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Confronting Fiscal Stress in Municipal
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Residents for Eight Common Strategies

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**Support by Michigan Residents for Eight Common Strategies
For Confronting Fiscal Stress in Municipal Governments**

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Executive Summary

Many municipal (city, village, and township) governments in Michigan operate in a climate of intense fiscal stress. This stress is partly due to the continued migration of population and tax base away from the state's central cities and their inner-ring suburbs to exurb and rural communities. This process has left many of the state's older, urban communities with the physical infrastructure and workforce of a much larger unit with fewer taxpayers to support it. Detroit, Pontiac, and Flint are the most prominent examples of this situation, but many other communities in Michigan face similar problems.

The severe fiscal stress facing local governments in Michigan also stems from the cumulative effects of property tax limitations enacted in recent decades that substantially restrict the growth of local governments' own-source revenues. For much of the last decade, annual growth in property tax revenues in many communities has been effectively limited to the rate of inflation. In these cases, local officials are confronted with a situation where service costs are rising much faster than the revenues available to support services. Most of the expenditures made by local governments are devoted to paying municipal employees, and compensation costs—particularly those for health care and pension benefits—typically grow at a rate far in excess of inflation.

These intense fiscal pressures have encouraged calls for governmental consolidations and more reliance on contracting and other cooperative service arrangements to provide local public services. Many state and local leaders believe that significant numbers of Michigan local governments are too small to cost-effectively provide basic services on their own. Sixty percent of Michigan's 1,776 municipal governments had fewer than 2,500 people in 2000. Many leaders in state and county

government, the media, and the business community argue that the large number of small municipal governments in the state significantly inflates the costs of providing services and places too high a burden on local taxpayers. They contend that extensive governmental consolidation and increased reliance on services contracting will reduce the costs of providing local services in most communities by eliminating redundant activities undertaken by neighboring governments and by expanding the population or territory served to fully exploit the scale economies present in particular services.

The general public has an enormous stake in this issue, yet little is known about how the people living in Michigan's cities, villages, and townships view governmental consolidation, contracting, and other potential strategies for maintaining services when revenues and expenses are growing at different rates for a prolonged period. This report contributes to this topic by providing a brief overview of the findings of a telephone survey in winter 2007 of Michigan residents regarding their attitudes toward the use of eight strategies for confronting funding problems in five municipal services. In the survey, 660 Michigan residents were asked to indicate the extent of their support for the use of eight common strategies for resolving situations where current revenues are inadequate to maintain services at levels provided in previous years.

Strategies for Confronting Fiscal Stress

The strategies examined in this report fall into two broad categories. The first set (tax increases, state and federal aid) is directed at increasing the local revenues available to support services at previously existing levels and quality. Residents are promised that past service levels will be maintained, but at a cost of higher local taxes or through efforts

to obtain additional aid from the state and federal government. The second set of strategies focus on reducing the costs incurred by municipal governments to produce services with the objective of maintaining previous levels at a lower cost. This set includes two subgroups of strategies: those that reduce labor costs (layoff employees, reduce employee compensation) and those that alter existing service delivery arrangements (transfer responsibility for service to the county, state, or a special district government; consolidate the municipality's service operations with that of another local government; and contract for services from a for-profit organization, a nonprofit agency, or another local government) to reduce the cost of providing local services.

Respondents were asked to indicate the extent of their agreement with the use of these eight strategies to resolve funding shortfalls in five different local public services: (1) maintaining and repairing local streets and roads, (2) operation of parks and recreational programs, (3) fire fighting, (4) trash and garbage collection, and (5) police street patrol. Each is a core service regularly provided by municipal governments in Michigan, but important differences exist among these five services in the level of potential production economies, the expected transaction costs created when contracting for the service, the application of police and regulatory power, historical experience as a contracted service, and the visibility of the service to the public.

Discussion of Findings

Given the serious obstacles to raising local taxes or significantly reducing municipal payrolls, approaches that address fiscal stress by making changes to how local public services are provided receive strong support from the media and Michigan's government

and business leaders. Indeed, there is an emphasis on the consolidation of governments to the exclusion of other strategies. Policymakers in state government are called on to create a statutory and policy environment that encourages municipal consolidations, functional transfers for some services to the state's county governments, and greater reliance on contracting arrangements with governments and other suitable vendors for municipal services.

This report provides only a broad overview of the findings of this survey. The analysis is descriptive and limited to the respondents' attitudes in aggregate, but it provides several major insights about the attitudes of Michigan residents toward the use of these eight strategies to resolve fiscal stress in municipal governments. Table 1 ranks the strategies by average extent of agreement for each service, with the strategy with the strongest mean agreement listed first. A full description of the survey design, the specific questions asked, and demographic characteristics of the respondents are provided in the appendix.

Increasing Local Revenues

For virtually every service, the respondents agreed the most strongly with the strategy of seeking aid from the federal or state government to maintain current levels of spending on the service. Trash and garbage collection was the only service where this strategy was not the most preferred approach. The strategy of increasing local taxes received only modest support from the respondents. It was ranked as high as number four for fire fighting and police street patrol, and was the sixth ranked strategy for trash and garbage collection and for repairing and maintaining local streets and roads. Interesting,

the findings show the average respondent would rather increase local taxes to maintain spending on fire fighting and police street patrol than to transfer these functions to another government. Importantly, the respondents preferred tax increases to laying off municipal staff or reducing their compensation for all five services examined.

Reducing Service Production Costs

The two strategies for maintaining current spending levels by reducing the costs of municipal employees were the least favored strategies in all five services examined. The opposition to these two strategies reported by the respondents is high. The mean scores were less than 2.00 in each case, indicating the average response to these two strategies fell between disagree and strongly disagree for each service.

The respondents indicated greater support for altering existing service production arrangements to maintain current spending levels for the five services. This should be good news for those who advocate for serious changes in current patterns of service arrangements. Of the four strategies in this group, the respondents clearly favored consolidating the municipality's service delivery operations with one or more other local governments. It was the second ranked strategy for all five services. Service consolidation was followed by the two contracting strategies and then by the strategy of transferring responsibility for the function to another government. The relative lack of support for transferring these services to another government is an important finding. Transferring functions to the county is a common approach suggested for reducing production costs and improving service quality. However, the findings indicate the

respondents prefer the other three approaches to altering service production arrangements.

Does Support for Strategies Differ by Service?

These findings also provide important insights into two other aspects of this topic. First, the order in which the strategies are ranked changes little across the five services. The ranking of the strategies was never exactly the same for two services, but the order of preference indicated by the respondents is very similar. There are many reasons to expect the respondents' attitudes toward these strategies would vary by service. Indeed, the services examined were selected in part because differences in several key dimensions. However, the findings show that the average responses to the use of these strategies do not vary much across the five services.

A second important insight provided by these findings is that the respondents are clearly not enthusiastic about the use of *any* of these strategies. The previous section discussed the findings in terms of relative support, but the mean scores presented in Table 1 reveal that the respondents largely opposed using these strategies to resolve funding shortfalls in these five services. The mean score must be at least four to indicate the respondents, on average, agreed with the use of the strategy. Only one strategy in a single service meets this criterion: The respondents expressed agreement with seeking more federal or state aid to maintain spending on maintaining and repairing local roads and streets. No other strategy proposed for these services had an average score of four or better. Several strategies in each service had average scores between three and four, indicating the respondents were neutral to the use of the strategy, but there was only one

instance where the average response was at least agreement with its use to maintain funding for the service.

Suggestions for Future Research

The information provided in this report is based on a descriptive analysis of the attitudes held by the general public about the wisdom of using these approaches to confront the problems of sustained fiscal stress. Future analyses will focus on explaining how differences in the fiscal condition of municipal governments and the individual characteristics of the survey respondents are related to their attitudes about these strategies. Fiscal stress is likely be an important problem confronting local governments in Michigan for the foreseeable future, and state and local policy makers need a much better understanding about the factors that shape public attitudes toward these topics. Subsequent analyses will seek to develop more specific guidance for state and local policy makers about how different communities of stakeholders view these strategies.

Introduction

This report examines the attitudes of Michigan residents toward several potential strategies for relieving the current and chronic conditions of fiscal stress in Michigan's municipal governments. Many municipal (city, village and township) governments in Michigan operate in an environment of serious and sustained fiscal stress (CRC, 2008; EFAP, 2007; Kloha, Weissert, and Klein, 2005).

This report discusses findings from a survey of 660 randomly selected Michigan residents in winter 2007.¹ The survey examined attitudes of Michigan residents toward eight strategies to resolving situations where current revenues are inadequate to support local services at past levels. The strategies examined fall into two broad categories. The first set (tax increases, state and federal aid) seeks to increase local revenues available to support services at previously existing levels and quality. The second set of strategies focus on reducing the costs of providing services with the objective of maintaining previous levels at a lower cost. This set includes two subgroups of strategies: those that reduce labor costs (layoff employees, reduce employee compensation) and those that alter existing service delivery arrangements (transfer responsibility for the service to the county, state, or a special district government; consolidate the municipality's service operations with that of another local government; and contract for services from a for-profit organization, a nonprofit agency, or another local government) to reduce the costs of providing local services.

Respondents were asked to indicate the extent to which they agreed with the use of each strategy to resolve funding shortfalls in five different local public services: (1)

¹This survey was undertaken in collaboration with Professor Richard Elling of Wayne State University. See the appendix for an explanation of the survey design and demographic characteristics of the respondents.

maintaining and repairing local streets and roads, (2) operation of parks and recreational programs, (3) fire fighting, (4) trash and garbage collection, and (5) police street patrol. Each is a core service regularly provided by municipal governments in Michigan (CRC, 2005), but differ in terms of the presence of potential production economies, likely transaction costs created when contracting for the service, the application of police and regulatory power, historical experience as a contracted service, and the visibility of the service to the public (Brown and Potoski, 2003; Carr, 2004; Frederickson, 1999; Park, 1997; Thompson and Elling, 2000; Thurmaier and Wood, 2002).

The general public has an enormous stake in this issue, yet little is known about how the residents of Michigan's municipal governments view these strategies. Elite support from the media, state government, and business community for the consolidation of municipal governments and the expansion of services contracting is clear (CRC, 2005; DFP, 2007; EFAP, 2007; Dzwonkowski, 2007; Gorchow and Wisely, 2007a; Wisely and Gorchow, 2007), but the extent of public support for these strategies is less clear.

Advocates of extensive changes to existing service arrangements argue that it will reduce the cost of providing local services by eliminating redundant activities undertaken by neighboring governments and by expanding the population or territory served to fully exploit the scale economies present in some services. In this view, not only are the individual cities better off, but the region also reaps the benefits of low-cost services, reduced taxes, and an improved climate for economic development (DFP, 2007; Wisely and Gorchow, 2007a).

This report is an initial step toward filling this significant gap in our understanding of how the public views these strategies. The objective of this report is to

describe the extent of public support for these different strategies for dealing with the chronic fiscal stress faced by local governments in Michigan and to reveal differences, if any, in these attitudes across several key services. Better information about public attitudes toward the use of these strategies will provide important guidance to state and local policymakers about the feasibility of these different options and provide insights about how the public balances the need for low-cost, high-quality, locally-controlled public services.

Fiscal Stress in Michigan Local Governments

A significant portion of the fiscal stress currently impacting Michigan local governments is due to state government budget policies and the effects of property tax limitations approved by the public. A recent report characterized Michigan's municipal finance model as broken (Plante Moran, 2005), and the description is accurate.

