

Fiscal Health Insights from the Michigan Public Policy Survey

December 4, 2018
Michigan Department of Treasury

Presentation Outline

- **Brief overview** of the Michigan Public Policy Survey
- **Measures** of local government fiscal health on the MPPS
- **Review** of MPPS fiscal health trends over time
- **Next steps** at CLOSUP

Background: The MPPS

- **A census survey** – all 1,856 Michigan counties, cities, villages, and townships
- **Respondents** – chief elected and appointed officials
- **Administered** – online and via hardcopy
- **Topics** – wide range, such as fiscal health, government operations and budget policies, roads, local poverty, public safety, economic development, intergovernmental cooperation, service privatization, employee policies, labor unions, housing, environmental sustainability, Great Lakes, citizen engagement, much more.

MPPS is not a typical opinion poll

- **70+% regular response rates**
- **Transparency**
 - Questionnaires online
 - Pre-run data tables online
 - Sharing of (anonymized) datasets with other researchers
- **Expert advisors on questionnaire content**
- **Research partnership with Michigan local government associations**
 - MAC, MML, & MTA
- **Borrowing from other proven sources such as NLC and ICMA**

What does the MPPS aim to do?

- **Improve understanding** of local government to help inform policymaking and improve quality of life
- **Inform local leaders** about peers across the state: challenges and responses
- **Inform state policymakers and practitioners** and other stakeholders with data about local level challenges and responses not available from any other source
- **Build a longitudinal data archive** to allow tracking of fundamental issues such as fiscal health, government operations, the economic transition, etc.
- Foster **academic research and teaching** on state and local government issues

MPPS Special Notes

- **Opinion data** – MPPS data are based on opinions of local leaders, not on administrative data
- **Confidentiality** – CLOSUP must protect respondent & jurisdiction confidentiality
- **Forward looking** – Numerous tracking questions ask about fiscal health, government operations, etc., in the future
- **Eager to partner with policymakers and practitioners**

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MPPS Annual Fiscal & Budgetary Items

Summary indicators

- Better/less able to meet fiscal needs
 - This year vs. last year
 - Next year vs. this year
- Fiscal stress Index (1 = perfect health; 10 = fiscal crisis)
 - Currently
 - In 5 years
- General Fund balance concerns
- Cash flow concerns
- Expected economic conditions

Individual indicators (increasing v. decreasing; current & forward looking)

- Revenues: Property taxes; state aid; federal aid; fees
- Expenses: spending on public safety, infrastructure, human services, government operations; pay rates; pensions; benefits; OPEB
- Other indicators: tax delinquencies; foreclosures; amount of debt; ability to repay debt; number of employees; service demands (public safety; infrastructure; human services; government operations); inter-governmental collaboration; privatization; sale of assets; shifting benefits & OPEB costs to employees

Other Items Related to Fiscal & Budgetary Policy

Carried on ad hoc basis

- Michigan's system of funding local government
- Deeper dive on pension and OPEB issues
- Deeper dive on employee pay and benefits
- Single v. multi-year budgeting
- Priorities in trade-off between services v. taxes
- Satisfaction with services provided
- GFOA policies
- Union issues
- Emergency manager law
- Roads
- Water and sewer
- Deeper dive on Public safety services
- Deeper dive on inter-governmental collaboration

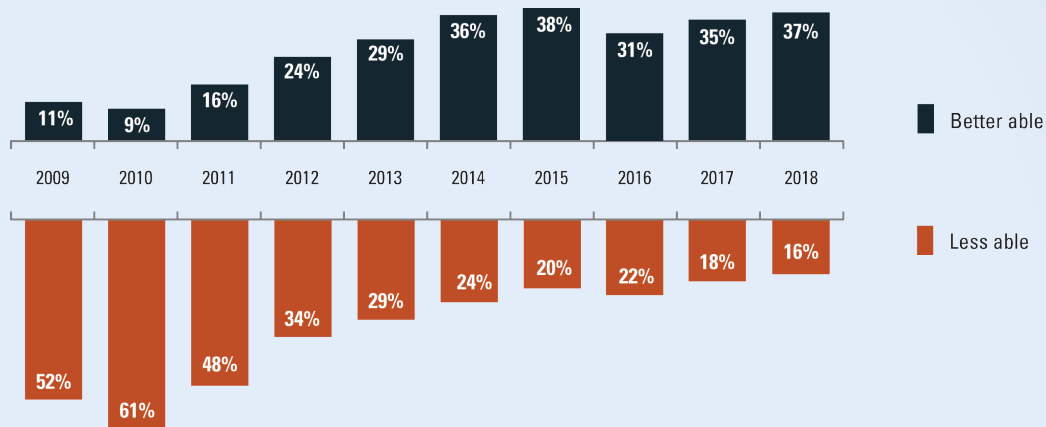
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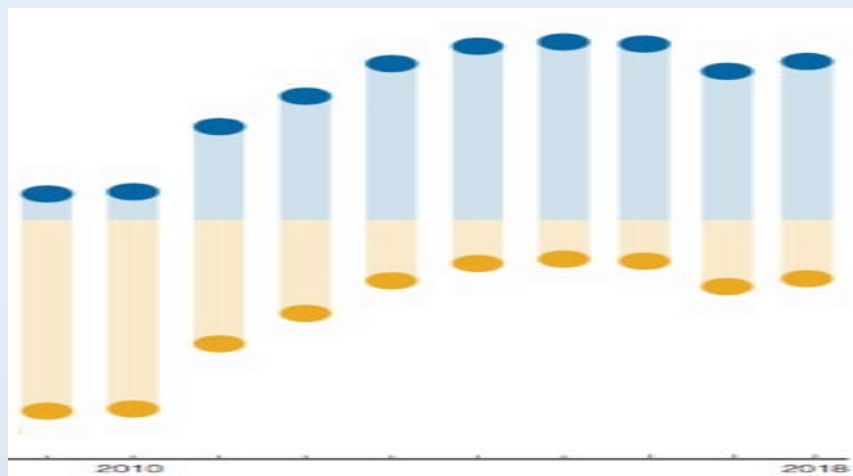
Better/Less Able to Meet Fiscal Needs

MPPS: Would you say that your unit of government is less able or better able to meet its financial needs in this fiscal year compared to the last fiscal year?

