

Looking at Infrastructure and Local Government implications in Michigan

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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

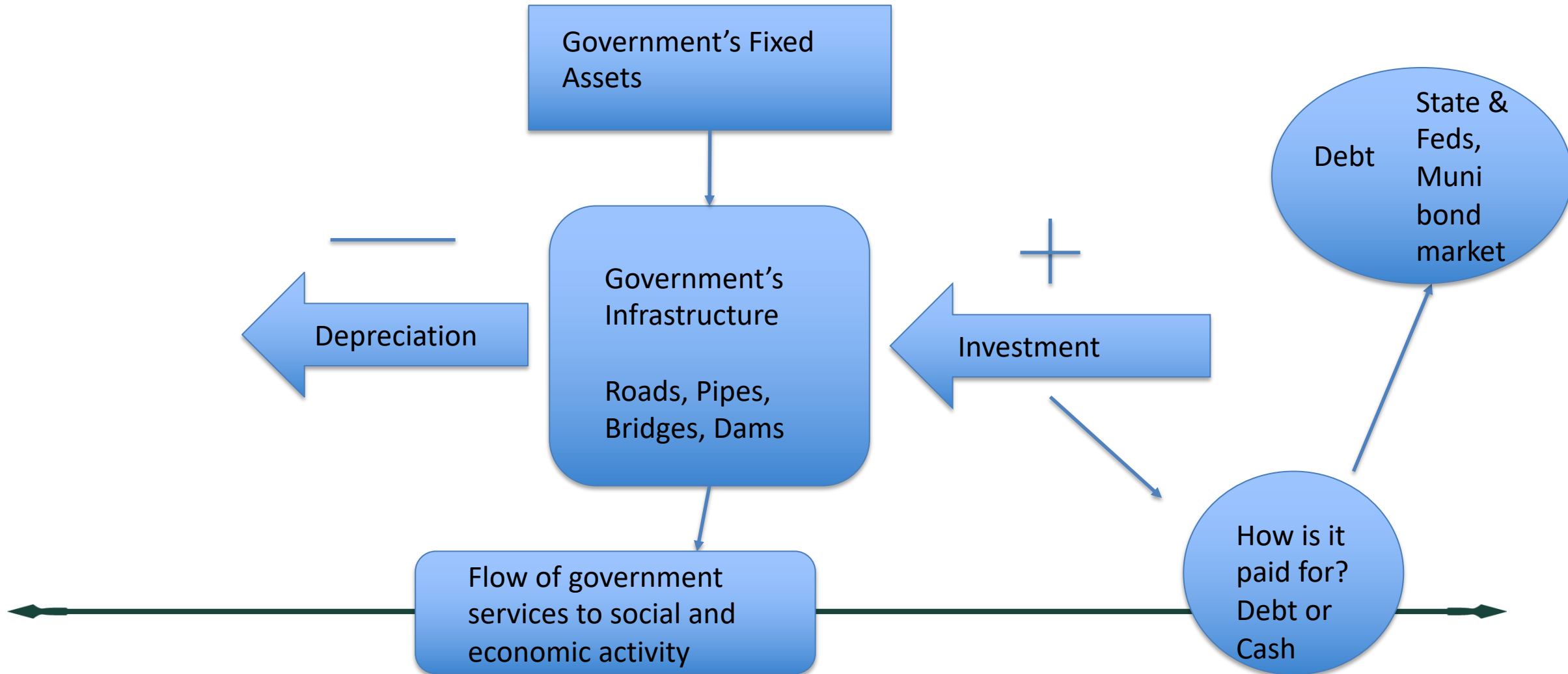
Power and energy

Water, sewer and stormwater

Railways and water ports



Understanding State/Local Govt. Infrastructure



Infrastructure By the Numbers

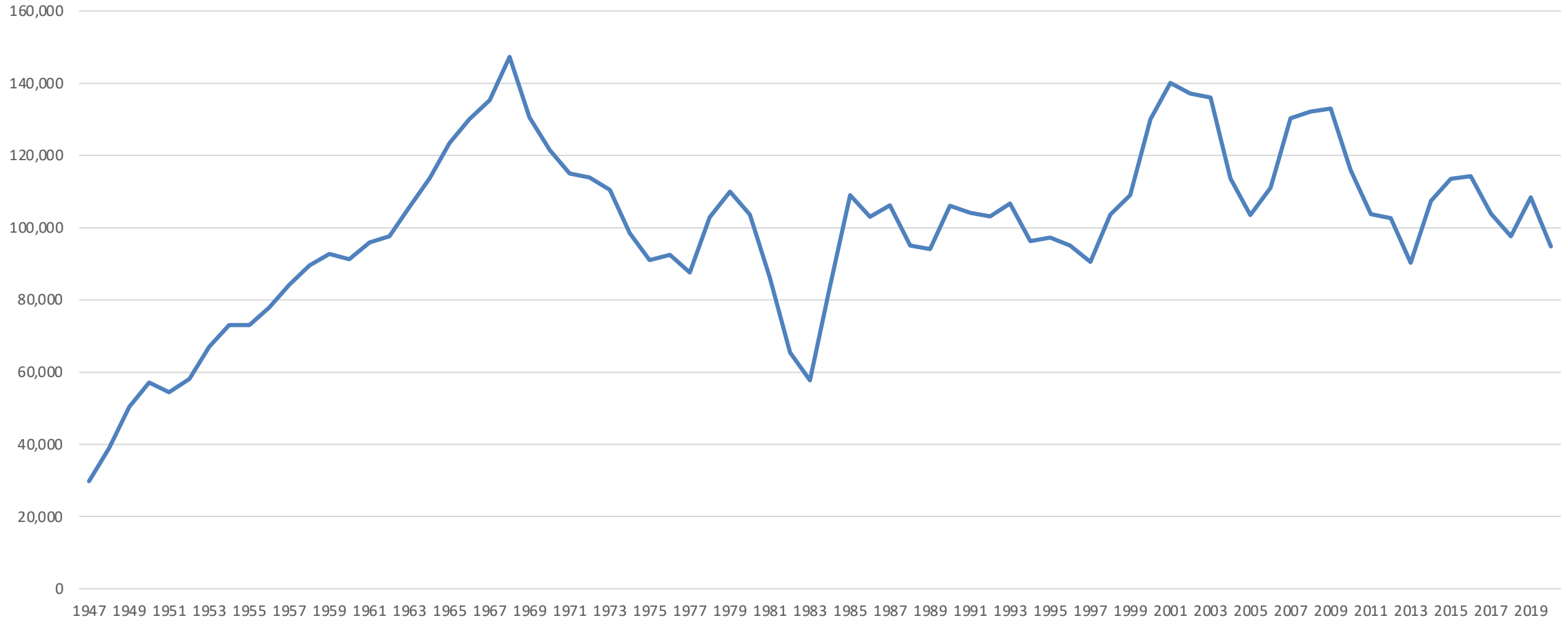
- \$11.3 trillion so about 15% of U.S fixed assets are basic infrastructure (BEA)
 - **Ownership**
 - \$4 trillion is privately owned and controlled,
 - \$7 trillion is state and local government,
 - \$400 billion is federally owned and controlled
 - **Industry**
 - \$700 billion is water (90% state 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)
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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)

