

The Fiscal Outlook and Status of Michigan Municipalities

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OVERVIEW OF MICHIGAN LOCAL GOVERNMENTS

Fiscal Stress Matrix

	Economic Environment Strong	Economic Environment Weak
Internal Management Strength	Fiscal health/economic health	Fiscal health/economic stress (Saginaw, MI)
Internal Management Weak	Fiscal stress/economic health (orange county 1985)	Fiscal stress/economic stress (Detroit, MI)

Property Taxes

- Property taxes peaked at \$14.3 billion in 2007
- Property taxes fell to \$13.4 billion in 2010
- Property taxes cut almost \$1 billion

Property Taxes II

- 2007
 - County: \$2.2 bil.
 - Township: \$913 mil.
 - City: \$2.5 bil.
 - School: \$8.5 bil.
 - Total: \$14.3 bil.
- 2010
 - County: \$2.09 billion
 - Township: \$930 mil.
 - City: \$2.41 bil.
 - School: \$7.8 bil.
 - Total: \$13.3 bil.
- Wayne and Oakland County account for bulk of losses

State Revenue Sharing

- **Constitutional**
 - Basically flat over decade

- **Statutory**
 - FY 2002 was \$860 million cut to \$420 million in FY 2006 to \$200 million in FY 2012
 - Primary impact on townships and cities

Local Gov't Expenses

- Expenses are rising (driven by health care and some material costs)
- Comparing FY 2007 to FY 2010
 - Average expenses up 10.1% while median cost up 1.9%
 - Tells us that there is wide dispersion

City Fiscal Position (Revenues and Expenses)

Revenue

- FY 2007: \$6.2 bil.
- FY 2010: \$6.6 bil.

Expenses

- FY 2007: \$6.1 bil.
- FY 2010: \$6.6 bil.

City of Detroit represents about 1/3 of these revenues and expenses

City Fiscal Position (operating margin)

Operating Deficit FY 2007

- 104 out of 268 cities running operating deficits
- Median operating margin was +13k
- Median margin is +1.0%

Operating Deficit FY 2010

- 146 out of 268 cities running operating deficits
- Median operating margin is -17k
- Median margin is -.5%

City Fiscal Position (Fund Balance)

Fund Balance FY 2007

- Average is 39%, median is 32%
- Only 3 reported to have negative fund balance

Fund Balance FY 2010

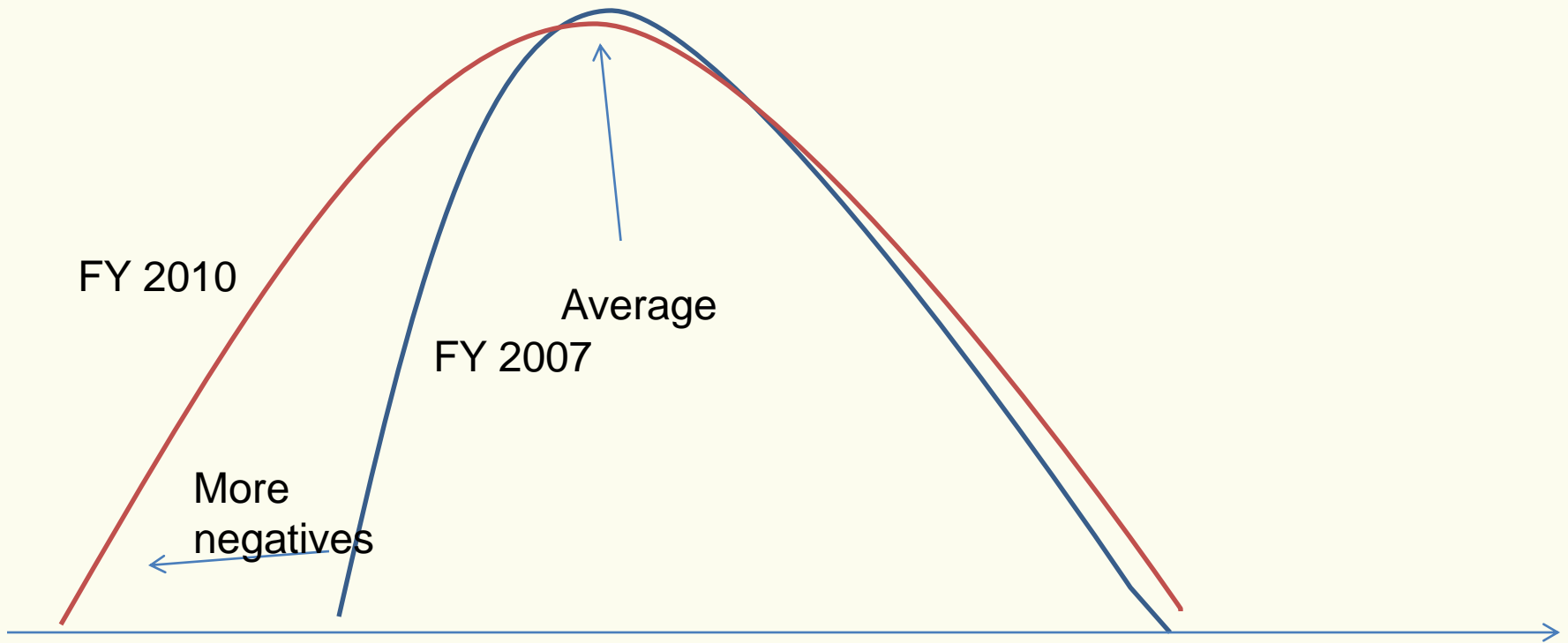
- Average is 39%, median is 32%
- About 9 have negative fund balance

What Have We learned?