An important source of fiscal stress for many municipal governments is the limits on the annual growth of local property tax revenues imposed by the system of limitations created by Proposal A and the Headlee Amendment (Plante Moran, 2005). These two tax limitations operate in tandem or "interact" (Plante Moran, 2005) to prevent the property tax revenues collected by local governments from rising proportionately with the annual growth in the local property tax base. The effect of these two limitations has been to restrict the annual increase in property tax revenues to less than 3 percent for much of the last decade, and for many local governments, to push the maximum millage rate local officials may assess on property in the jurisdiction downward on virtually an annual basis (Feldman, Courant, and Drake, 2003).

Compounding this problem is that for nearly a decade, the Governor and legislature have used cuts in shared revenue to help balance the State's budget, and the reductions in funding to local governments from the unrestricted revenue sharing program exceed \$2.1 billion since 2002 (CRC, 2008). To put the reductions in perspective, as recently as seven years ago, state shared revenues were a larger share of local government revenues than locally collected property taxes for nearly half of the municipal governments in the state (CRC, 2008).

Finally, more conventional sources of fiscal stress are also impacting many Michigan municipal governments, including declining population, aging infrastructure, the closing of manufacturing facilities, and a recent sharp decline in property values (EFAP, 2007; DFP, 2008). An unfortunate reality is that each of these sources, property tax limitations, cuts to shared revenues, and the negative effects of suburbanization on municipal budgets, disproportionately impact Michigan's central cities and the fully developed, older suburbs that ring them.²

Strategies for Responding to Fiscal Stress in Municipal Governments

Regardless of the source, fiscal stress has become a regular feature of local public finance in Michigan and has created pressure on state and local officials to pursue strategies designed to either reduce costs and/or enhance revenues. While a number of different solutions have been proposed for dealing with this problem, consolidation of

² These municipalities typically lack the new development that is excluded from the Headlee limit and often suffer from declining populations. The process the State has used to reduce shared revenues has caused unit population to have an increasing weight in determining the distribution of the revenues among eligible local governments. The cuts in shared revenue have come from the statutory portion of the distribution which has a funding formula that includes several different factors (e.g., taxable value, unit type, and property tax yield per capita), making the constitutional portion, distributed entirely on a per capita basis, an ever larger portion of the total revenue distributed among the program each year (CRC, 2008; Fisher and Guilfoyle, 2003).

municipal governments and transitioning from in-house production of services to more reliance on contracting and other cooperative service arrangements are especially favored (EFAP, 2007; Wisely and Gorchow, 2007a). Sixty percent of Michigan's 1,776 municipal governments had fewer than 2,500 people in 2000 (Ryan and Luper, 2003). Many commentators argue that the large number of municipal governments in the state significantly inflates the costs of providing services and that significant numbers of Michigan local governments are too small to cost-effectively provide basic services on their own.³ (See, for example, DFP, 2007; Dzwonkowski, 2007; EFAP, 2007; Gorchow and Wisely, 2007a; Wisely and Gorchow, 2007.)

The strategies examined through this survey fall into two broad categories. One set seeks to increase local revenues available to support services at previously existing levels and quality. The second set of strategies focus on reducing the costs of providing services with the objective of maintaining previous levels at a lower cost. This second set includes two subgroups of strategies: those that reduce labor costs and those that alter existing service delivery arrangements. Prior to soliciting their views on using these strategies, the interviewer read the following passage to each respondent:

In recent years many local governments in Michigan have had budget problems that make it difficult for them to continue providing various public services. The next set of questions ask your views on how you think local governments should deal with a situation in which local revenues to support programs as in the past are inadequate. I will ask you about this in terms of various specific services performed by local governments. For each such service or function I will give you a list of strategies that a local

³ There is a well developed body of research in political science and economics that views large numbers of local governments in a region as a positive situation, and one that, with the careful use of selective services contracting, functional consolidation, and the use of special district governments, maximizes the accountability and responsiveness of government officials to the public while permitting local governments to create arrangements that deliver services to their residents in the most cost-effective manner possible. For an elaboration of this view, see Oakerson (1999).

government might pursue in responding to this situation. For each strategy please tell me whether you agree with that strategy or disagree with it.

Increasing Local Revenues

The first set of strategies addresses the revenues-costs imbalance by seeking to increase the funds available to provide these services. The survey examined these two strategies:⁴

- Increase local taxes to generate additional funding for the service.
- Seek more state or federal government aid to support the service.

Increasing local taxes to fund a specific service with a special millage is increasingly common in Michigan, particularly to maintain spending on police and fire services (Damron, 2008).

Reducing Service Production Costs

The second set of strategies addresses the revenues-costs imbalance by seeking to reduce the costs incurred by municipal governments in producing these services. This set of strategies attacks production costs in two different ways. One approach is to reduce the costs of the municipal employees involved in delivering the service. The survey examined two options:

- Lay-off some of the municipal employees who deliver the service.
- Reduce the compensation of the employees who deliver the service.⁵

⁴ The use of a third strategy, greater reliance on user fees, was not examined in this survey due to constraints on the number of questions that could be effectively included in the study. Also, the two separate strategies of seeking increased federal and state aid were combined into a single strategy for this same reason.

⁵ Employee compensation includes salary expenses and the cost of providing employee benefits. Ideally, these two components of employee compensation would have been examined separately, but limitations on the number of questions that could be included in the survey prevented this distinction.

These two strategies maintain existing service delivery arrangements, but decrease production costs by reducing the labor costs that go into the service. Local government officials usually seek to avoid layoffs and seek to reduce the workforce through attrition. However, reducing the cost of employee compensation is an increasingly common strategy municipal officials use to deal with budget shortfalls.

A second avenue for reducing production costs is to transition from in-house production of public services to approaches that utilize other, presumably lower-cost, providers. The survey examined the following four options:

- Contract with a nongovernmental (for-profit or non-profit) organization to provide the service.
- Purchase the service on a fee-for-service basis from a neighboring local government instead of providing it in-house using municipal employees.
- Jointly provide the service with other local governments by combining the personnel, equipment, and funds from two or more neighboring local governments.
- Transfer the entire responsibility for funding and delivering this service to a different unit of government, such as the county, a special district, or the state.

With these strategies, direct provision by the municipality is exchanged for a role as customer to an external service provider (Levine, 1984). The key differences in these choices are the permanence of the change in production arrangements and the specific provider group identified in each statement. Combining the municipality's personnel, equipment, and funding dedicated to this service with similar resources from another local government or transferring the responsibility for providing the service to the county,

state, or a special district government are actions that are difficult to reverse. In contrast, the use of service contracts, whether with another government or a nongovernmental provider, is much easier to adapt as circumstances change or to discontinue when desired. These four strategies also contain important distinctions in the service providers identified in the statement, enabling respondents to make distinctions among the strategies based on their attitude toward the category of provider organization. In terms of contracting options, does the person have more or less confidence in another government as a service provider than it does a nonprofit or for-profit organization?⁶ When it comes to the more permanent changes created by the consolidation and transfer options, is the respondent more comfortable with another municipal government or with the county, state, or special district government?

Prior to discussing the findings of the survey, it is useful to discuss three strategies that were not included in the survey due to limitations in the number of questions that could be asked. First, respondents were not asked if the service should be simply discontinued. There are practical, legal reasons why the municipality could not simply stop delivering these services, yet some respondents may prefer this option to the strategies examined through the survey. Second, the respondents were not asked if they supported the devolution of some responsibility for service delivery to the public, through increased use of volunteers, paraprofessionals, neighborhood associations, and public-private partnerships (Levine, 1984). Finally, respondents were not asked if their municipal government should be consolidated with one or more of its neighbors. This

⁶ There is a large research literature that highlights potential differences in behavior between for-profit and non-profit vendors. (See Brown and Potoski, 2003; Carr, LeRoux, and Shrestha, 2009.) Ideally, the respondents would have been asked to indicate their views on these two service providers individually, but limitations in the number of questions that could be included in the survey prevented this distinction.

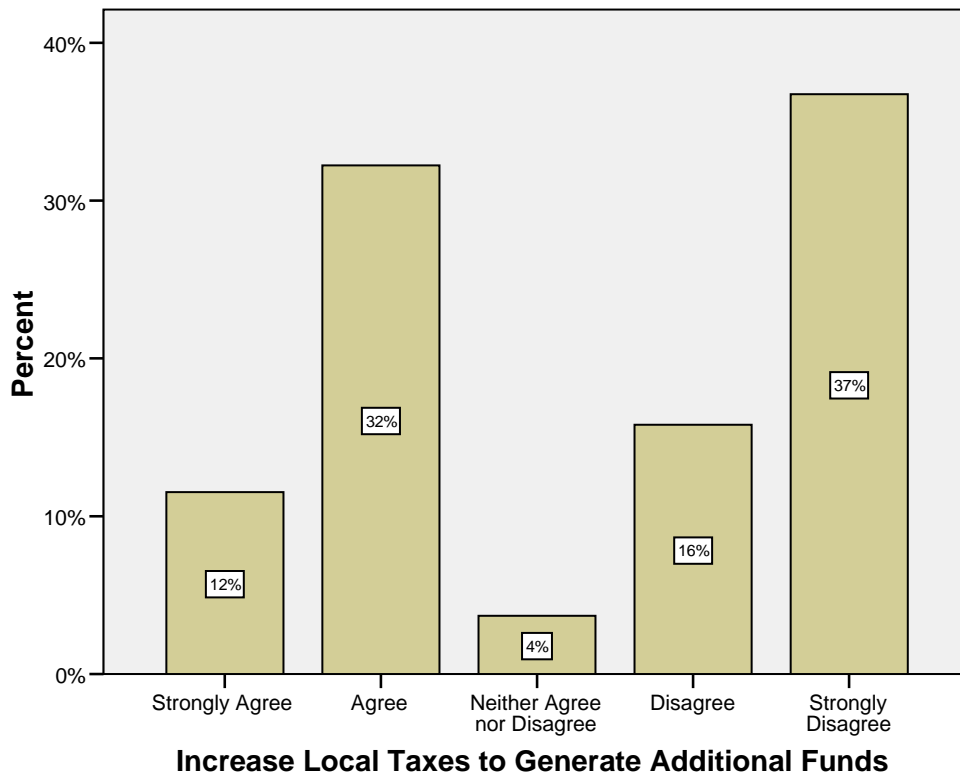
approach is often the first that many in the media and business community suggest as a solution to the lack of adequate funding available to support existing levels of local government services, and one of the few strategies for confronting fiscal stress where the attitudes of Michigan residents have been examined (Wisely, 2007). This strategy was not included because of the evidence from previous research indicating the public does not support consolidating municipal governments and because of the need to expand the strategies examined in research of this nature. It is important to expand the list of options presented to the public as strategies for dealing with fiscal stress in local governments.

Summary of Survey Findings by Strategy

The eight strategies examined have different consequences for the distribution of the cost of maintaining current services and for the control that local government officials will be able to exert over the quantity and quality of the service in the future. The objective of this report is to describe the preferences of Michigan residents for these different strategies and to reveal any differences in this support across the five service areas.

The strategies are grouped by category and discussed in two parts. First, support for each strategy is examined without regard for specific service areas. Next, respondent preferences for each strategy are examined by service area.

Figure 1: Respondent Support for Increasing Local Taxes to Maintain Service Levels (All Five Service Areas)



Strategies to Increase Revenues

Figures 1–4 display the respondents’ attitudes toward the strategies to increase revenues to maintain services at previous levels. Figure 1 shows that the attitudes toward local tax increases are mixed. There is a slight majority (53 percent) in opposition to the proposed strategy of using local tax increases to revolve the fiscal stress problems.

However, Figure 1 also reveals that the opposition to this strategy is more intense than the support. Far more respondents strongly opposed (37 percent) this strategy than those strongly favoring it (12 percent). A majority of respondents opposed tax increases for each service area. Figure 2 shows that 40 percent or more of the respondents supported tax increases in each of the service areas examined. Respondents were the least

supportive of tax increases to maintain trash and garbage collection. They were most supportive of additional taxes for maintaining firefighting. Opposition by the respondents to tax increases is intense across all six service areas. A third or more of the respondents strongly disagreed with this strategy as a solution for each of the services examined.

