



MI Local Governments Finances and COVID-19

Summary

Michigan local governments have been able to build reserves since the Great recession, despite operating in a broken local government finance system, that restricts revenues and keeps expenses growing. While some positive changes have been made in the last few years, they are not nearly enough to make up for structural problems. As frontline providers of public safety and health services during the pandemic, local governments experience rising expenses even as they face a dilemma in key revenue sources as the economy slows. This combination means many local governments will quickly draw down reserves and face a difficult future if the economic downturn continues. We may see an increase in cash flow borrowing and potentially general fund deficits in the near to immediate term without significant state and federal assistance.

Michigan Local Governments and Financial Resilience in the face of the Covid-19 Pandemic

Since the great recession of 2008-09, Michigan local governments have recovered some of their financial resilience. This recovery was in the face of a state constructed local finance system that often penalizes local governments. This resilience is at least partially measured by the accumulation of fund balance reserves in their general fund.

City Governments

For Michigan city governments, the data reveal that in FY 2012 on average, cities had 32.7 of general fund revenues in reserves. By FY 2018, nearly 8 years later, they had accumulated on average a total of 46.3 percent of reserves. The median values also showed a substantial increase. While these are averages, they do reveal that Michigan cities have saved money and are better prepared for the type of rainy day we are facing now. That said, there is widespread variance on who saved and how much money has been saved across the

state. There are some governments whose general fund reserves are only one or two percent of general fund revenues.

Table 1. Michigan City General Fund Reserves Statistics FY 2012

Average	32.7%
Median	25.2%
Variance	32.5%
Maximum	224.1%
Minimum	-97.5%%

Table 2. Michigan City General Fund Reserves Statistics FY 2018

Average	46.3%
Median	40.4%
Variance	30.7%
Maximum	185.1%
Minimum	1.7%

Michigan County Government

County governments face a different set of circumstances from city or township governments. County finances tend to be more complex with many different fund types and various operating units compared to a city or township government. That said, the general fund remains the main pot of money that is directed by the commissioners for general county operations. Again, we observe that there are no general fund deficits in 2018 and an overall improvement in reserves, although we still a minimum level at 2.4 percent. The overall average and median have increased showing that counties have increased reserves despite operating in a difficult system.

Table 3. Michigan County General Fund Balance Statistics FY 2012

Average	22.9%
Median	19.4%
Variance	16.8%
Maximum	70.6%
Minimum	-21.6%

Table 4. Michigan County General Fund Balance Statistics FY 2018

Average	33.7%
Median	31.3%
Variance	18.7%
Maximum	89.9%
Minimum	2.4%

Michigan Township governments

Michigan townships are the most diverse form of government in the state ranging from very small populations in the hundreds to well over 100,000 residents in metro Detroit. The financial numbers between types of local governments are not comparable due to differences in fiscal years. For FY 2018, the townships averaged 160 percent but had a wide range with a minimum rate of 4 percent. For township governments, a range of 80 to 140 percent is likely to be reasonable given that property taxes come in and are not spent when the fiscal year ends. The following tables show that, like other local governments, townships have been able to increase general fund reserves from an average of 140 percent to 160 percent in FY 2018. Also, there were some townships with a negative fund balance in 2012 that now have a positive balance in 2018.

Table 5. Michigan Township General Fund Balance Statistics FY 2012

Average	142%
Median	123%
Variance	0.95
Maximum	634%
Minimum	-6%

Table 6. Michigan Township General Fund Balance Statistics FY 2018

Average	160%
Median	143%
Variance	0.87
Maximum	625%
Minimum	4%

Issues Moving Forward

Do local governments have enough reserves to fight the current pandemic crisis? The reality is we simply don't know yet how long or how deep this crisis will be. There are likely to be both revenue and spending impacts on local governments during this pandemic. Michigan has had one of the largest increase in unemployment on record, retail sales are rapidly falling and manufacturing has stalled. Local and state tax revenues are based on the level and quantity of these economic transactions. Many local governments are already reporting deficits. Federal programs are available to potentially reimburse some Covid-19 related expenses, but no resources have yet to be identified in terms of lost local government revenues as the economy declines. Several areas of concern exist for local governments.

Property Taxes

Local property taxes likely won't be hit immediately by this crisis. Summer tax payments will likely come in as expected, although there could be some deferrals as there have been with rent, mortgages and other payments. Property assessments certainly won't drop immediately due to the general lag in the assessment process. Even following the great recession of 2008-09, it took several years for the impact of the financial and housing crisis to

impact local property values. It is unclear at this time what an economic downturn from the COVID-19 pandemic may look like. One possibility is that property tax collection rates may drop in some communities as households are hit by a large jump in unemployment.

State Revenue Sharing

Another source of potential financial instability is the state's financial response to the COVID-19 pandemic. Some states are already reporting that they will take a huge hit to their budgets in the coming months. For example, Ohio and New York State are reporting potentially significant budget shortfalls in the coming fiscal year.

Historically, the state of Michigan has cut funding to local governments as a strategy for addressing state budget deficits. Whether they do so now is unclear, but local governments remain fairly dependent in Michigan on state revenue sharing. The impact on the state budget (with a reported potential shortfall of \$4 billion) is unclear yet and we will have for several weeks or perhaps even months to know how much the state will need to act. If the state does need to act, the next logical question is whether state revenue sharing payments to locals will be part of the targeted cuts. At the same time, the state has over \$1 billion in rainy day funds. Another factor in favor of local governments is that they are frontline responders to a pandemic medical crisis and the state may be very reluctant to impose cuts, especially on public safety, in such a crisis.

City income Taxes

For city income taxes, actions are already being taken to defer filing and payment deadlines. City income tax withholding is likely to decline in many communities, although there may be some offsetting job gains in certain industries like health care, grocery stores and pharmacies. Otherwise, we will likely see a decline in withholding and higher refunds over the next few months.

Water and Sewer Revenues

Although not tied to the General Fund, another possible area of concern is water and sewer fees. There have been reported declines in other parts of the country and this may be a concern for Michigan local governments.

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