Looking at Infrastructure and Local Government implications in Michigan

IPPSR Event April 18, 2023 – Michigan’s Crumbing Infrastructure

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Michigan Local governments

- Local governments have endured two decades of state divestment and significant state-based property tax limits

- Local governments adapted to divestment and limits by:
  - Deferring or cutting expenses to infrastructure investment and funding for employee pension and health care programs

- Legacy costs are incurred and committed in a previous period of time where revenues and assets were different/climate was different
  - For local government – employees and infrastructure
What is Infrastructure?

Infrastructure is “fundamental physical and technological networked systems that are needed for the basic operation of society and the economy”

Infrastructure is:

- Telecommunications
- Roads and transit
- Power and energy
- Water, sewer and stormwater
- Railways and water ports
Understanding State/Local Govt. Infrastructure

Government’s Fixed Assets
- Roads, Pipes, Bridges, Dams

How is it paid for?
- Debt or Cash
- State & Feds, Muni bond market

Flow of government services to social and economic activity

Depreciation

Investment
Infrastructure By the Numbers

• $11.3 trillion so about 15% of U.S fixed assets are basic infrastructure (BEA)

• Ownership
  • $4 trillion is privately owned and controlled,
  • $7 trillion is state and local government,
  • $400 billion is federally owned and controlled

• Industry
  • $700 billion is water (90% state and local govt)
  • $1 trillion is sewer (95% state and local govt)
  • $500 billion is conservation and development (65% federal)
  • $3.7 trillion is power (87% private)
  • $5.4 trillion is transportation (90% state and local)
Maintaining/Investing in our Infrastructure

• Need to keep up with population (growth or decline) and change in the demographics

• Need to keep up with inflation or rising prices for maintenance and new construction

• Need to keep up with depreciation or breakdown in existing infrastructure

• Need to keep up with climate change and variability
Real Net Investment in Basic infrastructure
(1947-2020)
MI Local Governments Fixed Assets

- **Governmental Fixed Assets (roads are in here)**
  - $8.6 billion – cities and villages
  - $2.7 billion – county
  - $1 billion - townships

- **Enterprise Fixed Assets (primarily water/sewer)**
  - $12.3 billion – cities and villages
  - $5 billion – county
  - 2.3 billion - townships

$32 billion in Fixed Assets

How much is infrastructure?
Local Fixed Assets and Infrastructure

- $32 billion in Fixed Assets in Local Government
- Approx. $25 billion in infrastructure (rough estimate)
  - State infrastructure is $14 billion
- Roads and bridges and ancillary services
- Water and sewer lines and plants and ancillary services
In 2023, A Paradox in the Making for infrastructure investment

• The Good side of the equation
  • Local governments are temporarily flush with federal and state $$

• The problem side of the equation
  • Serious capacity constraints to spend (workforce and in some cases supplies)
  • Inflation is driving costs for projects much higher
Many jobs gone, we have not recovered
Local Government Employment (1990-2023)

Local governments have lost over 20,000 jobs.
Michigan Labor Force Participation Rate (1976-2022)

Several hundred thousand fewer people working
National construction costs (2009-2022)

Average construction inflation running at 12-14% in last two years
A Very brief case study of the City of Saginaw, MI
## City of Saginaw governmental function

<table>
<thead>
<tr>
<th>Governmental activities</th>
<th>Restated Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital assets not being depreciated</strong></td>
<td>$14,245,703</td>
<td>$-</td>
<td>$-</td>
<td>$14,245,703</td>
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<tr>
<td>Land</td>
<td>$3,883,707</td>
<td>4,035,736</td>
<td>2,244,650</td>
<td>5,674,793</td>
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<tr>
<td><strong>Total capital assets not being depreciated</strong></td>
<td>$18,129,410</td>
<td>4,035,736</td>
<td>2,244,650</td>
<td>19,920,496</td>
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<tr>
<td><strong>Capital assets being depreciated</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Land improvements</td>
<td>2,810,938</td>
<td>620,079</td>
<td>-</td>
<td>3,431,017</td>
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<tr>
<td>Infrastructure</td>
<td>57,383,152</td>
<td>1,513,508</td>
<td>-</td>
<td>58,896,660</td>
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<tr>
<td>Buildings, additions and improvements</td>
<td>25,770,872</td>
<td>327,801</td>
<td>-</td>
<td>26,098,673</td>
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<tr>
<td>Machinery and equipment</td>
<td>17,405,813</td>
<td>1,238,739</td>
<td>13,819</td>
<td>18,631,733</td>
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<tr>
<td>Vehicles</td>
<td>13,503,768</td>
<td>1,206,499</td>
<td>551,565</td>
<td>14,158,702</td>
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<tr>
<td><strong>Right to use asset - machinery and equipment</strong></td>
<td>289,574</td>
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<td></td>
<td>289,574</td>
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<tr>
<td><strong>Total capital assets being depreciated</strong></td>
<td>117,165,117</td>
<td>4,906,626</td>
<td>565,384</td>
<td>121,506,359</td>
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<tr>
<td><strong>Less accumulated depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Land improvements</td>
<td>329,376</td>
<td>63,266</td>
<td>-</td>
<td>391,642</td>
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<tr>
<td>Infrastructure</td>
<td>40,004,440</td>
<td>1,175,803</td>
<td>-</td>
<td>41,180,243</td>
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<tr>
<td>Buildings, additions and improvements</td>
<td>21,180,379</td>
<td>326,422</td>
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<td>21,506,801</td>
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<tr>
<td>Machinery and equipment</td>
<td>12,422,620</td>
<td>814,780</td>
<td>6,859</td>
<td>13,230,541</td>
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<tr>
<td>Vehicles</td>
<td>10,780,447</td>
<td>622,828</td>
<td>408,475</td>
<td>10,994,800</td>
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<tr>
<td><strong>Right to use asset - machinery and equipment</strong></td>
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<td>60,885</td>
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<td>60,885</td>
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<tr>
<td><strong>Total accumulated depreciation</strong></td>
<td>84,716,262</td>
<td>3,063,784</td>
<td>415,334</td>
<td>87,364,712</td>
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<tr>
<td><strong>Net capital assets being depreciated</strong></td>
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<td></td>
<td></td>
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<tr>
<td><strong>Governmental activities capital assets, net</strong></td>
<td>$50,578,265</td>
<td>$5,678,578</td>
<td>$2,394,700</td>
<td>$54,062,143</td>
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</tbody>
</table>
Saginaw Road Investment and Depreciation (2008-2022)

Understates real cost of rebuilding roads by 35-50%

Real cost of recovery for legacy cost
Concluding thoughts

• Legacy costs and divestment have plagued Michigan local governments for decades with real consequences
  • Diminished quality of life for current residents
  • Difficultly in attracting new people and business

• Local governments own and control most public infrastructure and have major deferred investments – and this doesn't include the problems of climate volatility – we can’t rebuild for 1999

• Legacy cost solutions require bipartisan and comprehensive solutions like the local government pension programs
Thank you!

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