Figure 2: Respondent Support by Service Area for Increasing Local Taxes

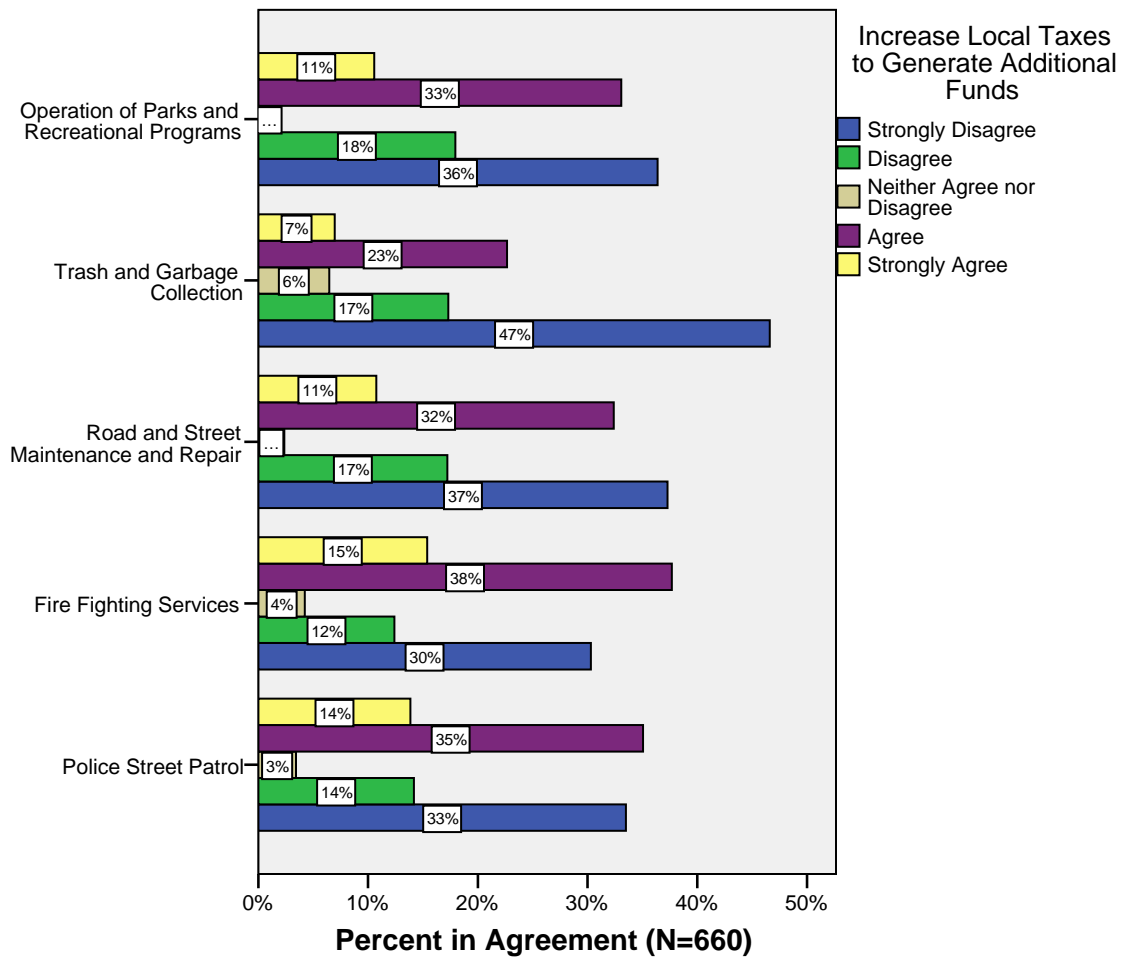


Figure 3 shows broad support for the strategy of seeking additional state or federal aid to maintain local services. Nearly 75 percent of the respondents supported this strategy, and only 12 percent strongly disagreed with the desirability of increased state and federal aid. Figure 4 indicates that large majorities of residents support this strategy

across all five service areas. Residents expressed some differences, however, in how they view the desirability of this strategy across the five services. The strongest agreement for this strategy is for roads, followed by street repair, and firefighting services. The strongest disagreement for this strategy is trash and garbage collection. The findings suggest residents view trash and garbage collection as a local issue, but the state and federal governments have some responsibility for these other services to varying degrees.

Figure 3: Respondent Support for Seeking State or Federal Aid to Maintain Service Levels (All Five Service Areas)

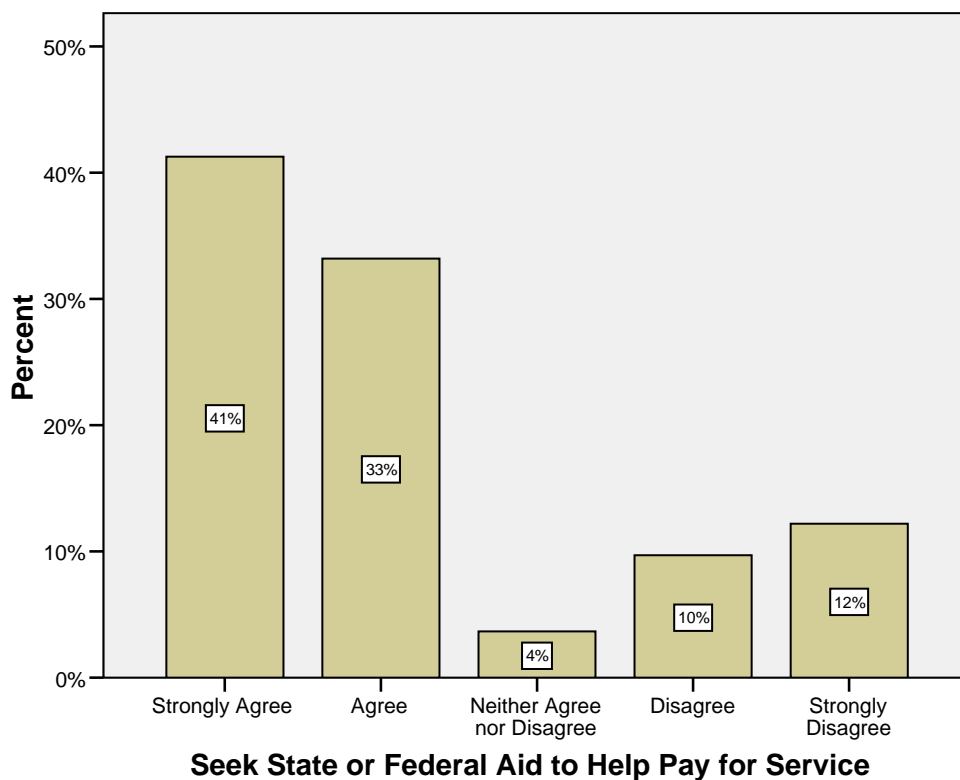
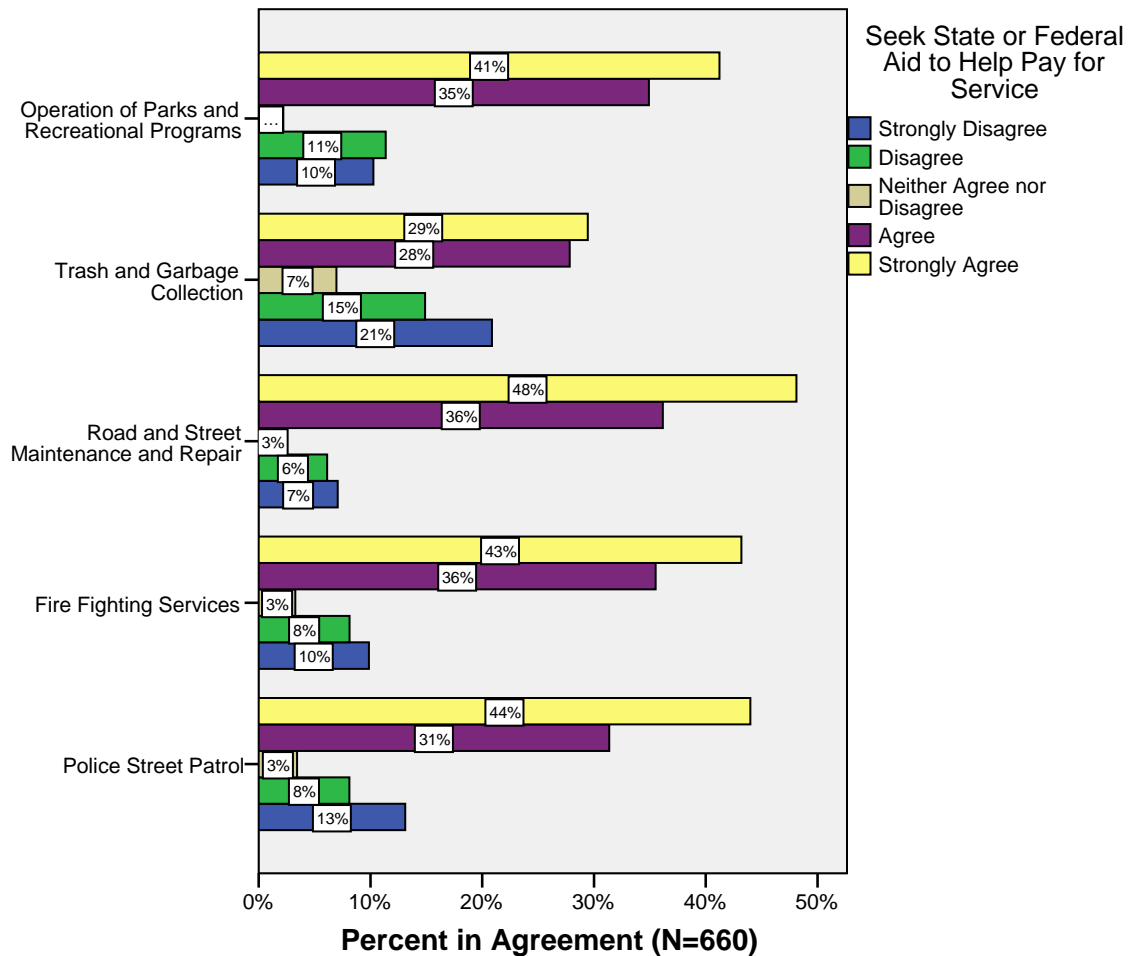


Figure 4: Respondent Support by Service Area for Seeking State and/or Federal Aid to Maintain Service Levels



Strategies to Reduce Service Delivery Costs

Reduce Labor Costs

Figures 5-8 display the respondents’ attitudes toward the two strategies that reduce costs through decreasing labor costs. Opposition to both strategies is very high—even more than the levels shown for tax increases. Figure 5 shows that 79 percent of the respondents disagreed with the use of layoffs to combat fiscal stress. Figure 6 shows that there was not a single service area where more than 20 percent of the respondents

supported eliminating municipal employees to deal with local fiscal stress. For each service, more than half of the respondents strongly disagreed that their municipal government should layoff employees to save money. The strongest opposition was to layoffs of police and fire personnel, but layoffs were strongly rejected in the other three areas as well.