MPPS



NLC

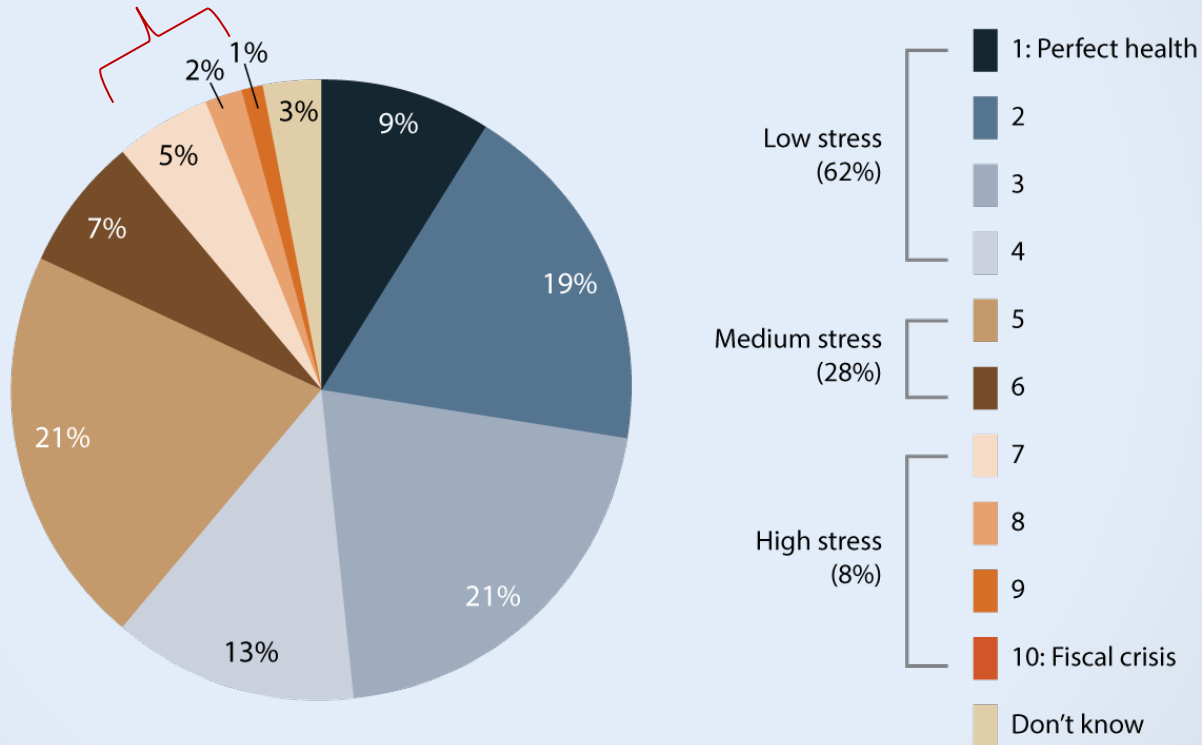


MPPS Fiscal Stress Index

MPPS: Thinking about the overall fiscal stress in your jurisdiction today and what you expect it to be down the road – including any future financial obligations it may have – on a scale from 1 to 10, where **1 is the best: perfect fiscal health** and **10 is the worst: fiscal crisis**, how would you rate your jurisdiction's overall fiscal stress

~ 148 jurisdictions (112 in MPPS)

