The MAC & Bond Club of Detroit Joint Seminar in Review

"Michigan Where Are We Headed? Municipal Finance in 2012"
Held at the VisTa Tech Center in Livonia, MI on December 5, 2011

Those who attended the December 5, 2011 seminar "**Michigan: Where Are We Headed, Municipal Finance in 2012**" sponsored by the Municipal Advisory Council of Michigan and Bond Club of Detroit, and presented by Dr. Eric Scorsone, of the State and Local Government Program Greening Michigan Institute and Department of Agricultural, Food and Resource Economics at Michigan State University were treated to a rare look at the fiscal health of Michigan cities, including Flint.

Scorsone first focused on some of the positive changes happening in Michigan: state sales taxes and revenues are up which is a good sign. But unemployment and Medicaid expenses have increased too, "So Michigan's fiscal situation remains mixed," he cautioned.

Looking Back

Between 2007 and 2010 Michigan's property tax revenues decreased from $14.3 billion to $13.4 billion: that's a decline of more than a $1 billion.

A closer look highlighted the biggest contributors. In FY2007 county tax revenues were $2.2 billion and declined to $2.09 billion in 2010 while township revenues actually climbed from $913 to $939 billion and city tax revenue declined just slightly from $2.5 billion to $2.41 billion. The biggest decline was seen in tax revenue apportioned to schools which fell from $8.5 billion to $7.8 billion. "The bulk of the losses were in Wayne and Oakland County," explained Scorsone who added, "But you need to look [even] further at the data."

Local government expenses are rising, driven mainly by healthcare costs and some material costs. Comparing FY2007 to FY2010 again, Scorsone said average expenses were up 10.1% while median costs increased 1.9%, which indicated a wide distribution.

City revenue was $6.2 billion in FY2007 and $6.6 billion in FY2010 but expenses were $6.1 billion in 2007 and $6.6 billion in 2010 – "with outliers [certain cities] that are the biggest part of the problem," said Scorsone. He cited Detroit and said it's responsible for one third of the revenue and expenses.

Moving on he noted that in FY2007 104 out of 268 cities were running deficits while in FY2010 the number increased to 148 cities. And nine cities in 2010 versus three in 2007 had negative fund balances, out of 268. "It's not a large number, but it has increased," he said. Median operating margin which was $13k in 2007 slipped to a negative $17k by 2010 and the median margin percentage declined from +1.0% to a -0.5% during the same time period.

Cities continue to manage the fiscal stress as best they can, cutting expenses wherever possible. And there has been some relief in the form of increased taxes and the FY2008-2010 federal stimulus. Still, while the fund balance is being maintained, there remains fiscal stress "and crises are appearing in more places," cautioned Scorsone, explaining that inability to manage fixed costs is part of the problem.

Focus on Flint

"The number of Flint's city employees fell by 50% between 2001 and 2010", said Scorsone, adding, "But employee costs continue to climb. Healthcare and retiree premiums are in large part to blame." He explained that a review of cities like Ann Arbor, Sterling Heights, Livonia, Lansing and others yields lessons. They have managed their costs well, while Flint's "have risen 30% or more." He added, "And Flint can't grow out of it. They would need 11 new General Motors plants and 40,000 new taxpayers just to get back to 2006 financial levels." He compared Flint's healthcare and retiree costs with those of Dallas, Texas -- a much larger community in a vibrant state. Dallas costs are substantially lower than Flint's and there are more people in the pool.

So, the question everyone's now asking is "How do we survive from 2020 to 2030?" said Scorsone. And as Flint and other struggling Michigan cities try to cope, elsewhere in the United States the harsh reality of what happens when a city can't pay for retirement healthcare and pension costs is coming to the fore: Vallejo, California and Central Falls, Rhode Island are good examples -- they've endured pension and retirement bankruptcy. Personnel operating costs from pension and OPEB, other post - employment benefits, are higher than available resources. "And this represents a new type of bankruptcy, legacy costs," said Scorsone.

Note: For more information about Flint's fiscal health readers should check out MAC's most recent newsletter at www.mi-macsite.com. A direct link to the Flint report is also available on the MAC website.

The last part of Scorsone's presentation focused on the differences between Public Act 4 which replaced PA72 in Michigan. PA4 describes the assignment of an emergency manager for cities in distress and gives the manager broader authority than the emergency financial manager had under the 1990 PA72. A prior MAC Newsletter discussed both Acts in detail.

Side Note:

Retiring MAC Executive Director Mike Alandt gave his final address to members and introduced Jim Bickley who will take over January 1, 2012. He also updated attendees on personnel changes within the Bond Club of Detroit and MAC Michigan Boards and wished all a happy and healthy holiday.