Figure 5: Respondent Support for Laying Off Municipal Employees to Reduce Costs (All Five Service Areas)

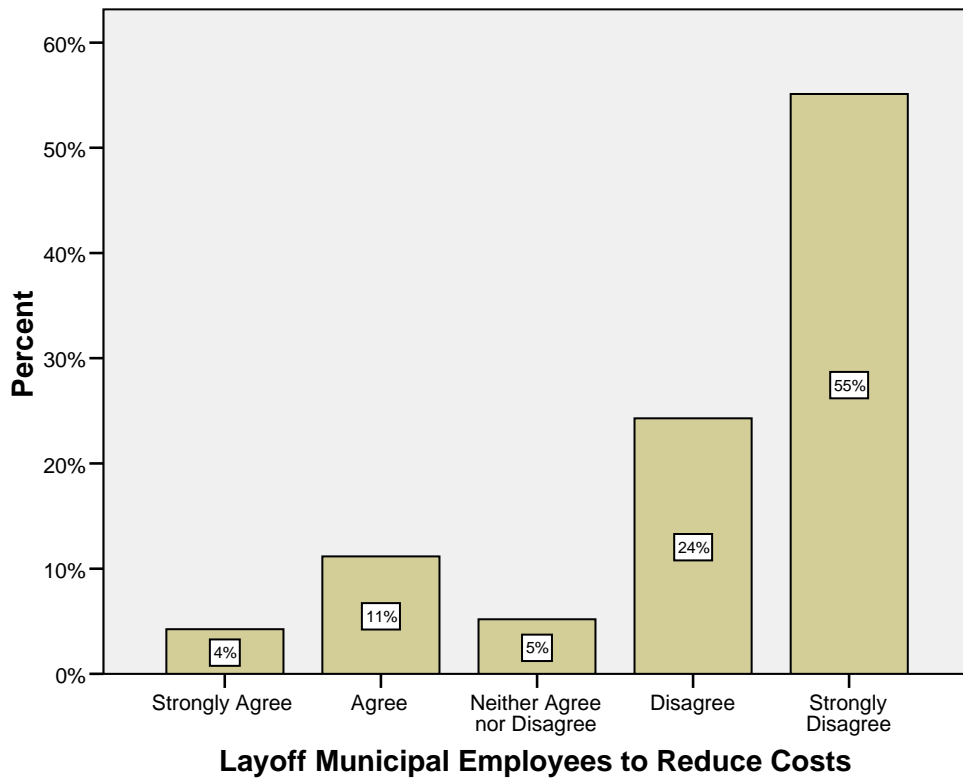


Figure 6: Respondent Support by Service Area for Laying Off Municipal Employees to Reduce Costs

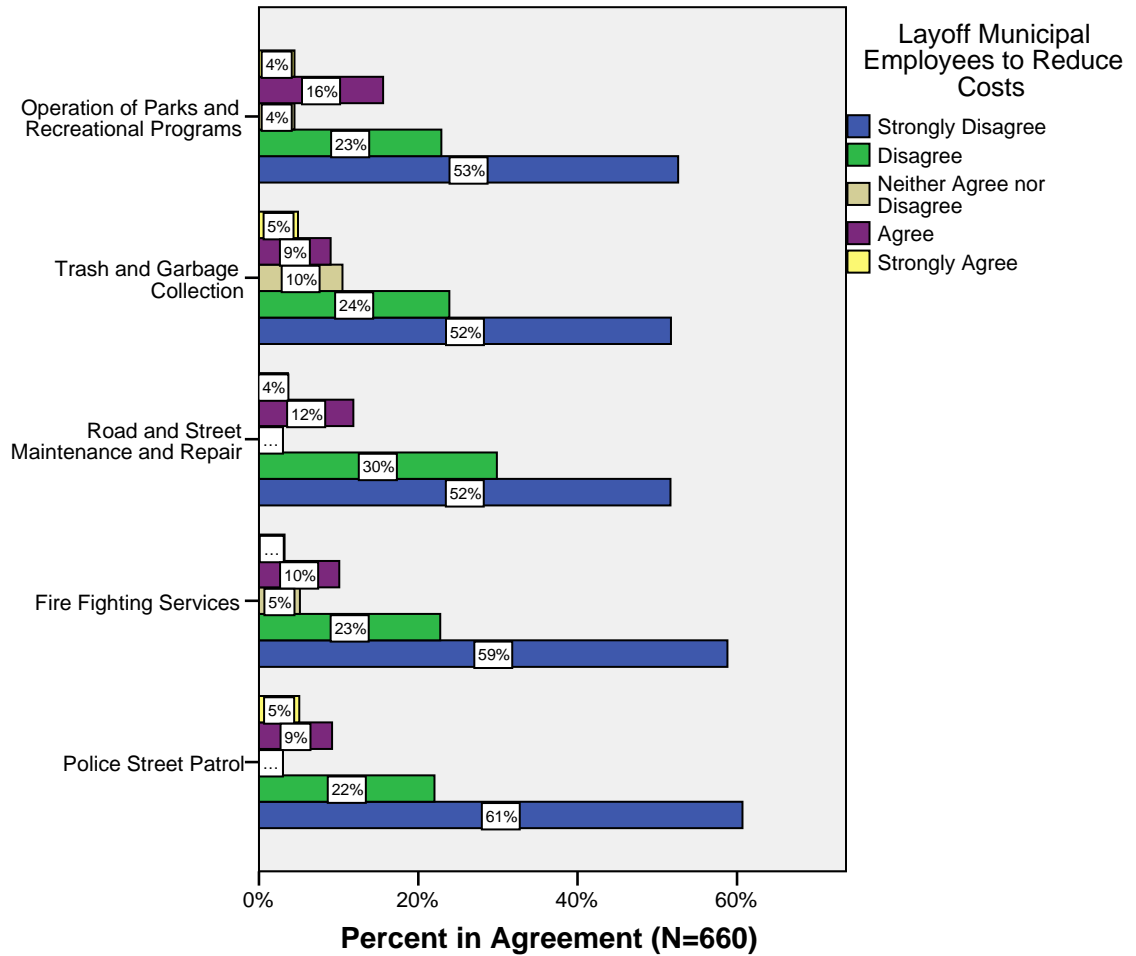
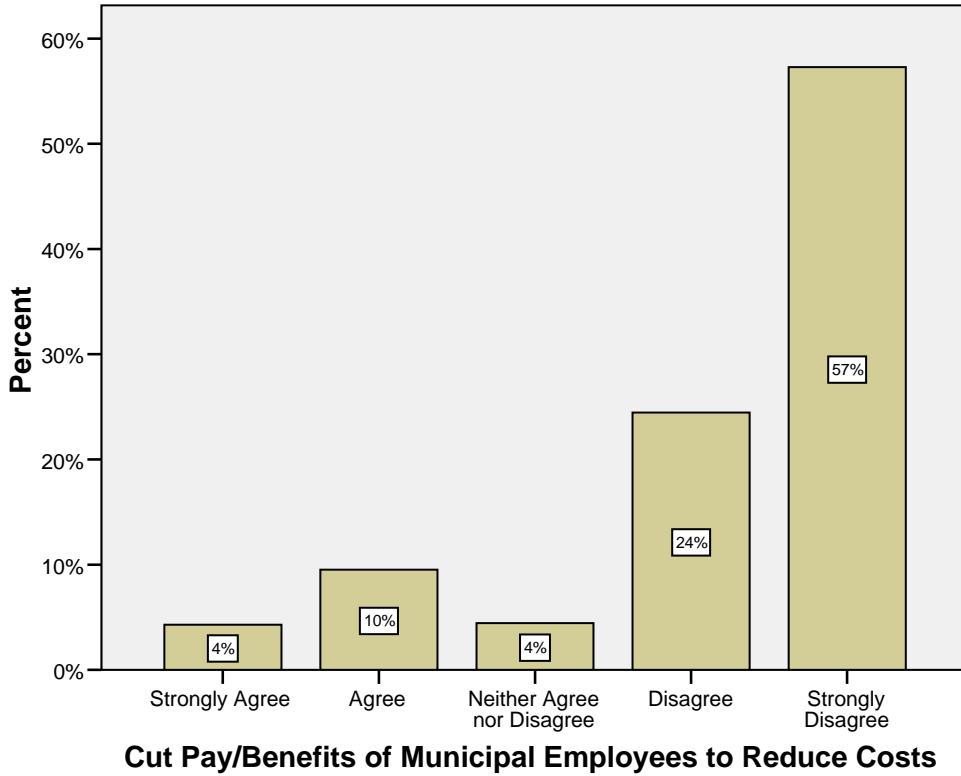


Figure 7 indicates that the respondents are also strongly opposed to reducing employee compensation as a strategy to relieve fiscal stress. The findings are almost identical to those reported for the staff reduction strategy. Figure 8 shows strong opposition to this strategy irrespective of the services involved.

Figure 7: Respondent Support for Reducing Compensation of Municipal Employees to Reduce Costs (All Five Service Areas)



Changes to Service Delivery Arrangements

Figures 9-16 present the respondent attitudes toward the four strategies proposing changes to how the municipal government produces services. As a group, these strategies received broader support than did the strategies proposing to reduce labor costs. Figure 9 shows that the respondents were of different views about the desirability of contracting with nongovernmental providers for service provision. A slight majority of the respondents agreed with the use of this strategy. Respondents were slightly more likely to strongly disagree (26 percent) with this strategy than strongly agree (19 percent), but the findings do not show the variance in intensity seen in some of the earlier strategies.

Figure 8: Respondent Support by Service Area for Reducing Compensation of Municipal Employees to Reduce Costs

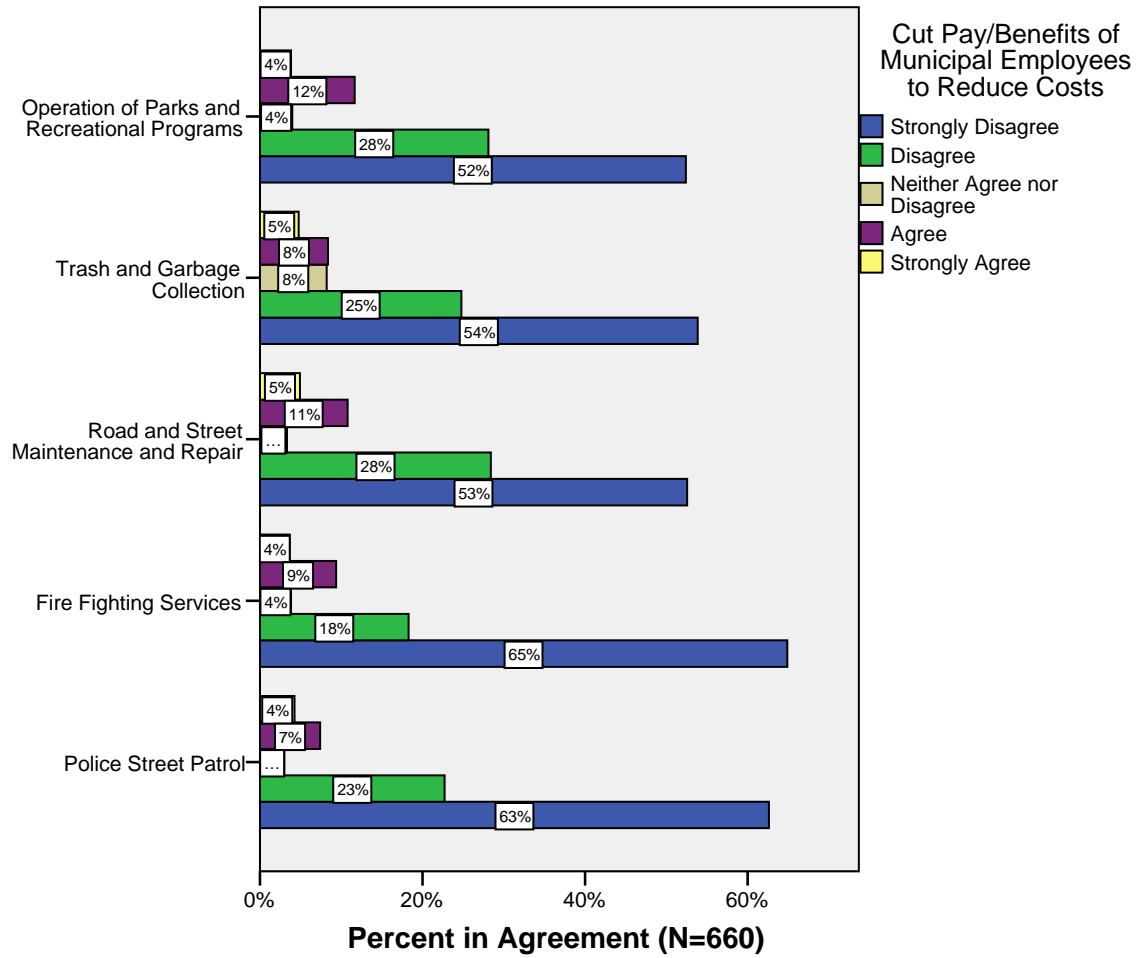


Figure 9: Respondent Support for Contracting with Nongovernmental Organizations to Provide Services at Lower Cost (All Five Service Areas)