- Cities are generally managing fiscal stress
 - Expenses are being cut, revenues bumped up due to stimulus in FY 2008-2010 and new taxes
 - Fund balance being maintained
- Fiscal Stress and Crisis is appearing in more places
 - Some places unable to manage fixed costs

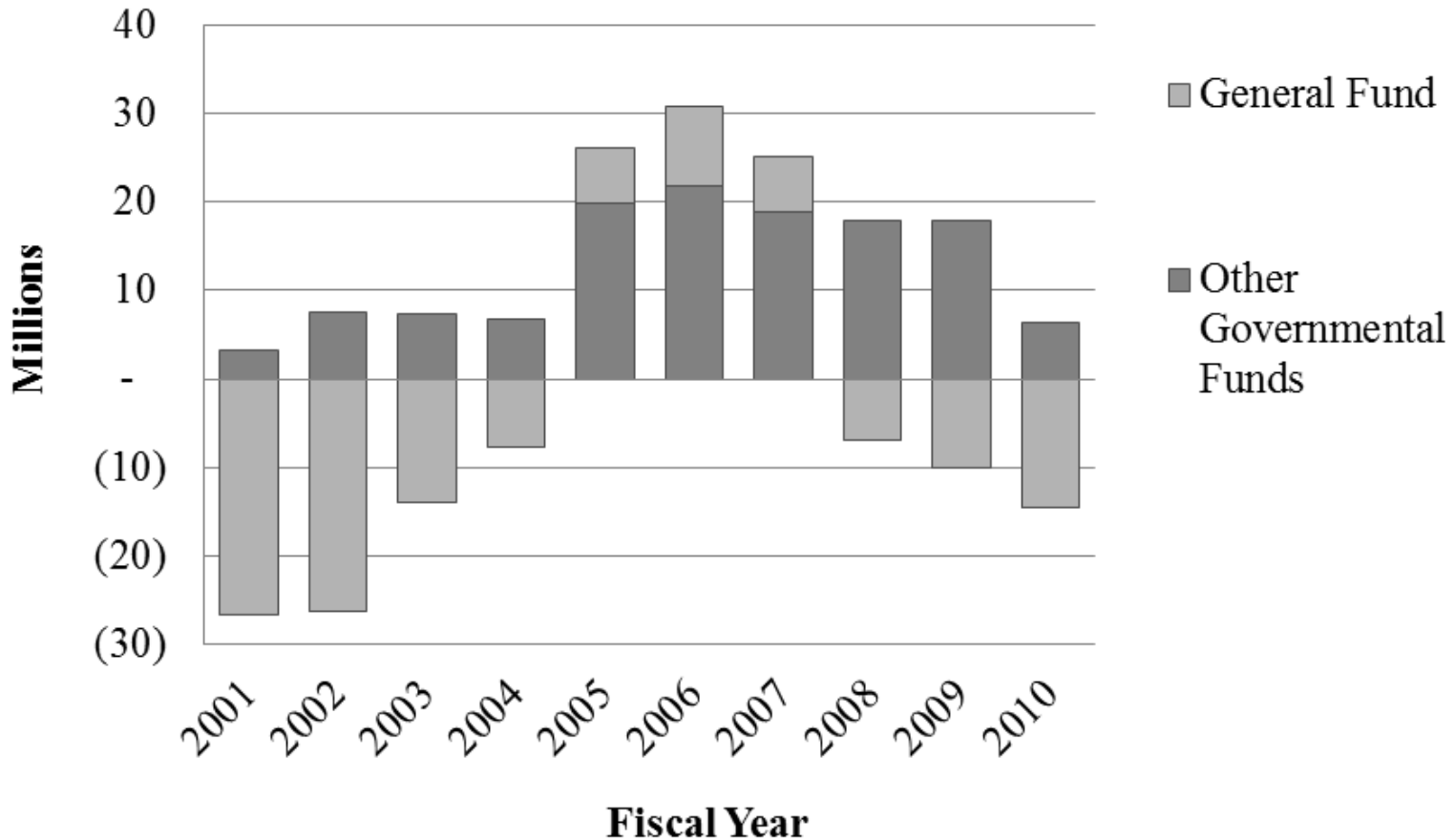
In Graphs.....