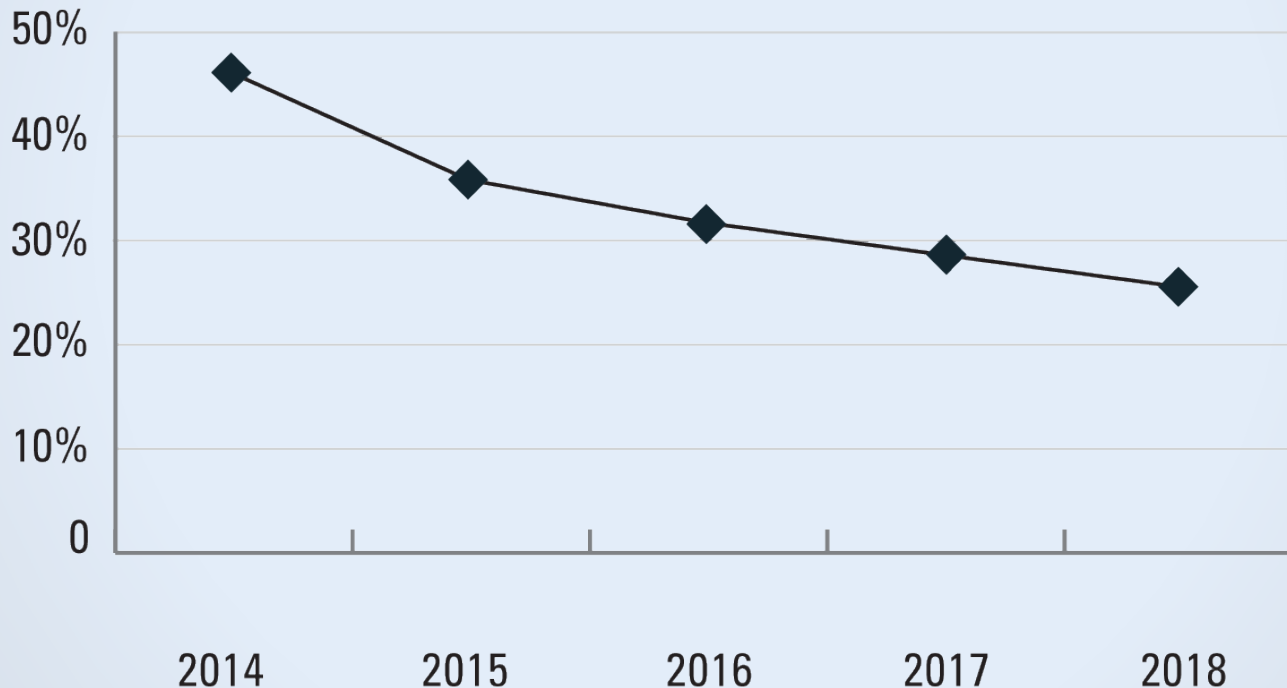
2018



MPPS Fiscal Stress Index Over Time

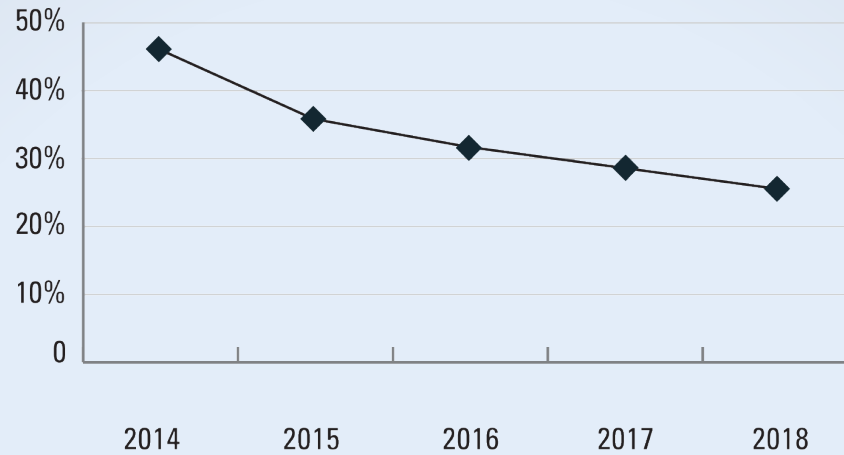
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Net fiscal health: Percentage of low stress jurisdictions minus sum of medium + high stress jurisdictions