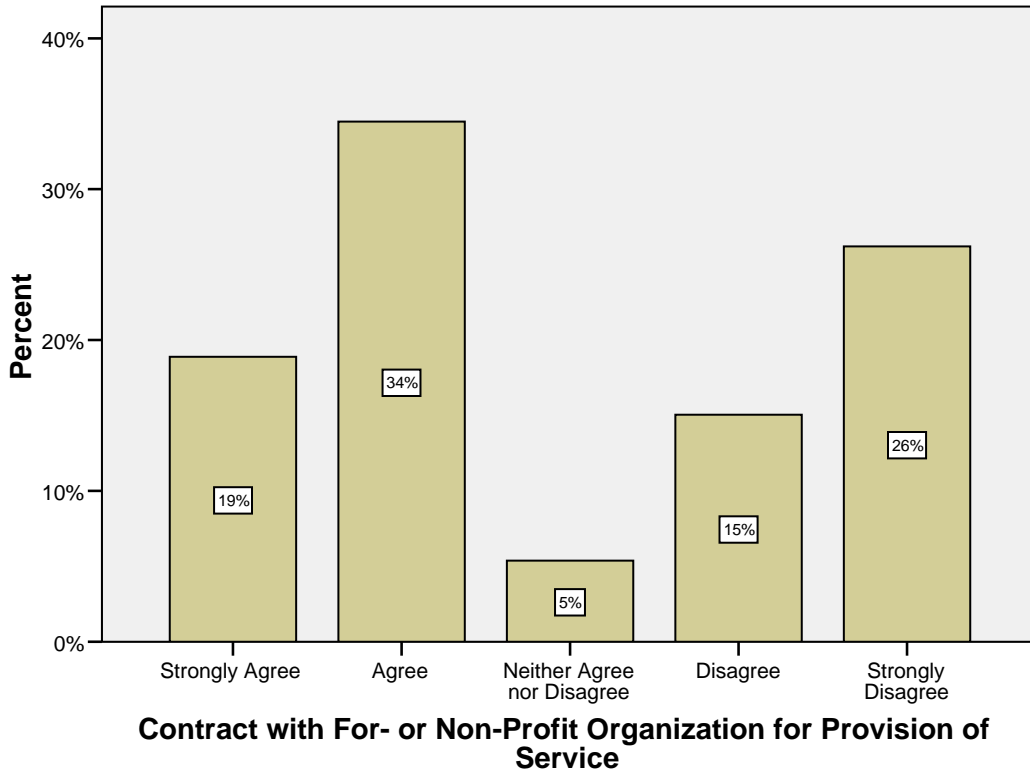


Figure 10 indicates the respondents clearly make distinctions about which services they consider appropriate for contracting with nongovernmental providers. The respondents are strongly opposed to this strategy for police and fire services, but indicate moderate support for using nongovernmental providers for parks, trash collection, and road maintenance and repair. Respondents are intensely opposed to contracting with nongovernmental organizations for street patrol. Forty-one percent of the respondents strongly disagreed with this strategy for use in street patrol.

Figure 10: Respondent Support by Service Area for Contracting with Nongovernmental Organizations to Provide Services at Lower Cost

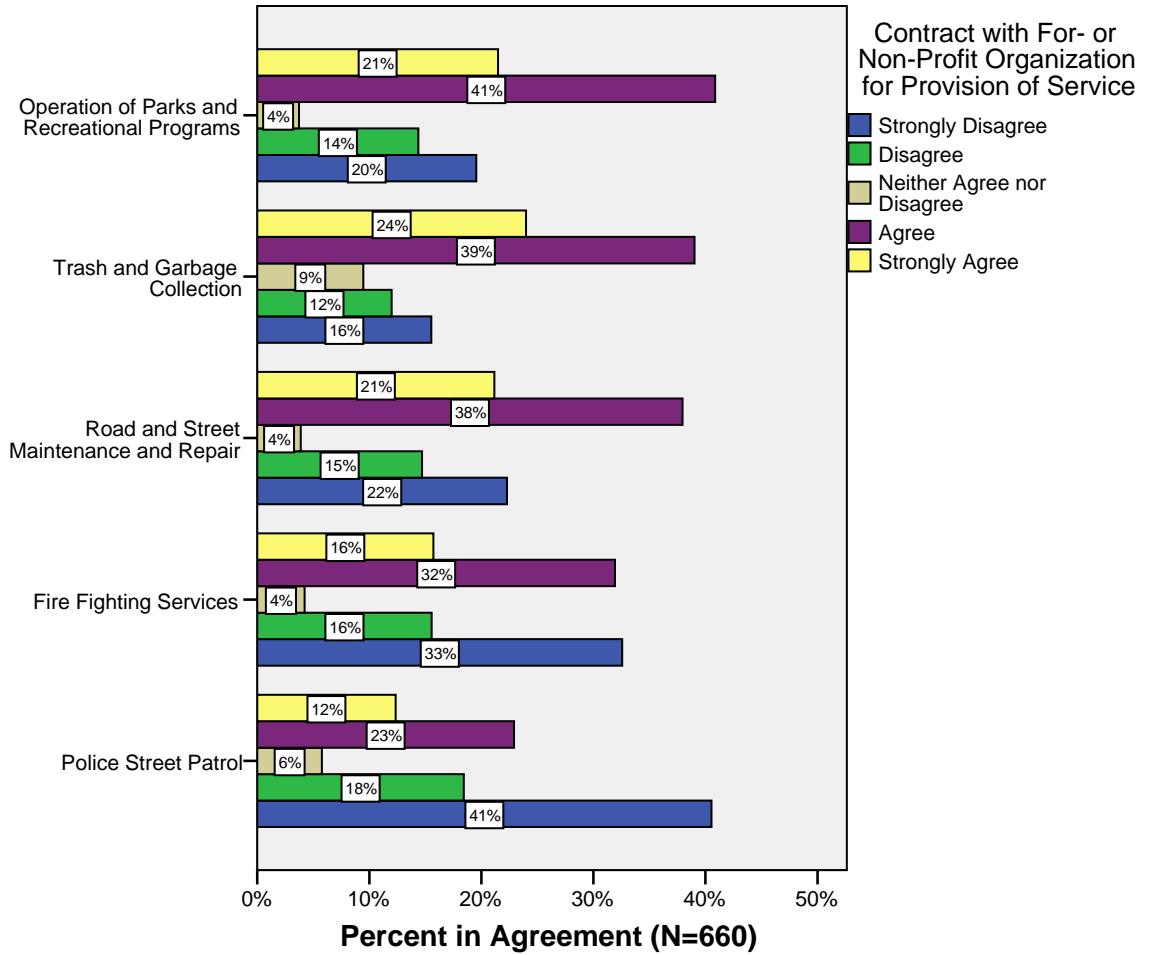


Figure 11: Respondent Support for Contracting with another Local Government for Provision of Service at Lower Cost (All Five Service Areas)

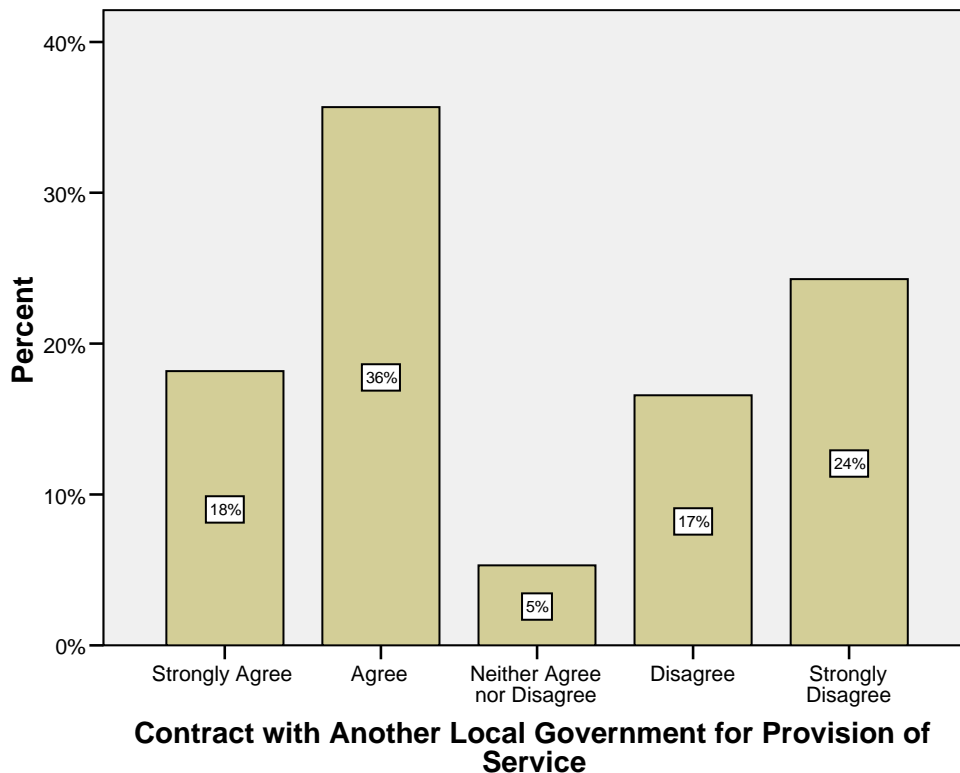


Figure 11 presents the distribution of responses to the proposed strategy of contracting with other local governments to provide services. The data indicates the respondents supported contracting with other governments more strongly than the proposals that nongovernmental organizations be used to provide services. A slight majority (54 percent) supported this strategy. Intense opposition to this strategy outnumbered intense support by just five percentage points.

Figure 12 shows that there are very minor differences in support across these five service areas. Slight majorities favor contracting with other local governments for all five services. The intergovernmental contracting option was most strongly favored for road

and street maintenance and repair, and least favored for trash collection. The most intense opposition was recorded for police street patrol.