Distribution of City Fund Balance



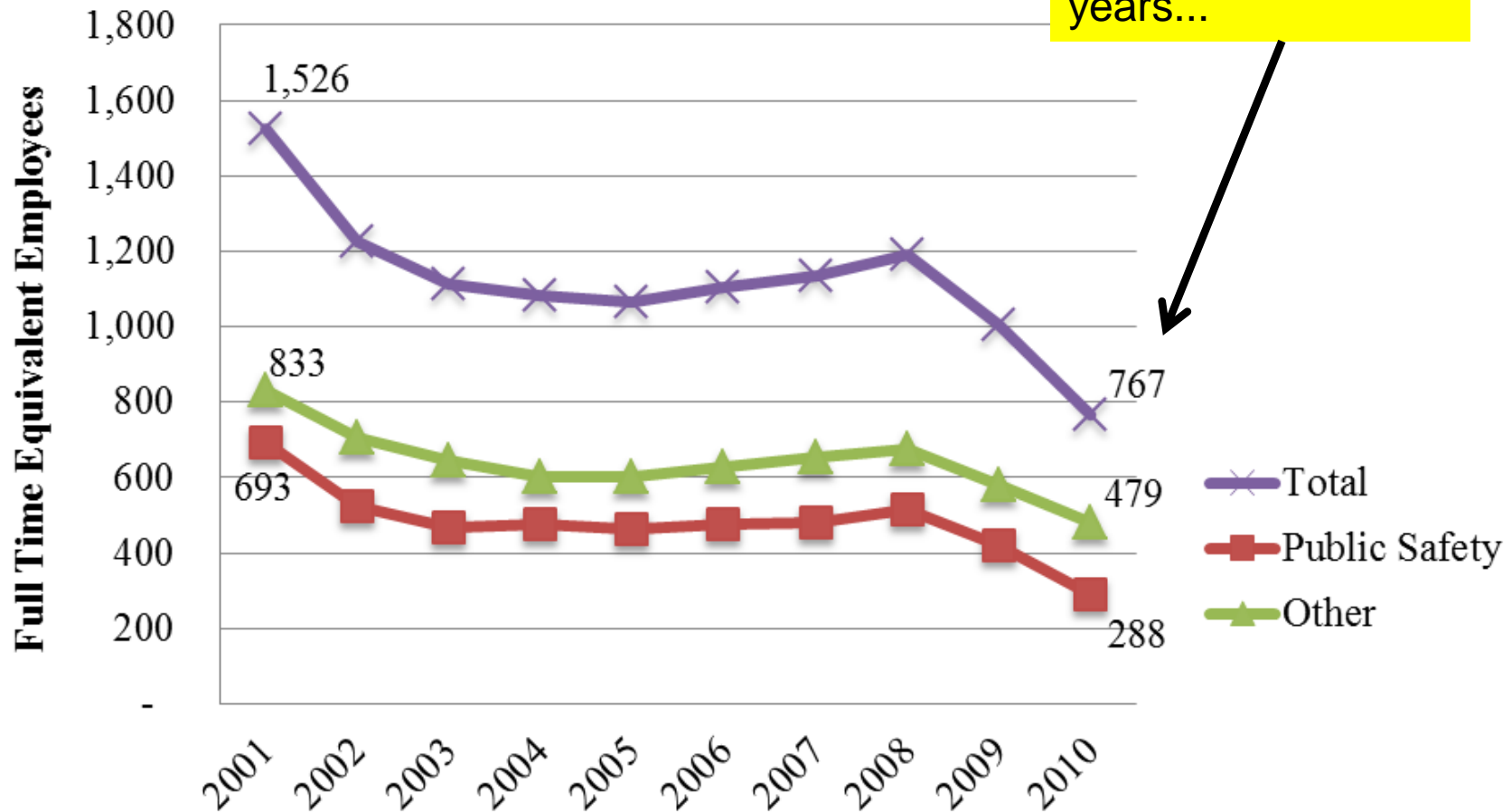
FLINT CASE STUDY

**City of Flint
Governmental Funds
Fund Balance (Deficit) as of June 30**



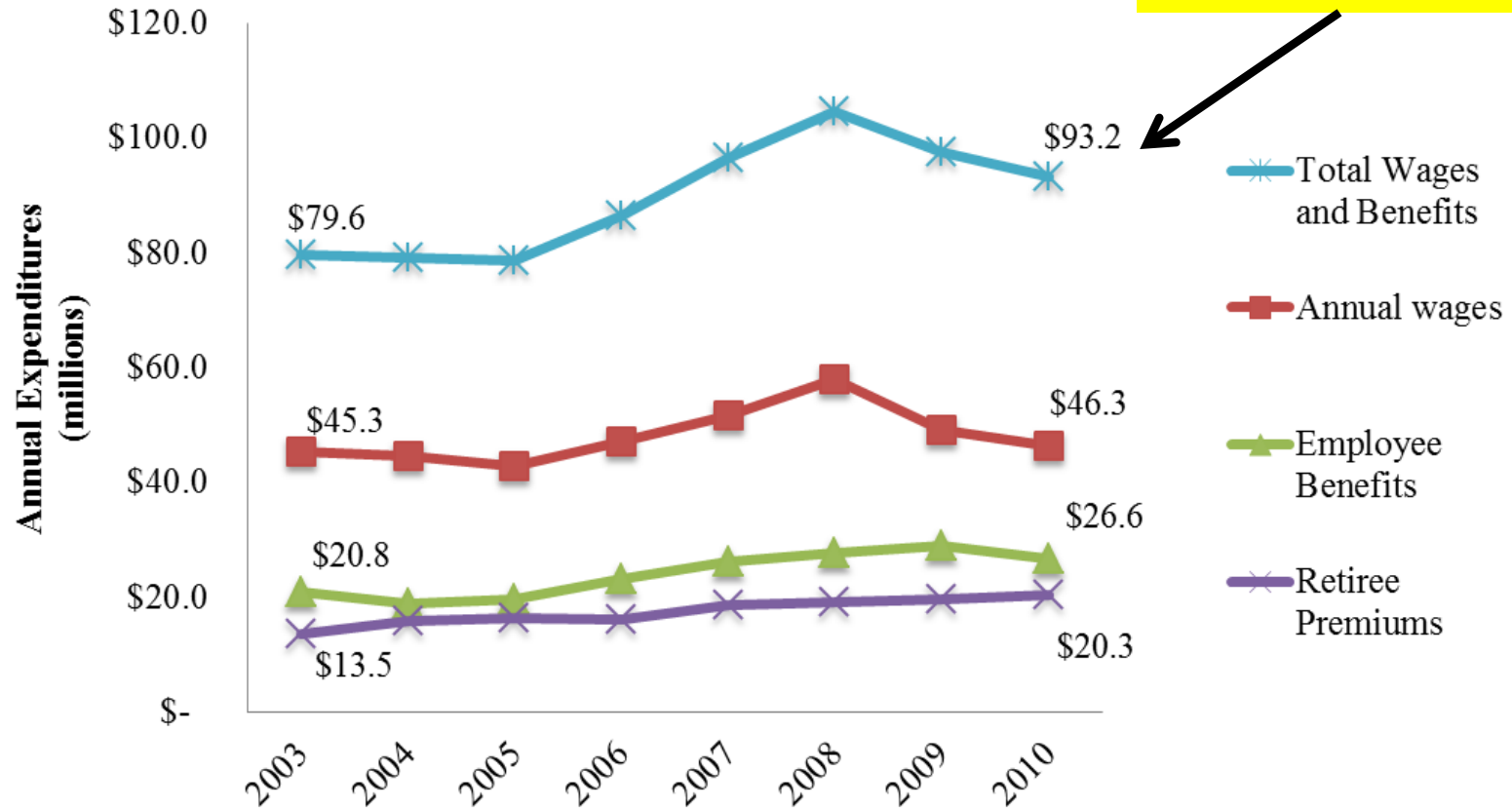
City of Flint Full Time Equivalent Employees Fiscal Year 2001 through 2010