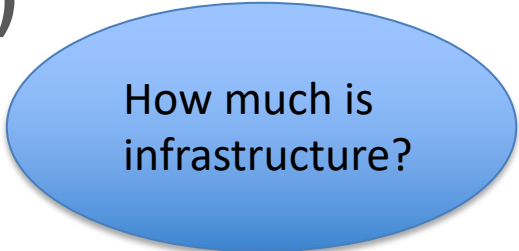


MI Local Governments Fixed Assets

- **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
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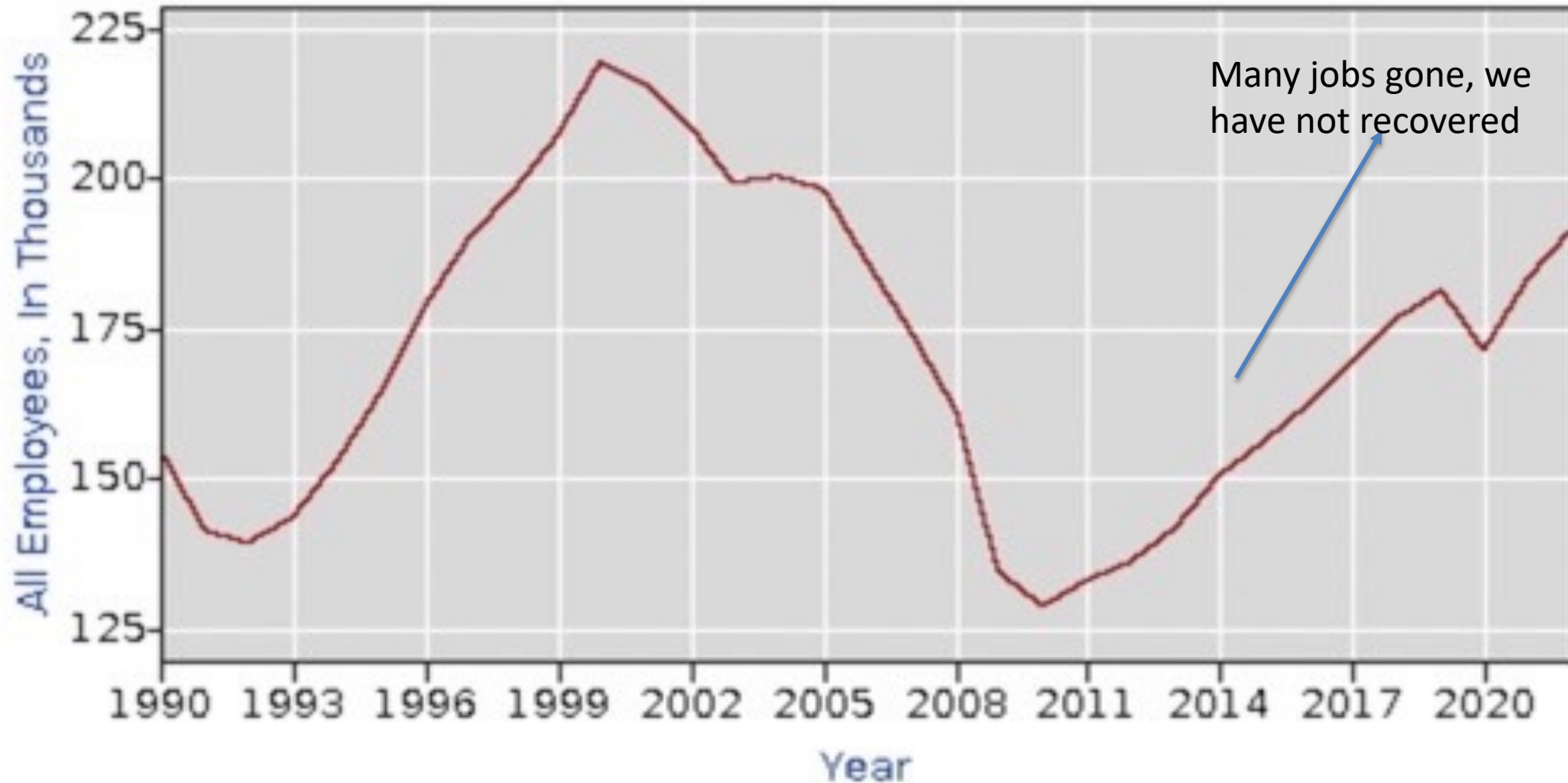