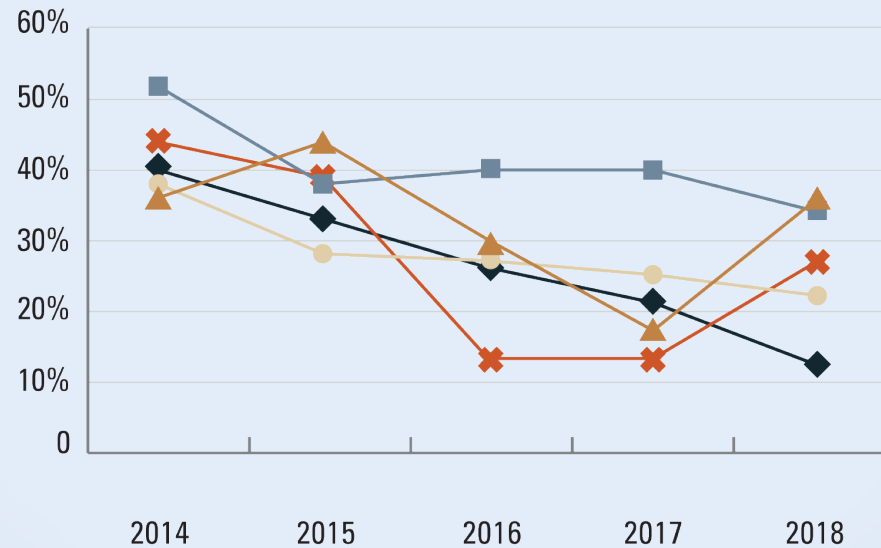


MPPS Fiscal Stress Index Over Time

Total Net fiscal health over Time

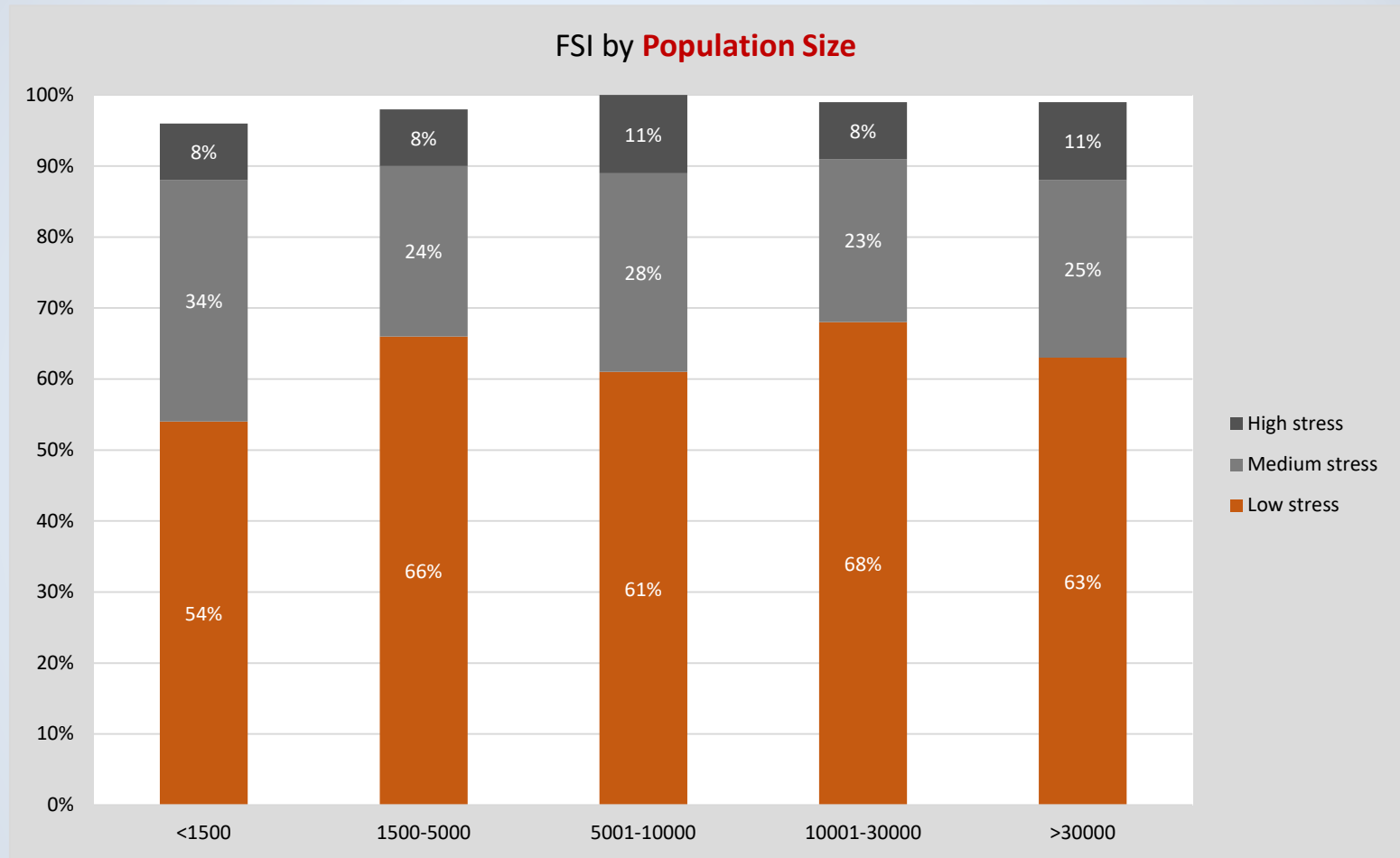


Net fiscal health over time, by population size