50% reduction in personnel over 10 years...

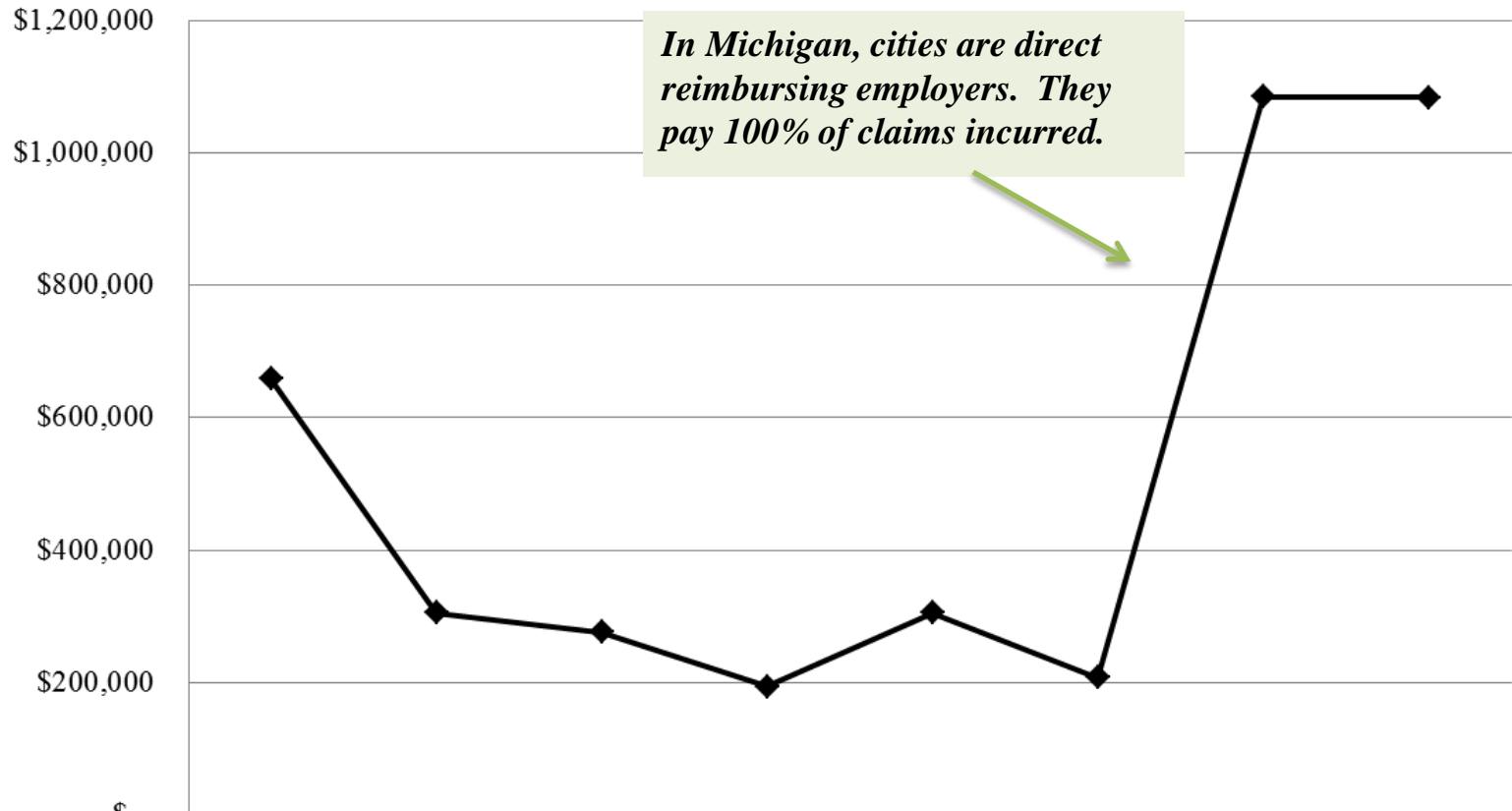


**City of Flint
Wages and Benefits Expenditures
Fiscal Year Ended June 30**

... yet personnel costs continue to rise.