Figure 12: Respondent Support by Service Area for Contracting with Another Local Government to Provide Services at Lower Cost

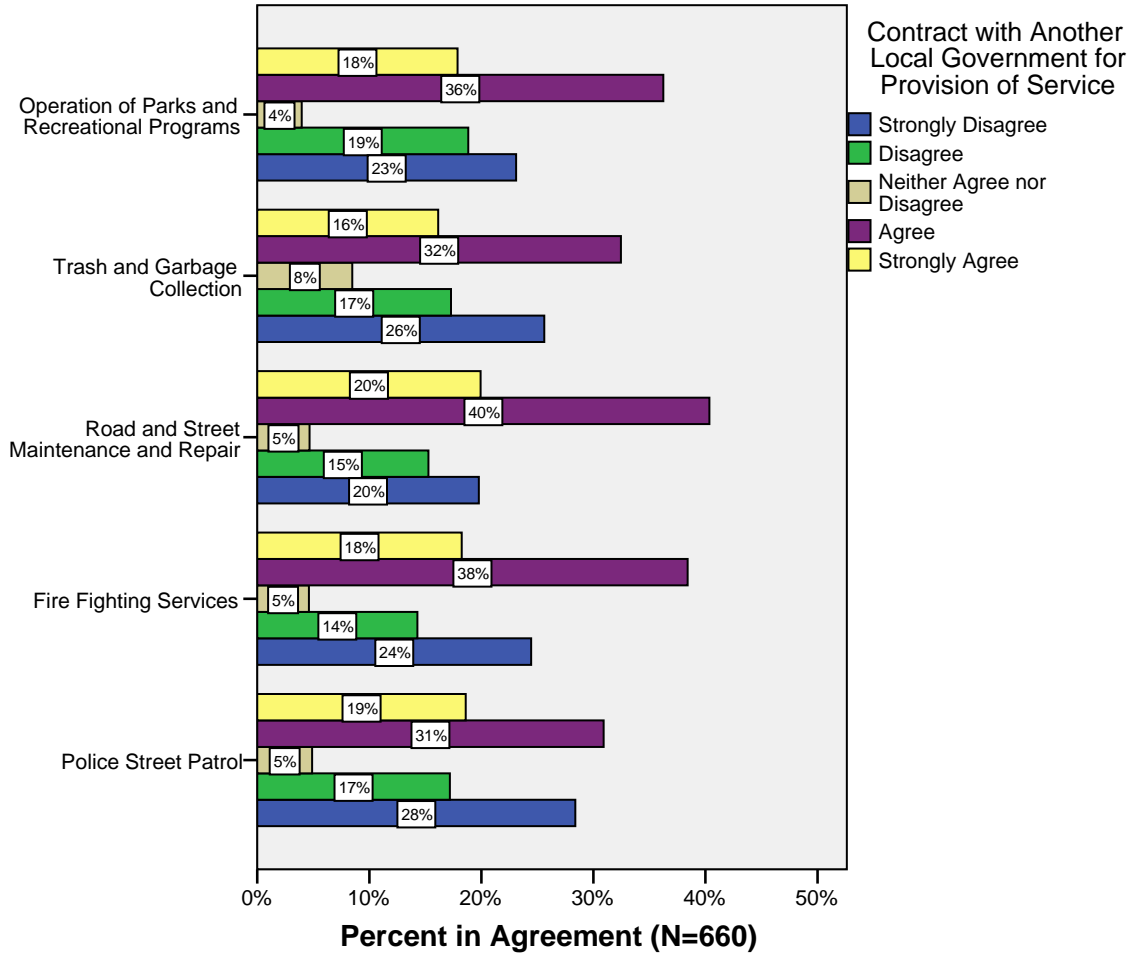


Figure 13: Respondent Support for Consolidating Service Operations with another Local Government to Reduce Costs (All Five Service Areas)

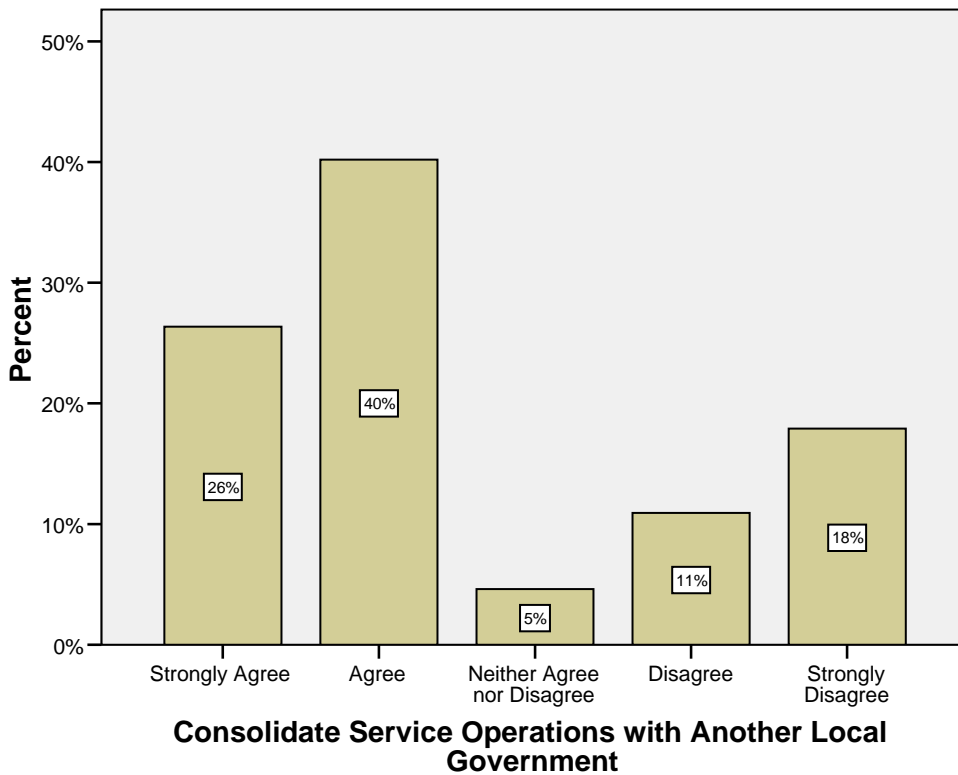


Figure 13 presents the distribution of responses to the proposed strategy of joint production of services with other local governments. This strategy is the most strongly supported of the four options proposing changes to existing service arrangements. Sixty-six percent of the respondents favored this approach to relieve fiscal stress. The public is much more supportive of consolidating the staff and equipment used to provide these services with those from other local governments than they are of contracting with other providers for these services. Only 18 percent of the respondents strongly opposed this strategy, compared to 24 percent for intergovernmental contracting and 26 percent for private and nonprofit providers. The respondents appear less supportive of arrangements

that involve purchasing the services on a fee-for-service basis than those that have their municipality jointly producing the services with others.

Figure 14 shows strong majorities support this option across all five service areas. Once again, street patrol has the largest share of respondents that strongly disagree with this strategy. However, unlike any of the other cost reduction strategies, the respondents in strong agreement equal or outnumber those who strongly oppose this strategy in all five service areas.

Figure 14: Respondent Support by Service Area for Consolidating Service Operations with Another Local Government to Reduce Costs

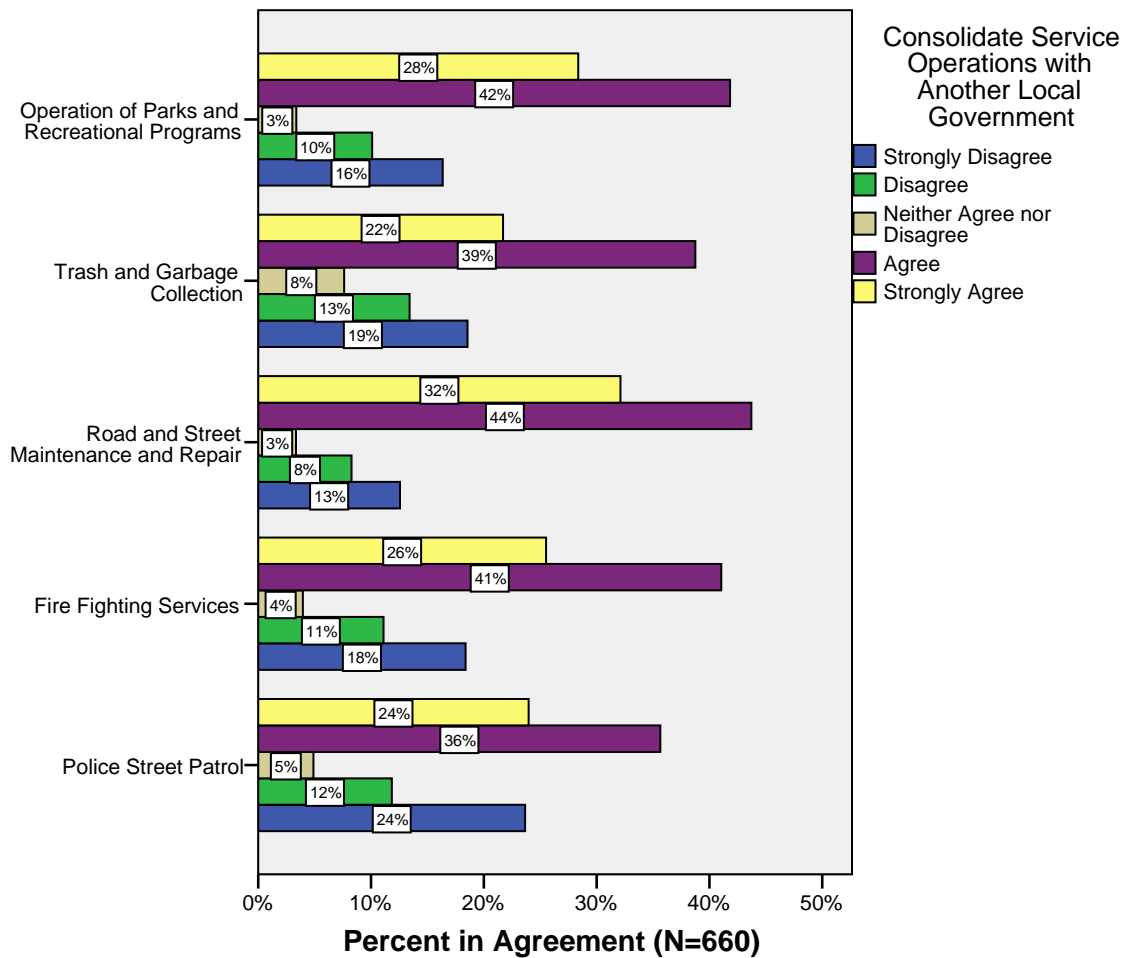


Figure 15: Respondent Support for Transferring Responsibility for Service to County, State, or Special District to Reduce Costs (All Five Service Areas)