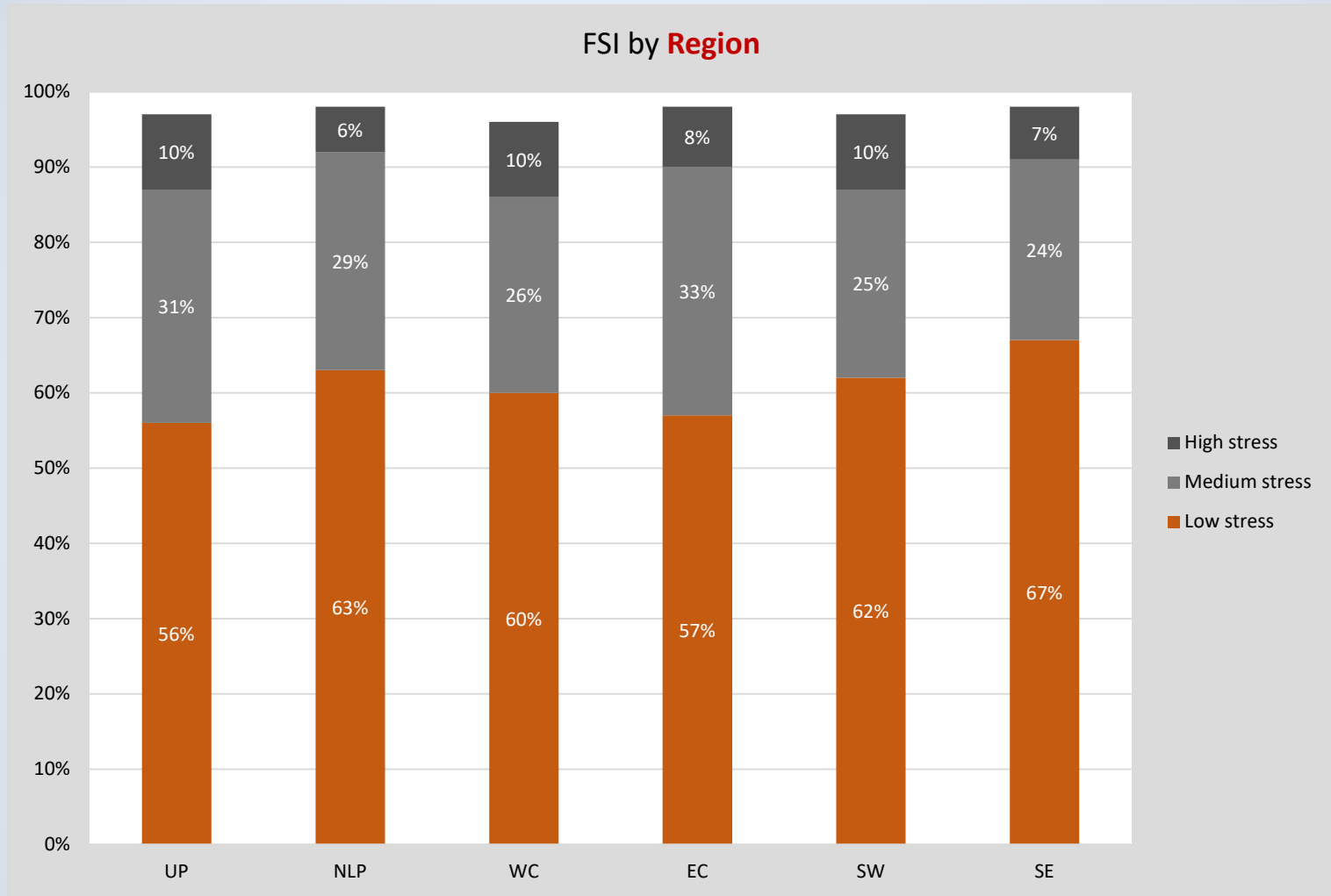


◆ <1,500 ■ 1,500-5,000 ● 5,001-10,000 ▲ 10,001-30,000 ✖ >30,000

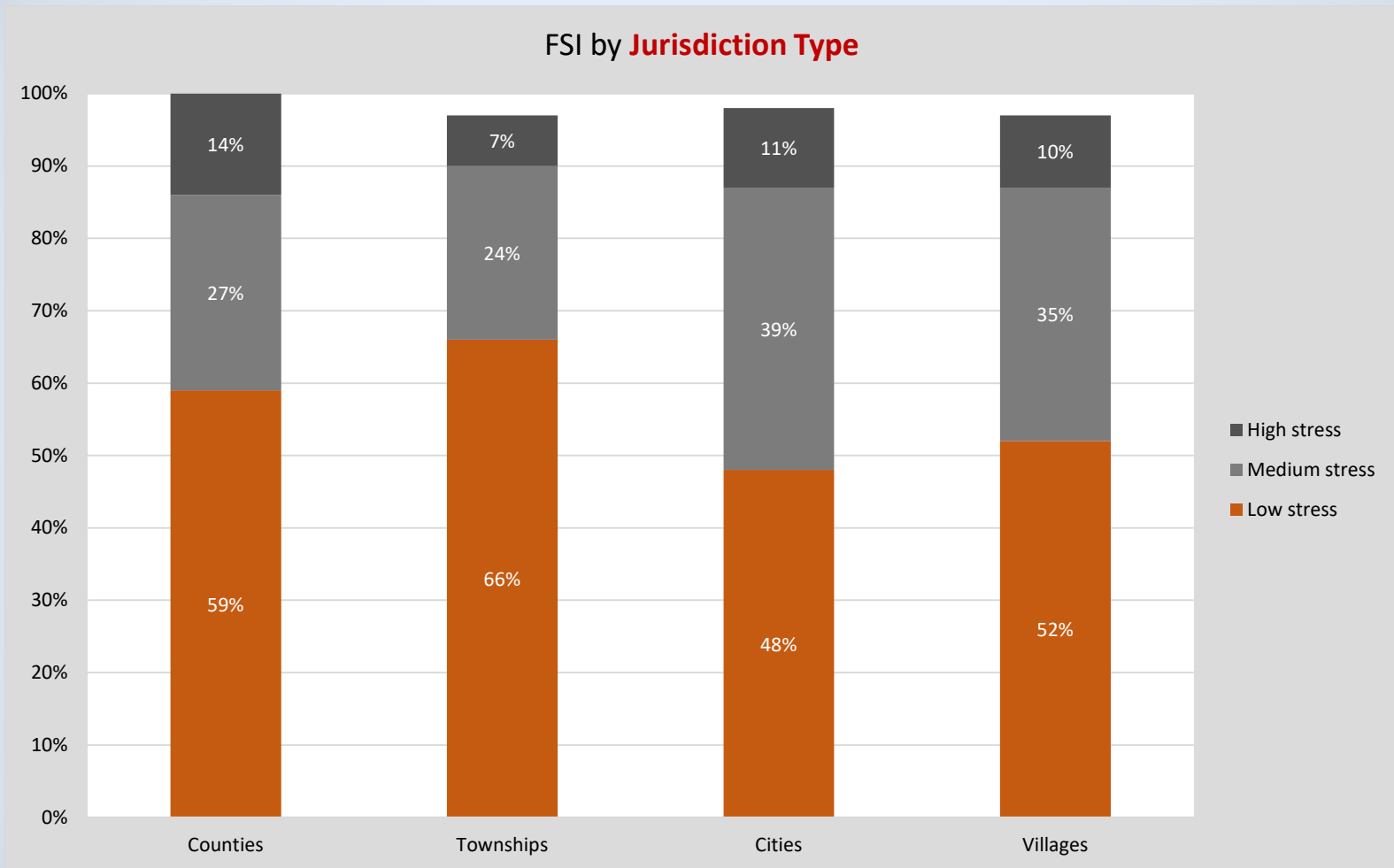
MPPS FSI 7+ Breakdowns (2018)