**City of Flint
Unemployment Benefits Paid
Fiscal Year 2003 through 2010**



	2003	2004	2005	2006	2007	2008	2009	2010
Unemployment Payments	\$658,559	\$305,097	\$275,217	\$193,591	\$304,601	\$206,446	\$1,085,44	\$1,084,34

City of Flint

Comparison of FY 2010 to 2006 Expenses for Selected Michigan Cities

(based on population size plus/minus 20% of City of Flint)

(total expenses in thousands)

	<u>Flint</u>	<u>Livonia</u>	<u>Ann Arbor</u>	<u>Lansing</u>	<u>Sterling Heights</u>	<u>Warren</u>	<u>Average</u>
Population	102,434	96,942	113,934	114,297	129,699	134,056	
Total primary government expenses from Statement of Activities							
FY 2010	\$223,315	\$120,246	\$154,601	\$202,422	\$127,924	\$170,091	
FY 2006	162,187	113,488	144,522	191,792	113,693	164,416	
Net Increase - FY 2006 to 2010	<u>\$ 61,128</u>	<u>\$ 6,758</u>	<u>\$ 10,079</u>	<u>\$ 10,630</u>	<u>\$ 14,230</u>	<u>\$ 5,675</u>	
Net increase as a %	<u>37.7%</u>	<u>6.0%</u>	<u>7.0%</u>	<u>5.5%</u>	<u>12.5%</u>	<u>3.5%</u>	<u>12.0%</u>
Net increase per capita	<u>\$ 597</u>	<u>\$ 70</u>	<u>\$ 88</u>	<u>\$ 93</u>	<u>\$ 110</u>	<u>\$ 42</u>	<u>\$ 167</u>

City of Flint
Wages and Benefits on a Per Employee Basis
Fiscal Year 2003 through 2010

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010
Annual wages (including overtime)*	\$ 45.3	\$ 44.5	\$ 42.7	\$ 47.1	\$ 51.6	\$ 57.9	\$ 49.1	\$ 46.3
Direct Cost of Fringe Benefits for Active Employees*	20.8	18.8	19.5	23.2	26.2	27.6	28.9	26.6
Total Wages and Benefits*	<u>\$ 66.1</u>	<u>\$ 63.2</u>	<u>\$ 62.2</u>	<u>\$ 70.3</u>	<u>\$ 77.8</u>	<u>\$ 85.5</u>	<u>\$ 78.0</u>	<u>\$ 72.9</u>
Average # of Employees During the Fiscal year	1,114	1,097	1,073	1,085	1,120	1,163	1,096	885
Average Wages and Benefits per Employee	<u>\$ 59,379</u>	<u>\$ 57,608</u>	<u>\$ 57,966</u>	<u>\$ 64,778</u>	<u>\$ 69,468</u>	<u>\$ 73,502</u>	<u>\$ 71,117</u>	<u>\$ 82,355</u>
Retiree Healthcare - Current premiums*	\$ 13.5	\$ 15.8	\$ 16.4	\$ 16.2	\$ 18.6	\$ 19.2	\$ 19.5	\$ 20.3
Per Employee Basis With Current Retiree Premiums (pay as you go)	<u>\$ 71,476</u>	<u>\$ 71,987</u>	<u>\$ 73,292</u>	<u>\$ 79,670</u>	<u>\$ 86,054</u>	<u>\$ 90,010</u>	<u>\$ 88,933</u>	<u>\$ 105,324</u>
OPEB ARC for Unfunded Liability*						\$ 40.9	\$ 35.7	\$ 37.0
Per Employee Basis All Costs						<u>\$ 125,210</u>	<u>\$ 121,512</u>	<u>\$ 147,102</u>

* Expense levels shown in millions

Will Flint grow out of this?

- What if repeated the 1990's?
- Flint would need the equivalent of both:
 - 11 new GM size investments
 - 40,000 new taxpayers
- Just to recover back to FY 2006 financial position

City of Flint
Benchmark Cities - Street Miles

<u>Catergory</u>	<u>Flint</u>	<u>Livonia</u>	<u>Ann Arbor</u>	<u>Lansing</u>	<u>Sterling Heights</u>	<u>Warren</u>
Major	152	61	99	107	63	97
Local	356	311	198	303	286	316
State trunkline	46	32	37	65	21	34
Total	554	404	333	475	370	447

The City of Flint has more miles of streets to maintain than benchmark cities.

