services, licenses, etc.	13%	5	17%	5	22%	4	33%	6	37%	4	**18%**	**5**
Increase in reliance on "rainy day" funds	15%	4	17%	6	17%	8	26%	7	15%	10	**17%**	**6**
Increase in retirees' share of premiums, deductibles, and/or co-pays on health insurance	6%	12	11%	9	22%	6	39%	3	42%	3	**14%**	**7**
Increase in amount of debt	10%	7	14%	7	14%	9	20%	9	15%	11	**13%**	**8**
Increase in employees' share of contributions to retirement funds	5%	13	8%	10	19%	7	36%	4	32%	6	**11%**	**9**
Increase in privatizing or contracting out of services	7%	10	11%	8	8%	12	18%	10	22%	7	**10%**	**10**
Increase in sale of public assets (i.e., parks, buildings, etc.)	3%	17	7%	11	12%	10	15%	12	12%	13	**7%**	**11**
Decrease in amount of services provided	8%	9	6%	13	7%	14	10%	13	8%	14	**7%**	**12**
Decrease in actual infrastructure spending	9%	8	6%	12	7%	15	7%	16	2%	21	**7%**	**13**
Increase in jurisdiction not filling vacant positions	4%	16	5%	14	7%	13	17%	11	17%	9	**7%**	**14**
Decrease in actual general government operations spending	6%	11	5%	15	8%	11	8%	14	12%	12	**6%**	**15**
Decrease in funding for economic development programs	5%	14	5%	16	6%	17	6%	17	5%	17	**5%**	**16**
Decrease in actual public safety spending	5%	15	4%	17	4%	18	5%	18	7%	15	**4%**	**17**
Decrease in jurisdiction's workforce hiring	2%	20	3%	18	7%	16	8%	15	6%	16	3%	18
Decrease in actual human services spending	2%	19	2%	19	2%	20	3%	19	2%	20	2%	19
Decrease in employee pay rates	3%	18	1%	20	0%	21	2%	20	2%	19	2%	20
Increase in jurisdiction's workforce layoffs	0%	21	1%	21	3%	19	2%	21	4%	18	1%	21

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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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