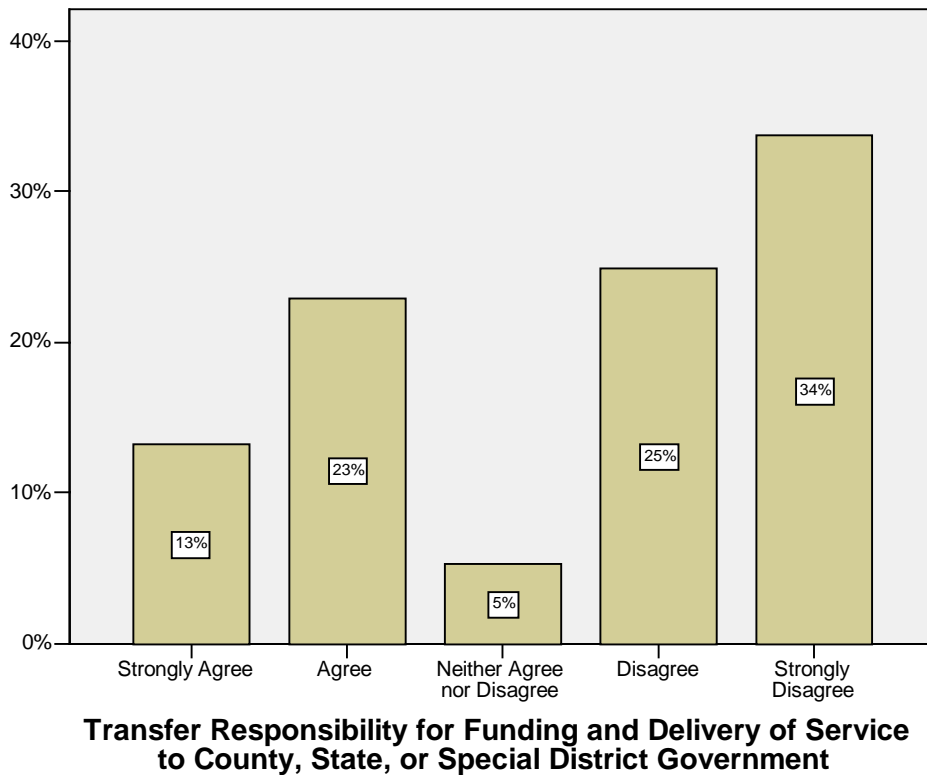
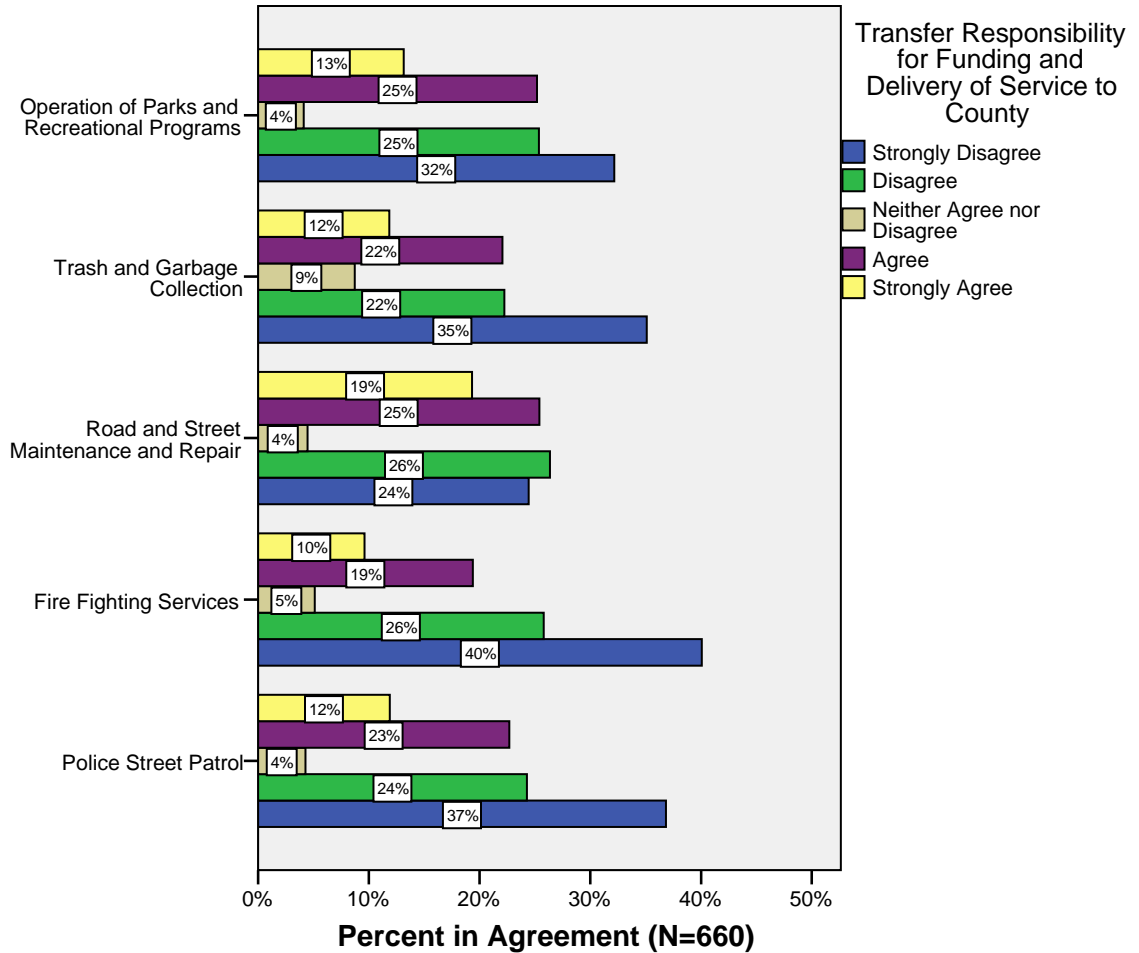


Figure 15 indicates the distribution of responses for the proposed strategy of transferring the responsibility for funding and providing the service to the county, state or a special district government. Fifty-nine percent of the respondents oppose this strategy. Opposition is so strong that the modal response is strongly disagree. Figure 16 shows that opposition to this strategy is consistent across all five service areas. In no case does the percent in strong agreement exceed the percent in strong disagreement. A full 40 percent of the respondents strong disagree that responsibility for fire fighting should be transferred to another non-municipal government.

Figure 16: Respondent Support by Service Area for Transferring Responsibility for Service to County, State, or Special District Government to Reduce Costs



Summary of Key Findings

This report provides only a broad overview of the findings of this survey. The analysis is descriptive and limited to the respondents’ attitudes in aggregate, but it provides several major insights about the attitudes of Michigan residents toward the use of these eight strategies to resolve fiscal stress in municipal governments. Table 1 ranks the strategies by average extent of agreement for each service, with the strategy with the

strongest mean agreement listed first. A full description of the survey design, the specific questions asked, and demographic characteristics of the respondents are provided in the appendix.

Increasing Local Revenues

For virtually every service, the respondents agreed the most strongly with the strategy of seeking aid from the federal or state government to maintain current levels of spending on the service. Trash and garbage collection was the only service where this strategy was not the most preferred approach. The strategy of increasing local taxes received only modest support from the respondents. It was ranked as high as number four for fire fighting and police street patrol, and was the sixth ranked strategy for trash and garbage collection and for repairing and maintaining local streets and roads. Interesting, the findings show the average respondent would rather increase local taxes to maintain spending on fire fighting and police street patrol than to transfer these functions to another government. Importantly, the respondents preferred tax increases to laying off municipal staff or reducing their compensation for all five services examined.

Reducing Service Production Costs

The two strategies for maintaining current spending levels by reducing the costs of municipal employees were the least favored strategies in all five services examined. The opposition to these two strategies reported by the respondents is high. The mean scores were less than 2.00 in each case, indicating the average response to these two strategies fell between disagree and strongly disagree for each service.

The respondents indicated greater support for altering existing service production arrangements to maintain current spending levels for the five services. This should be good news for those who advocate for serious changes in current patterns of service arrangements. Of the four strategies in this group, the respondents clearly favored consolidating the municipality's service delivery operations with one or more other local governments. It was the second ranked strategy for all five services. Service consolidation was followed by the two contracting strategies and then by the strategy of transferring responsibility for the function to another government. The relative lack of support for transferring these services to another government is an important finding. Transferring functions to the county is a common approach suggested for reducing production costs and improving service quality. However, the findings indicate the respondents prefer the other three approaches to altering service production arrangements.

Does Support for Strategies Differ by Service?

These findings also provide important insights into two other aspects of this topic. First, the order in which the strategies are ranked changes little across the five services. The ranking of the strategies was never exactly the same for two services, but the order of preference indicated by the respondents is very similar. There are many reasons to expect the respondents' attitudes toward these strategies would vary by service. Indeed, the services examined were selected in part because differences in several key dimensions. However, the findings show that the average responses to the use of these strategies do not vary much across the five services.

Table 1: Respondents' Preferred Strategies by Service

Strategy	Mean	Std Dev	25 th Per	50 th Per	75 th Per	Valid Cases
<i>Maintaining and Repairing Local Roads and Streets</i>						
1. Seek more fed/state aid to maintain funding	4.12	1.17	4.00	4.00	5.00	636
2. Consolidate our operations with another local gov	3.75	1.32	4.00	4.00	5.00	629
3. Buy service from another local government	3.25	1.44	2.00	4.00	4.00	622
4. Buy service from for-profit or non-profit provider	3.21	1.49	2.00	4.00	4.00	619
5. Turn service over to county, state, or SD to provide	2.89	1.50	2.00	2.00	4.00	626
6. Increase your local taxes to maintain funding	2.62	1.51	1.00	2.00	4.00	633
7. Cut the pay or benefits of emps who provide service	1.87	1.19	1.00	1.00	2.00	630
8. Layoff some employees to reduce costs	1.86	1.15	1.00	1.00	2.00	633
<i>Operation of Parks and Recreational Programs</i>						
1. Seek more fed/state aid to maintain funding	3.85	1.34	4.00	4.00	5.00	633
2. Consolidate our operations with another local gov	3.56	1.41	2.00	4.00	5.00	624
3. Buy service from for-profit or non-profit provider	3.30	1.45	2.00	4.00	4.00	619
4. Buy service from another local government	3.07	1.48	2.00	4.00	4.00	632
5. Increase your local taxes to maintain funding	2.63	1.50	1.00	2.00	4.00	635
6. Turn service over to county, state, or SD to provide	2.62	1.48	1.00	2.00	4.00	631
7. Layoff some employees to reduce costs	1.96	1.26	1.00	1.00	2.00	629
8. Cut the pay or benefits of emps who provide service	1.86	1.17	1.00	1.00	2.00	626
<i>Trash and Garbage Collection</i>						
1. Buy service from for-profit or non-profit provider	3.44	1.38	2.00	4.00	4.00	592
2. Consolidate our operations with another local gov	3.32	1.43	2.00	4.00	4.00	604
3. Seek more fed/state aid to maintain funding	3.30	1.53	2.00	4.00	5.00	618
4. Buy service from another local government	2.96	1.47	1.00	3.00	4.00	613
5. Turn service over to county, state, or SD to provide	2.53	1.45	1.00	2.00	4.00	607
6. Increase your local taxes to maintain funding	2.26	1.41	1.00	2.00	4.00	618
7. Layoff some employees to reduce costs	1.91	1.19	1.00	1.00	2.00	611
8. Cut the pay or benefits of emps who provide service	1.85	1.17	1.00	1.00	2.00	609
<i>Fire Fighting</i>						
1. Seek more fed/state aid to maintain funding	3.94	1.30	4.00	4.00	5.00	639
2. Consolidate our operations with another local gov	3.44	1.44	2.00	4.00	5.00	631
3. Buy service from another local government	3.12	1.49	2.00	4.00	4.00	630
4. Increase your local taxes to maintain funding	2.95	1.53	1.00	4.00	4.00	637
5. Buy service from for-profit or non-profit provider	2.83	1.54	1.00	3.00	4.00	617
6. Turn service over to county, state, or SD to provide	2.33	1.41	1.00	2.00	4.00	624
7. Layoff some employees to reduce costs	1.76	1.13	1.00	1.00	2.00	624
8. Cut the pay or benefits of emps who provide service	1.69	1.14	1.00	1.00	2.00	629
<i>Police Street Patrol</i>						
1. Seek more fed/state aid to maintain funding	3.85	1.40	4.00	4.00	5.00	641
2. Consolidate our operations with another local gov	3.24	1.52	2.00	4.00	4.00	634
3. Buy service from another local government	2.94	1.54	1.00	3.00	4.00	634
4. Increase your local taxes to maintain funding	2.82	1.54	1.00	3.00	4.00	642
5. Turn service over to county, state, or SD to provide	2.49	1.47	1.00	2.00	4.00	630
6. Buy service from for-profit or non-profit provider	2.48	1.50	1.00	2.00	4.00	624
7. Layoff some employees to reduce costs	1.76	1.19	1.00	1.00	2.00	631
8. Cut the pay or benefits of emps who provide service	1.68	1.11	1.00	1.00	2.00	634

NOTE: Strategies ranked (highest listed first) by mean value based on the following scale: 1=Strongly disagree; 2=Disagree; 3=Neither Agree nor Disagree; 4=Agree; 5=Strongly Agree.