**City of Flint
Interfund Borrowing
Fiscal Year Ended June 30,**

Due to/from Other Funds (typically short-term in nature)

Fiscal year	2006	2007	2008	2009	2010
Due to:					
Sewer Disposal Division Fund	\$ 10,371,382	\$ 3,677,506	\$ 20,161,971	\$ 20,076,951	\$ 15,532,804
Self Insurance Fund	-	15,700,000	16,505,386	11,533,250	-
Others	9,344	-	-	263,503	7,849,233
	<u>\$ 10,380,726</u>	<u>\$ 19,377,506</u>	<u>\$ 36,667,357</u>	<u>\$ 31,873,704</u>	<u>\$ 23,382,037</u>
Due from:					
General Fund	\$ 7,279,154	\$ -	\$ 14,653,786	\$ 17,169,931	\$ 18,002,907
Others	3,101,572	19,377,506	22,013,571	14,703,773	5,379,130
	<u>\$ 10,380,726</u>	<u>\$ 19,377,506</u>	<u>\$ 36,667,357</u>	<u>\$ 31,873,704</u>	<u>\$ 23,382,037</u>

Advances to/from Other Funds (authorized by local body with repayment terms)

Fiscal year	2006	2007	2008	2009	2010
Advance from:					
Sewer Disposal Division Fund	\$ 5,251,361	\$ 6,094,131	\$ 4,940,753	\$ 9,266,399	\$ 2,426,749
	<u>\$ 5,251,361</u>	<u>\$ 6,094,131</u>	<u>\$ 4,940,753</u>	<u>\$ 9,266,399</u>	<u>\$ 2,426,749</u>
Advance to:					
Internal Service Funds	\$ 4,539,404	\$ 5,524,565	\$ 4,513,579	\$ 7,279,154	\$ 2,426,749
Enterprise Fund	711,957	569,566	427,174	1,987,245	-
	<u>\$ 5,251,361</u>	<u>\$ 6,094,131</u>	<u>\$ 4,940,753</u>	<u>\$ 9,266,399</u>	<u>\$ 2,426,749</u>

LEGACY COSTS AND OPEB: CHRONIC FISCAL STRESS

Readily Available Data

Calculate for OPEB, DB, and Total

1. Funded %
2. ARC as a % of Gov't Wide Revenue
(excluding capital grants)
3. ARC as a % of General Fund Revenue
4. ARC Contribution Rate
5. Unfunded Liability (UAAL) Per Capita
6. UAAL as a % of Covered Payroll

Funded Percentage

City	Concept A - Relationship Between OPEB, Defined Benefit, and Legacy Costs Funded %								
	Index 1 - OPEB Funded %			Index 2 - Defined Benefit Pension Funded %			Index 3 - Total Legacy Costs Funded %		
Population Increased	Assets	Liability	Funded %	Assets	Liability	Funded %	Assets	Liability	Funded %
Dallas	\$ -	\$ 516,184,000	0.00%	\$ 6,436,000,000	\$ 7,358,000,000	87.47%	\$ 6,436,000,000	\$ 7,874,184,000	81.74%
Houston	-	3,031,000,000	0.00%	8,777,500,000	11,029,600,000	79.58%	8,777,500,000	14,060,600,000	62.43%
Indianapolis	-	140,288,000	0.00%	95,376,000	997,138,000	9.56%	95,376,000	1,137,426,000	8.39%
Los Angeles	3,230,478,000	6,403,615,000	50.45%	31,018,038,000	37,009,268,000	83.81%	34,248,516,000	43,412,883,000	78.89%
San Antonio	490,952,000	1,450,443,000	33.85%	3,973,958,000	4,535,349,000	87.62%	4,464,910,000	5,985,792,000	74.59%
Population Decreased									
Cleveland	State Plan								
Detroit	-	4,971,236,281	0.00%	7,357,616,636	7,910,356,771	93.01%	7,357,616,636	12,881,593,052	57.12%
Minneapolis	-	75,901,000	0.00%	478,934,000	669,801,000	71.50%	478,934,000	745,702,000	64.23%
Pittsburgh	-	488,631,000	0.00%	339,180,000	989,534,000	34.28%	339,180,000	1,478,165,000	22.95%
Saint Louis	-	243,709,000	0.00%	1,844,461,000	2,081,586,000	88.61%	1,844,461,000	2,325,295,000	79.32%

UAAL Per Capita

City	Concept D - Benchmarking on a Per Capita Basis		
	Index 13 - Unfunded DB Pension Liability Per Capita	Index 14 - Unfunded OPEB Liability Per Capita	Index 15 - Unfunded Legacy Cost Liability Per Capita
Population Increased			
Dallas	\$ 770	\$ 431	\$ 1,201
Houston	1,073	1,444	2,516
Indianapolis	1,087	169	1,256
Los Angeles	1,580	837	2,416
San Antonio	423	723	1,146
Decreased			
Cleveland	Data not available		
Detroit	774	6,965	7,739
Minneapolis	499	198	697
Pittsburgh	2,127	1,598	3,726
Saint Louis	743	763	1,506

One rating analyst noted importance of UAAL on a per capita basis.

City of Flint
External Comparables Funding Status for Citywide Pension
and Other Postemployment Benefits (OPEB)
As of June 30, 2010

Community	Pension		OPEB		2010 Population	Total Unfunded Liability per Capita
	Unfunded (Overfunded)	Funded	Unfunded (Overfunded)	Funded		
	AAL	Ratio	AAL	Ratio		
Ann Arbor	\$ 45,496,000	90.3%	\$ 169,637,000	30.1%	113,934	\$ 1,888
Grand Rapids	24,206,135	96.7%	222,684,549	0.0%	188,040	1,313
Livonia	-	100.0%	79,977,000	42.0%	96,942	825
Southfield	-	100.0%	137,378,993	20.4%	71,739	1,915
Sterling Heights	27,247,765	92.0%	143,360,804	10.8%	129,699	1,315
Warren	97,233,172	81.7%	295,473,638	9.0%	134,056	2,929
Westland	41,327,884	77.1%	181,861,454	0.0%	84,094	2,654
Lansing	125,947,000	79.0%	376,458,000	10.0%	114,297	4,396
Battle Creek	51,455,385	79.5%	52,473,521	2.8%	52,347	1,985
Jackson	39,455,000	65.6%	37,673,933	0.9%	33,534	2,300
Muskegon	713,000	99.2%	10,764,000	55.2%	38,401	299
Saginaw	108,309,800	65.1%	214,780,192	0.6%	51,508	6,273
Pontiac	(182,214,419)	136.5%	196,649,058	15.4%	59,515	243
Flint	170,900,000	79.7%	774,606,738	0.0%	102,434	9,230
Mean		88.7%		14.1%		2,683