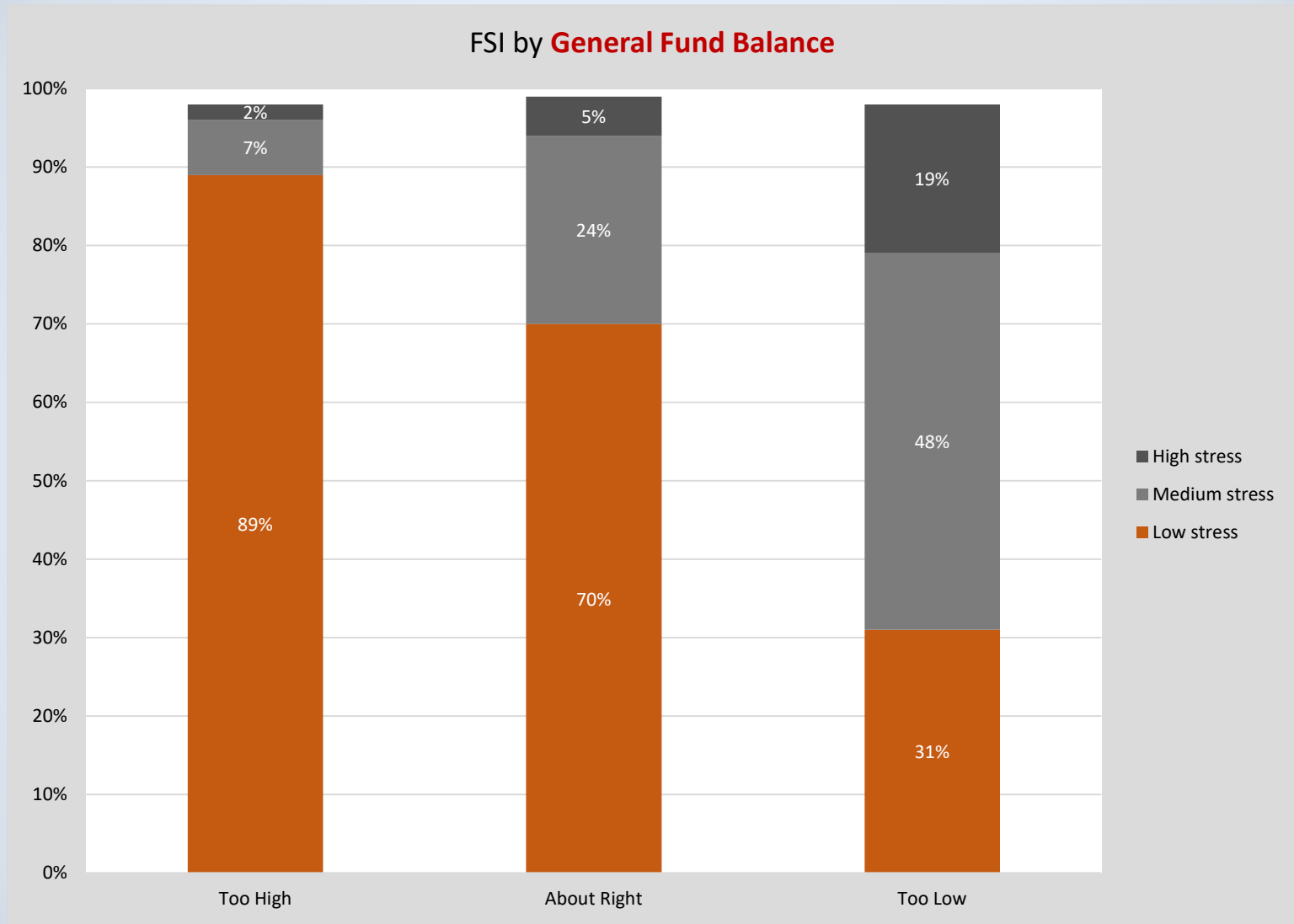
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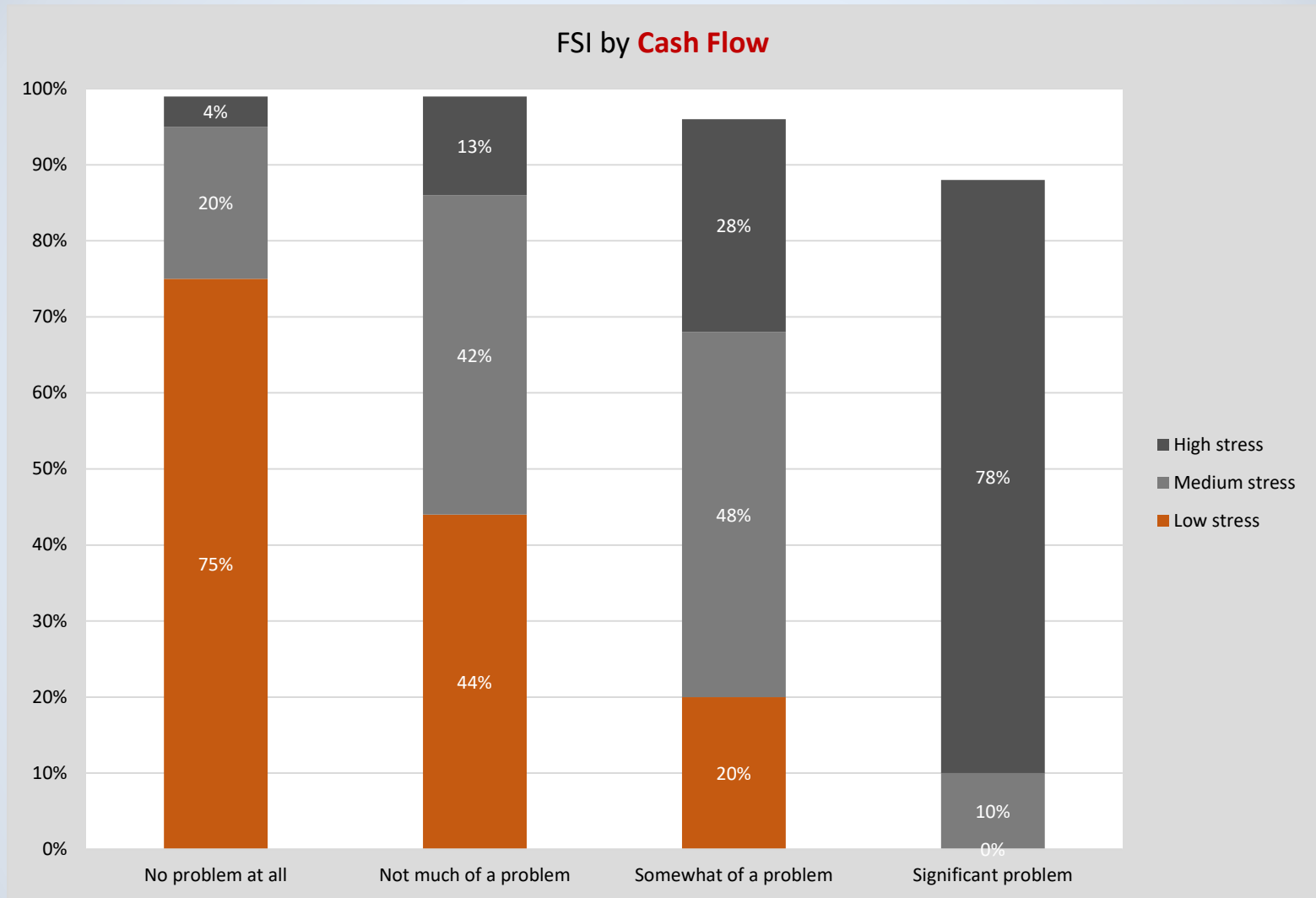
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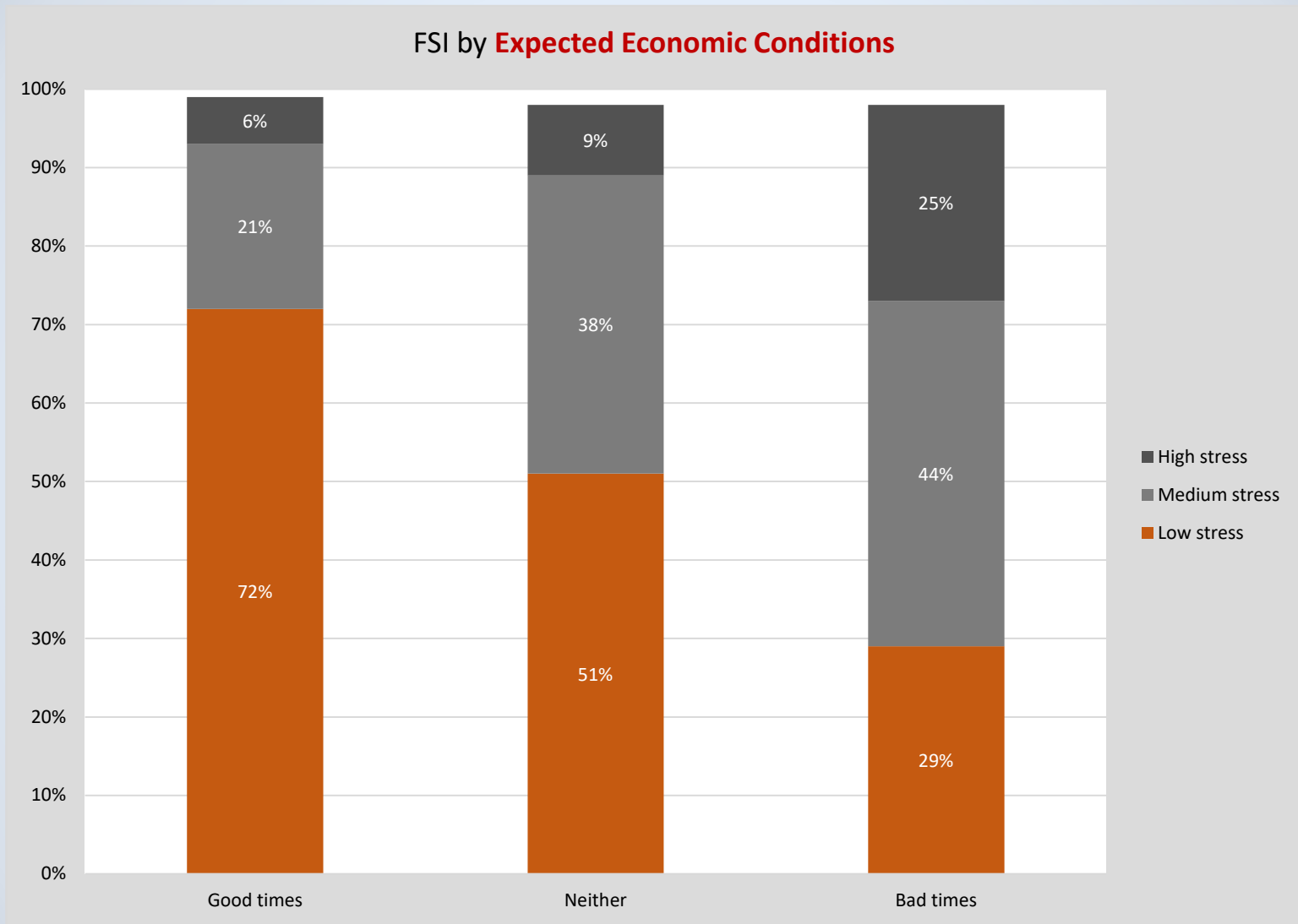
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Mismatch on High Fiscal Stress – MPPS FSI vs. Treasury List