A second important insight provided by these findings is that the respondents are clearly not enthusiastic about the use of *any* of these strategies. The previous section discussed the findings in terms of relative support, but the mean scores presented in Table 1 reveal that the respondents largely opposed using these strategies to resolve funding shortfalls in these five services. The mean score must be at least four to indicate the respondents, on average, agreed with the use of the strategy. Only one strategy in a single service meets this criterion: The respondents expressed agreement with seeking more federal or state aid to maintain spending on maintaining and repairing local roads and streets. No other strategy proposed for these services had an average score of four or better. Several strategies in each service had average scores between three and four, indicating the respondents were neutral to the use of the strategy, but there was only one instance where the average response was at least agreement with its use to maintain funding for the service.

Discussion: Cost Savings and External Services Production

The information provided in this report is based on a descriptive analysis of the attitudes held by the general public in Michigan about the wisdom of using these strategies to confront the problems of sustained fiscal stress. Future analyses will focus on explaining how differences in the fiscal condition of municipal governments and the individual characteristics of the survey respondents are related to their attitudes about these strategies. Fiscal stress is likely be an important problem confronting local governments in Michigan for the foreseeable future, and state and local policy makers

need a much better understanding about the factors that shape public attitudes toward these topics.

In contrast to the more narrow objectives of private sector organizations, local government officials are expected to balance the goals of competence and responsiveness. In addition to efficiently and effectively providing public services, local government officials are expected to make and implement policy in a manner responsive to the preferences and concerns of many different constituencies and interest groups. These stakeholders most certainly include residents, as taxpayers and service recipients, elected officials, and public employees, and may also the media, various interest groups, the courts, and other attentive external stakeholders (Brown et al., 2006; Fernandez, Ryu, and Brudney, 2008; Zeemering, 2008), and these stakeholders often seek different outcomes and/or make tradeoffs among competing values such as efficiency, effectiveness, and social equity in different ways (Nunn and Rosentraub, 1997).

Given the serious obstacles to raising local taxes or significantly reducing municipal payrolls, the use of approaches that confront fiscal stress through making changes to how local public services are provided receive strong support from the media and Michigan's government and business leaders. Policymakers in state government are regularly called on to create a statutory and policy environment that encourages municipal consolidations, functional transfers for some services to the state's county governments, and greater reliance on contracting arrangements with governments and other suitable vendors for municipal services (DFP, 2007; Wisely and Gorchow, 2007a).

There are likely many instances where merging municipal governments, consolidating specific functions into a multijurisdictional authority or the county

government, or turning to service contracting will reduce the costs of providing local government services. However, achieving significant cost reductions through contracts with nongovernmental providers or through complete or joint production arrangements with other governments is heavily dependent upon several other factors, including the number and quality of available vendors for the service, how the service agreements allocate the costs and benefits of the arrangements, and the specific cost characteristics of the services subject to these arrangements (Brown and Potoski, 2003; Carr, LeRoux, and Shrestha, 2009). In some instances, the cost structure creates significant opportunities to exploit production economies and these savings provide a strong incentive for officials to seek arrangements with other governments or nongovernmental providers. In other instances, the costs of planning, managing, and maintaining these external service arrangements make these approaches very costly.⁷

The findings of this survey reveal a broad diversity of perspectives among Michigan residents about the wisdom of using these eight strategies to resolve the increasingly common problems in municipal budgets. To some commentators, the lack of consensus on the benefits of municipal consolidation, for example, is simply a matter of misplaced community pride: “Whether it’s the tradition of local festivals, the appreciation of having a smaller government or misgivings about a neighboring city, one of the biggest impediments to municipalities consolidating services is community pride—even

⁷ These management costs exist whether the service is produced entirely in-house or through some manner of external provision, but these costs tend to increase significantly for external provision. This is because of the “limited information, uncertainty about the future, and the prospect that people or organizations behave opportunistically in their interactions with others” (Brown and Potoski, 2005: 328). The implications of these “transaction costs” for the costs of providing services through contracting arrangements have received enormous attention in the academic research literature. In some instances, the added transaction costs may completely offset any savings gained through increased production efficiencies. For a general elaboration on the transaction costs involved in contracting local public services, see Brown and Potoski (2003, 2005) and Carr, LeRoux and Shrestha (2009).

if the consolidation might make tax dollars go farther” (Gorchow and Wisely, 2007b: 14A). Assessments like this are overly simplistic and incorrectly reduce this topic to a discussion of whether lower taxes should be preferred to higher taxes. However, altering governmental boundaries and service delivery arrangements have consequences far beyond the amount of taxes residents will pay (Carr, 2004; Frederickson, 1999; Nunn and Rosentraub, 1997) and significant changes to these arrangements will be of great concern to local residents, public employees and other local stakeholders.

The findings of this survey reflect these concerns and suggest policy makers need to recognize the full range of locally important values affected by these proposals. Subsequent analyses will seek to develop more specific guidance for state and local policy makers about how different communities of stakeholders view these strategies.

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Appendix A Description of Survey Design

The Survey Research Unit at Wayne State University's Center for Urban Studies conducted telephone interviews with 660 Michigan residents between 11/29/06 and 1/21/07.

The sample was generated using Ci3 software. A list of prefixes for each area code in Michigan was compiled from the North American Numbering Plan Administration (NANPA) and screened against previous samples generated by Survey Sampling Inc. to validate prefixes that are currently in use in the state. These prefixes were then loaded into Ci3, and the software then randomly generated the last four digits of each phone number. Phone numbers were proportionally generated for each prefix based on 2000 census data for each county in the state.

Statement read by Telephone Interviewer

Respondents were read the following introduction and then presented with several options for dealing with fiscal stress in five different service areas.

In recent years many local governments in Michigan have had budget problems that make it difficult for them to continue providing various public services. The next set of questions ask your views on how you think local governments should deal with a situation in which local revenues to support programs as in the past are inadequate. I will ask you about this in terms of various specific services performed by local governments. For each such service or function I will give you a list of strategies that a local government might pursue in responding to this situation. For each strategy please tell me whether you agree with that strategy or disagree with it.

Strategies Presented to Respondents as Read by Interviewer

1. First of all, with regard to maintaining or repairing streets and roads, should your local municipal government (city, village, or township)?

1a. Increase my local taxes to generate additional funding for this service:

strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

1b. Seek more state or federal government aid to help pay for this service:

strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

1c. Contract with a for-profit or non-profit organization to provide this service at a lower cost

strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

1d. Layoff some employees to reduce costs

- strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

1e. Consolidate the provision of this service by combining my local government's personnel, equipment, and funds with those from one or more neighboring governments:

- strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

1f. Purchase this service from a neighboring local government instead of providing it in-house:

- strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

1g. Cut the pay or benefits of local employees who provide this service

- strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

1h. Transfer the entire responsibility for funding and delivering this service to a different unit of government such as the county, a special district or the state.

- strongly agree somewhat agree not sure/don't know somewhat disagree
 strongly disagree

The same response options are repeated for four additional service areas:

2. ...*fire fighting services?*

3. ...*trash and garbage collection?*

4. ...*maintenance and operation of parks?*

5. ...*police street patrol?*

Appendix B
Table B-1: Selected Demographic Characteristics of Survey Respondents

Variable	Cases	Mean	Min/Max Value
<i>Scale Variables</i>			
Age	641	51.00	18/95
Years Living in Current Residence	657	14.24	0/95
Adults, aged 18 and older, living in Household	656	1.94	1/5
Children, aged 5-17, living in Household	656	0.52	0/10
<i>Categorical Variables</i>			
Gender	660 (100%)		
Male	253 (38.3%)		
Female	407 (61.7%)		
Race/Ethnicity¹	640 (100%)		
White/Caucasian	544 (85.0%)		
Black/African American	59 (9.2%)		
Latino/Hispanic	10 (1.6%)		
American Indian/Aleut/Eskimo	10 (1.6%)		
Asian/Pacific Islander	4 (0.6%)		
Arab/Middle Eastern	3 (0.4%)		
Other	10 (1.6%)		
Marital Status¹	656 (100%)		
Now Married	387 (59.0%)		
Separated	5 (0.8%)		
Never Married	115 (17.4%)		
Widowed	67 (10.2%)		
Divorced	80 (12.1%)		
Cohabiting	2 (0.3%)		
Own/Rent Residence¹	650 (100%)		
Own	559 (86.0%)		
Rent	88 (13.5%)		
Don't Know	3 (0.5%)		
Highest Degree/Accreditation Achieved¹	652 (100%)		
None (Did not graduate high school)	27 (4.1%)		
High School Graduate w/Diploma or GED	275 (42.2%)		
Apprenticeship Certification	25 (3.8%)		
Associate Degree in Vocational Program	54 (8.3%)		
Associate Degree in Academic Program	49 (7.5%)		
Bachelors Degree	132 (20.2%)		
Masters Degree	75 (11.5%)		
Professional School	3 (0.5%)		
Doctorate	9 (1.4%)		
Other	2 (0.3%)		
Don't Know	1 (0.2%)		
Personal Income in 2005¹	550 (100%)		
Under \$20,000	89 (16.2%)		
\$20,000 – \$24,999	52 (9.5%)		
\$25,000 – 29,999	72 (13.1%)		
\$30,000 - \$34,999	62 (11.3%)		
\$35,000 - \$39,999	106 (19.3%)		
\$40,000 - \$44,999	98 (17.8%)		
\$45,000 – \$49,999	38 (6.9%)		
\$50,000 - \$74,999	18 (3.3%)		

\$75,000 and Above	6 (1.1%)		
Don't Know	9 (1.6%)		
Household Income in 2005¹	324 (100%)		
Under \$20,000	13 (4.0%)		
\$20,000 – \$24,999	7 (2.2%)		
\$25,000 – 29,999	14 (4.3%)		
\$30,000 - \$34,999	15 (4.6%)		
\$35,000 - \$39,999	16 (4.9%)		
\$40,000 - \$49,999	25 (7.7%)		
\$50,000 – \$59,999	33 (10.2%)		
\$60,000 - \$74,999	41 (12.7%)		
\$75,000 and Above -	131 (40.4%)		
Don't Know	29 (9.0%)		
Current Employment Status^{1,2}	787 (119.2%)		
Employed and working Full-Time	245 (37.1%)		
Employed and working Part-Time	89 (13.5%)		
Unemployed	36 (5.5%)		
Retired	209 (31.7%)		
Student	66 (10.0%)		
Home-Maker	93 (14.1%)		
Temporarily Laid-Off	8 (1.2%)		
Other	41 (6.2%)		
Political Party Identification¹	630 (100%)		
Democrat	223 (35.4%)		
Republican	144 (22.9%)		
Independent	190 (30.2%)		
Other	56 (8.9%)		
Don't Know	17 (2.7%)		
Strength of Democratic Party Identification¹	223 (100%)		
Strong Democrat	135 (60.5%)		
Lean Democrat	87 (39.0%)		
Don't Know	1 (0.5%)		
Strength of Republican Party Identification¹	144 (100%)		
Strong Republican	78 (54.2%)		
Lean Republican	62 (43.1%)		
Don't Know	4 (2.7%)		
Political Ideology^{1,3}	641 (100%)		
Very Conservative	53 (8.3%)		
Conservative	194 (30.3%)		
Moderate	251 (39.2%)		
Liberal	97 (15.1%)		
Very Liberal	24 (3.7%)		
Don't Know	22 (3.4%)		

NOTES: ¹Refused and missing values excluded for this total. ²Percentage information is portion of 660 respondents indicating the category, and not the 787 valid responses. Employment category responses exceed 660 because respondents were asked to indicate all employment status categories that apply.

³Respondents were asked, "how conservative or liberal do you think your viewpoints are?"