Michigan's Ten Largest Cities

OPEB Funding Status

Sorted by Unfunded Actuarial Accrued Liability (UAAL)

<u>Jurisdiction</u>	Population		<u>Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>
	<u>Rank</u>	<u>Census</u>			
Detroit	1	713,777	\$ 4,971,236,281	\$ 4,971,236,281	0.0%
Flint	7	102,434	774,606,738	774,606,738	0.0%
Lansing	5	114,297	418,298,991	376,457,952	10.0%
Warren	3	134,056	324,801,451	295,473,638	9.0%
Grand Rapids	2	188,040	222,684,549	222,684,549	0.0%
Ann Arbor	6	113,934	243,000,000	170,000,000	30.0%
Dearborn	10	98,153	186,800,723	155,106,164	17.0%
Sterling Heights	4	129,699	160,689,774	143,360,804	10.8%
Livonia	9	96,942	122,117,000	66,756,000	45.3%
Clinton Township	8	96,796	68,564,301	53,802,891	21.5%

Classic Type of Municipal Bankruptcy Scenarios

Two governments in 2011:

- Jefferson County, AL
Sewer system upgrade financing
- Harrisburg, PA
Trash burning plant financing

New Type of Bankruptcy: Legacy Costs

- Vallejo, California
Filed in 2008; Exit plan approved July 2011
- Central Falls, Rhode Island
Filed August 2011
- Reason: personnel operating costs from pension and OPEB exceeding resources

Vallejo, CA OPEB Funding

Vallejo, California

OPEB Liability as Reported in June 30, 2010 Audited Financial Report

Large \$ amount and 0% funded, but not that uncommon.

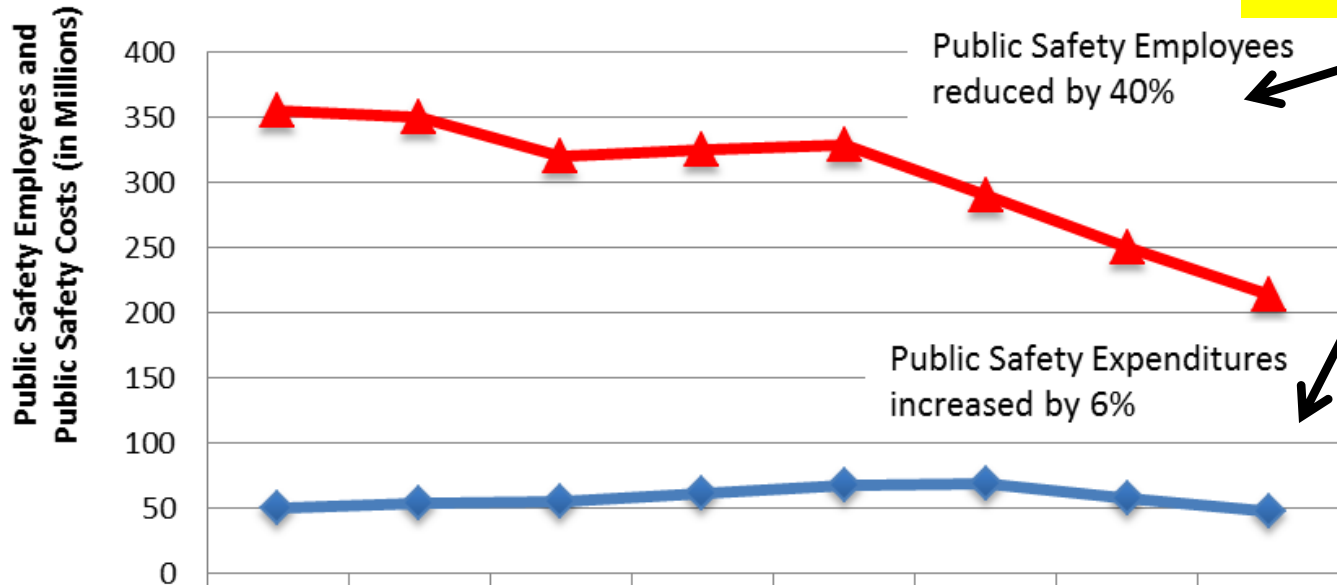
Schedule of funding progress for the Post-Employment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL(UAAL) (a-b)	Funded Ratio (a/b)
6/30/2009	\$ -	\$ 81,224,000	\$ (81,224,000)	0%
6/30/2008	-	\$ 135,400,000	(135,400,000)	0%

Example: Vallejo, CA

**City of Vallejo, California Service Level Solvency
Fiscal Years 2003 to 2010**

Significantly less service providers, but no real decrease in budget.