In 2023, A Paradox in the Making for infrastructure investment

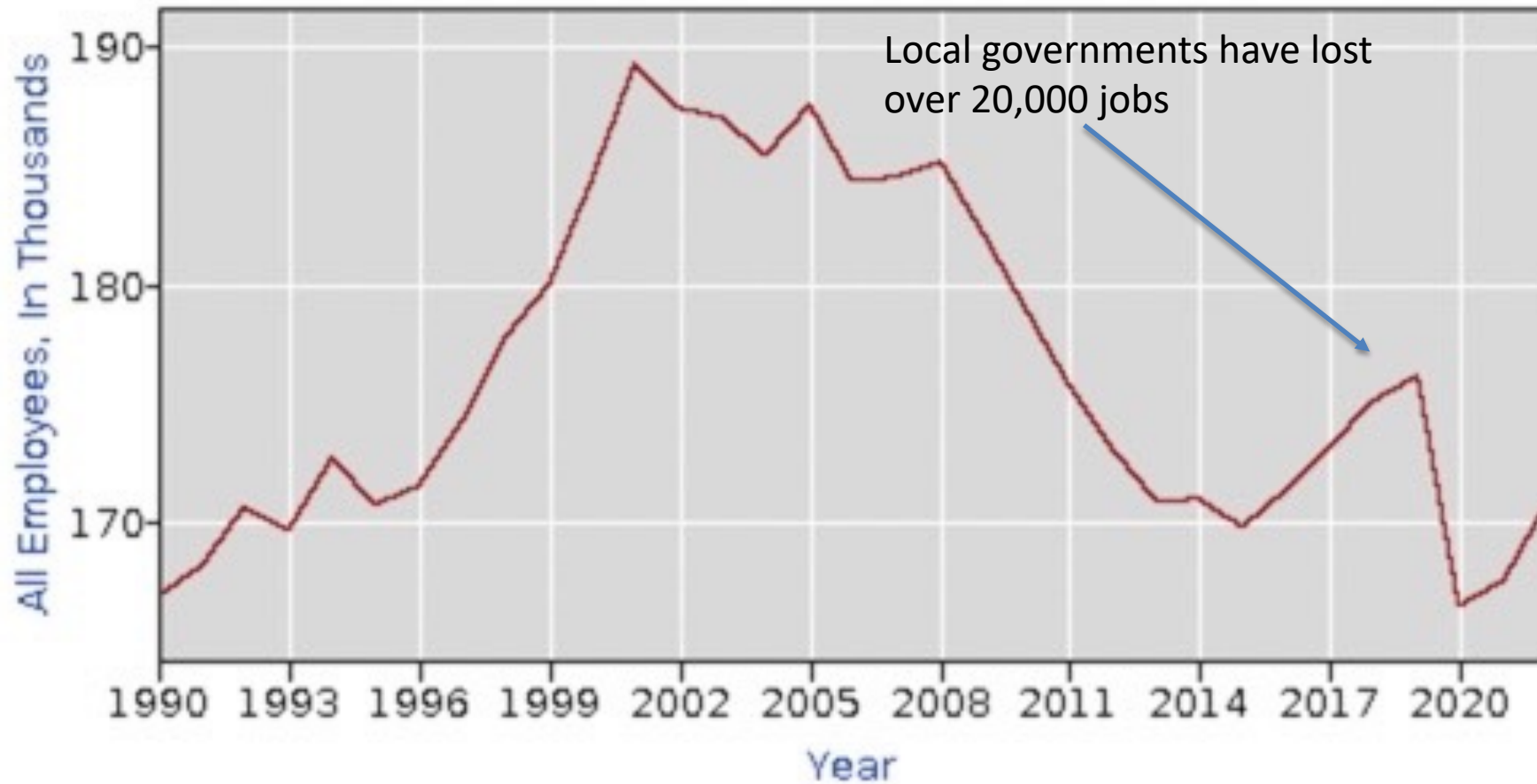
- **The Good side of the equation**
 - Local governments are temporarily flush with federal and state \$\$
- **The problem side of the equation**
 - Serious capacity constraints to spend (workforce and in some cases supplies)
 - Inflation is driving costs for projects much higher