The Treasury list (based on underfunded retirement systems)

- Has 117 agencies
 - Of them, 27 are “authorities” and 90 are general purpose local govts
 - Of the 90, 15 are not included in 2018 MPPS
 - That leaves 75 jurisdictions on Treasury list, with 2018 MPPS data
 - Of the 75, ~43 (57%) look distressed on the MPPS (mostly using FSI 5+ ... and most are 6+)
 - But of the 75, ~15 (20%) appear to have good fiscal health
 - That leaves ~23% that are a bit messier to describe with MPPS data

The MPPS

- Has 112 jurisdictions with FSI 7+
 - 102 are NOT on the Treasury list; 10 are on the list
 - Of the 112, 36 do not have predicted FSI in 5 years; 76 do have it
 - Of the 76, 22 (29%) expect same FSI in 5 years, while 24 (32%) expect even worse FSI [total 61%]

CLOSUP Research on the MPPS FSI

Research on the MPPS FSI: Paper by Stephanie Leiser and Sarah Mills, comparing MPPS FSI against Munetrix Index:

- The MPPS FSI can pick up important information not necessarily found in admin data (see below). Also, MPPS FSI has forward-looking data.
- MPPS data can be available sooner than admin data. However, MPPS does not get 100% participation, so it has missing data.
- More volatility on MPPS FSI than on Munetrix index.
- MPPS FSI shows more stress (by an average 2.25 points on the 10 point scale).
- When considering fiscal health:
 - In places with good health, local leaders tend to think of short-term factors, such as a balanced budget and good fund balance;
 - In places with poor health, local leaders tend to think of longer-term factors, which sometimes are not covered well by admin systems, such as:
 - Major future costs (infrastructure, capital costs, personnel, pension and OPEB).
 - Other and external factors, such as property values, tax base, management quality, economic and business conditions, state fiscal policy (inc. revenue sharing but also things like unfunded mandates, new property tax exemptions, business tax credits etc.).
- New pilot study now w/S. Leiser: building CAFR database to compare to MPPS FSI (since data problems in F-65 prevented publication of MPPS-Munetrix comparisons).