	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety Employees	355	350	320	325	329	291	250	214
Public Safety Costs (in millions)	\$50.85	\$54.64	\$55.64	\$61.35	\$68.32	\$69.25	\$57.46	\$47.88

Central Falls, RI Pension

Central Falls, Rhode Island

Three Pension Systems as Reported in June 30, 2010 Audited Financial Report

Schedule of funding progress for the Municipal Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)
6/30/2009	\$ 5,212,157	\$ 6,656,557	\$ (1,444,400)	78.3%
6/30/2008	4,950,358	6,406,664	(1,456,306)	77.3%
6/30/2007	4,375,243	6,249,573	(1,874,330)	70.0%

Obvious fiscal stress.

Schedule of funding progress for the Police and Fire Private Pension Plan (John Hancock)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)
7/1/2010	\$ 6,516,889	\$ 40,109,123	\$ (33,592,234)	16.2%
7/1/2008	10,791,609	35,701,111	(24,909,502)	30.2%
7/1/2006	10,909,756	31,509,376	(20,599,620)	34.6%

Schedule of funding progress for the Police and Fire Pension Plan (1 %)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)
7/1/2010	\$ 1,251,926	\$ 14,218,372	\$ (12,966,446)	8.8%
7/1/2008	1,210,773	15,038,189	(13,827,416)	8.1%
7/1/2006	1,146,741	15,738,443	(14,591,702)	7.3%

Preliminary Review Triggers

PA 72 of 1990

- Governing body or CAO requests
- Creditor (10k +)
- Elector petition
- Pension deposit missed
- Missed payroll
- Legislative resolution
- Violate revenue bond act
- Violate order of EFALB
- Violate budget law; Glenn Steill law
- Failure to file audit
- Failure to distribute taxes
- Court ordered tax levy

PA 4 of 2011

- Governing body or CAO requests
- Creditor (10k +)
- Elector petition
- Pension deposit missed
- Missed payroll
- Legislative resolution
- Violate revenue bond act
- Violate order of EFALB
- Violate budget law; Glenn Steill law
- Failure to file audit
- Failure to distribute taxes
- **Failure to follow DEP**
- Court ordered tax levy
- **BBB or lower credit rating**
- **Other conditions**
- **School district failure to follow DEP**

Preliminary Review

PA 72 of 1990

- Preliminary Review
- Inform Governor whether one or more conditions indicating a “serious financial condition” exists

PA 4 of 2011

- Preliminary Review
- Inform State Financial Authority and Governor of a Finding of “probable financial stress”

Review Team Examination

PA 72 of 1990

- Bond default
- Failure to transfer employee taxes, govt. taxes, pension funds,
- Missed payroll
- Excess accounts payable (+10%)
- Failure to eliminate existing deficit (2 yrs.)
- Projection of large deficit (10%+)

PA 4 of 2011

- Bond default
- Failure to transfer employee taxes, govt. taxes, pension funds,
- Missed payroll
- Excess accounts payable (+10%)
- Failure to eliminate existing deficit (2 yrs.)
- Projection of large deficit (5%+)
- Material loans between funds
- Use of restricted revenues
- Structural operating deficit
- Failure to comply with DEP
- Other facts

Review Team Findings

PA 72 of 1990

- No Serious financial problem exists
- Serious financial problem exists but consent agreement in place
- Serious Financial problem exists and EFM necessary

PA 4 of 2011

- No or mild financial stress
- Severe financial stress but consent agreement
- Severe financial stress and no consent agreement
- Financial emergency exists and no plan exists

No or Mild financial stress exists

- Stress factors do not exist

or

- do not threaten “local govt. ability to provide essential services”

Severe Financial Stress

- 1 or more financial stress conditions exist

Or

- CAO recommends that severe financial stress exists

Financial Emergency

- 2 or more financial stress conditions exist
- Local govt. has failed to comply with orders of Review Team
- Local govt. has failed to comply with continuing operations plan or deficit elimination plan

Consent agreement

- May include grant of EM type powers to Chief elected official or Chief administrative officer

Two Types of Plans

- **Continuing Operations Plan (local Govt)**
 - Financial three yr. plan
 - Cash flow and operating plan
 - Reasonable maintenance of capital expenditures
 - Evaluation of pension and OPEB
- **Recovery Plan (Treasury)**
 - Same conditions as above

Emergency Managers Can:

- Analyze fiscal stress and take corrective actions
- Amend, review approve and disprove budgets
- Require, Amend, approve, disprove a plan to pay obligations
- Require special financial reporting
- Examine all records and accounts
- Make, approve and disprove any appropriation, contract, expenditure and loan

Emergency Managers Can:

- Fill any vacancy
- Review payrolls or claims before payment
- Establish and implement staffing levels
- Reject or modify existing contracts
- Act as sole agent in collective bargaining
- If pension funding is below 80%, remove and appoint pension board members

Emergency Managers Can:

- Consolidate or eliminate departments
- Engage in intergovernmental contracting
- Retain consultants
- Initiative legal action to enforce compliance
- Order a millage election
- Sell assets (subject to approval)

Emergency Managers cannot or must:

- Raise taxes unilaterally
- Sell assets without Treasury approval
- Must comply with state pension laws

Collective Bargaining

- Agreement termination subject to state approval
- Conditions:
 - Must be reasonable and necessary
 - Must deal with a broad, generalized economic problem
 - Rejection or modification must be related to financial emergency
 - Cannot target specific employee classes

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- **Thank you!**