Construction/Contractor Employment



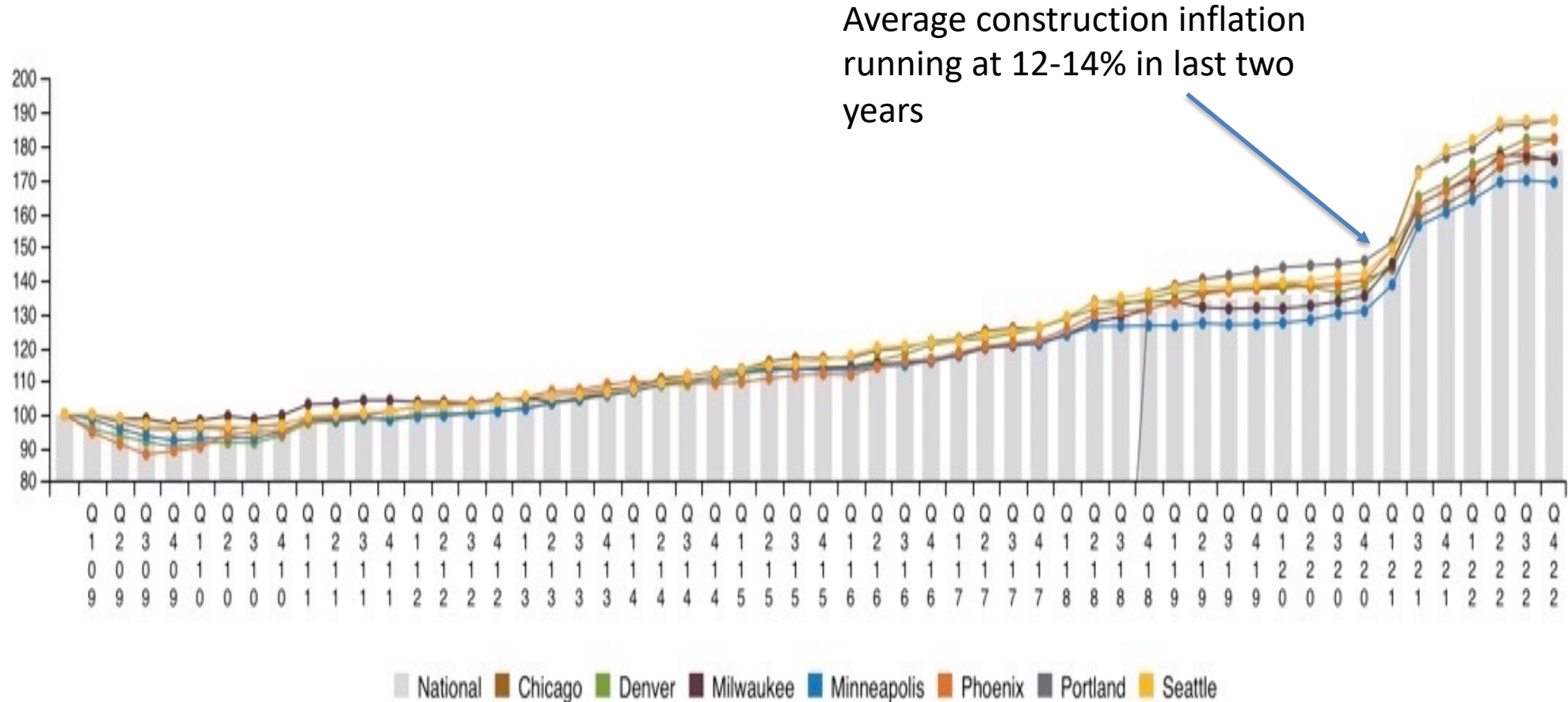
Local Government Employment (1990-2023)



Michigan Labor Force Participation Rate (1976-2022)



National construction costs (2009-2022)