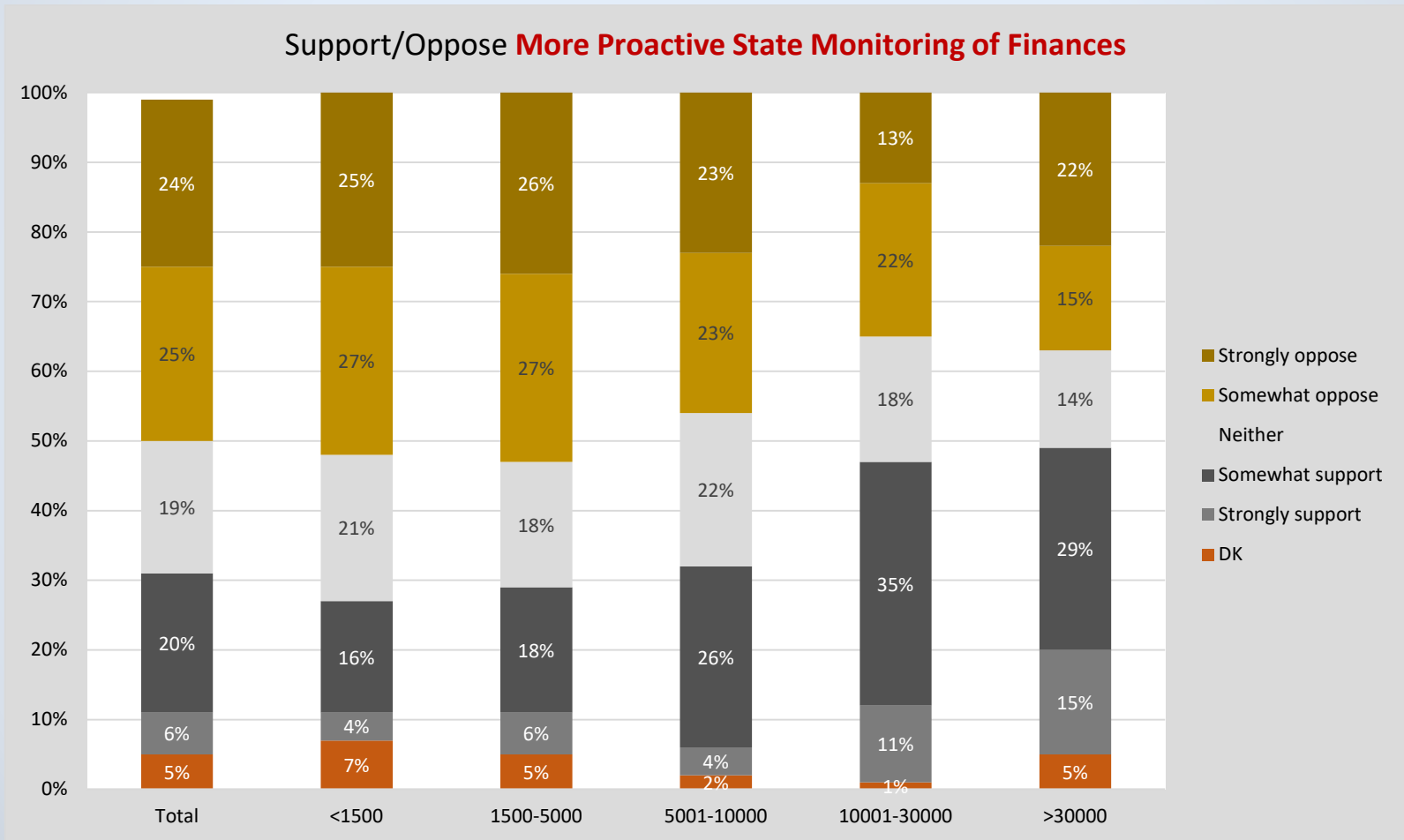
How MPPS Could Help Treasury

Despite the need to protect confidentiality, CLOSUP hopes to make the MPPS data useful to the State. Possibilities include:

- Use MPPS' unique forward-looking data for projections.
- Use the MPPS FSI as a validation/confidence interval/calibration/weight for the state's own index?
- Track trends such as FSI getting better/worse? Types of jurisdictions with high FSI changing over time? Etc.
- CLOSUP can provide customized analysis (county-wide fiscal health; county-wide infrastructure needs; etc.).
- CLOSUP could merge admin data from the state to MPPS, then analyze and report back, while still protecting confidentiality.
- CLOSUP can add new questions to the survey that might be of interest to the state
 - See Q19 from Fall '16 on state monitoring of fiscal health (see next slide)
 - See PPT reform
 - See EM reform
 - See SFLG reform
- CLOSUP may seek a grant to followup on Leiser CAFR-MPPS research. Would Treasury be interested in partnering with us?

MPPS FSI 7+ Breakdowns

Some believe that more proactive monitoring of local government finances by the State could help avoid local fiscal emergencies through earlier detection and intervention. Others believe this may be unnecessary or even counterproductive. To what extent would you support or oppose more proactive State monitoring of finances for all local governments in Michigan? (Fall 2016)



The Michigan Public Policy Survey (MPPS)

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