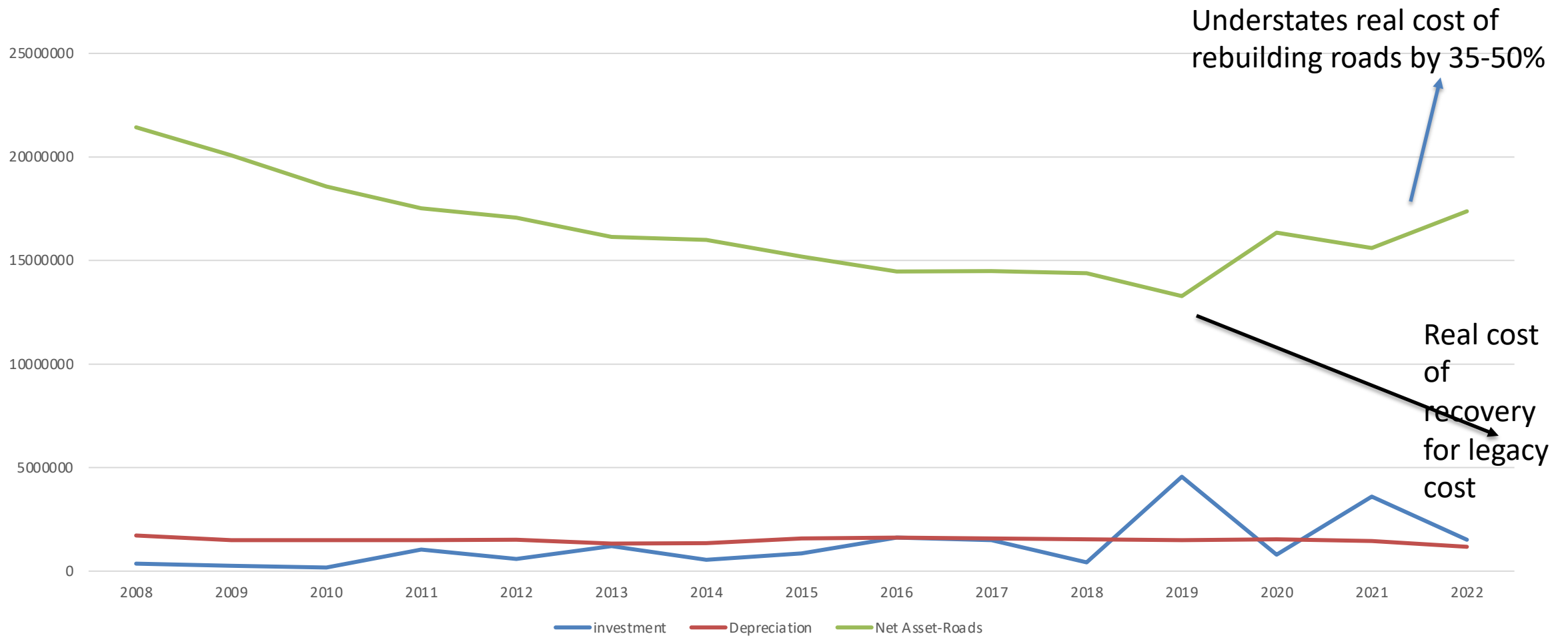
A Very brief case study of the City of Saginaw, MI



City of Saginaw governmental function

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 14,245,703	\$ -	\$ -	\$ 14,245,703
Construction-in-progress	3,883,707	4,035,736	2,244,650	5,674,793
Total capital assets not being depreciated	<u>18,129,410</u>	<u>4,035,736</u>	<u>2,244,650</u>	<u>19,920,496</u> →
Capital assets being depreciated				
Land improvements	2,810,938	620,079	-	3,431,017
Infrastructure	57,383,152	1,513,508	-	58,896,660
Buildings, additions and improvements	25,770,872	327,801	-	26,098,673
Machinery and equipment	17,406,813	1,238,739	13,819	18,631,733
Vehicles	13,503,768	1,206,499	551,565	14,158,702
Right to use asset - machinery and equipment	289,574	-	-	289,574
Total capital assets being depreciated	<u>117,165,117</u>	<u>4,906,626</u>	<u>565,384</u>	<u>121,506,359</u> →
Less accumulated depreciation for				
Land improvements	328,376	63,266	-	391,642
Infrastructure	40,004,440	1,175,603	-	41,180,043
Buildings, additions and improvements	21,180,379	326,422	-	21,506,801
Machinery and equipment	12,422,620	814,780	6,859	13,230,541
Vehicles	10,780,447	622,828	408,475	10,994,800
Right to use asset - machinery and equipment	-	60,885	-	60,885
Total accumulated depreciation	<u>84,716,262</u>	<u>3,063,784</u>	<u>415,334</u>	<u>87,364,712</u> →
Net capital assets being depreciated	<u>32,448,855</u>	<u>1,842,842</u>	<u>150,050</u>	<u>34,141,647</u>
Governmental activities capital assets, net	<u>\$ 50,578,265</u>	<u>\$ 5,878,578</u>	<u>\$ 2,394,700</u>	<u>\$ 54,062,143</u> →

Saginaw Road Investment and Depreciation (2008-2022)



Concluding thoughts

- Legacy costs and divestment have plagued Michigan local governments for decades with real consequences
 - Diminished quality of life for current residents
 - Difficulty 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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