

Municipal Fiscal Distress: Beginning to End

Michigan Local Government
Management Association
Summer Workshop
Boyne Mountain
July 22, 2015



Randall Byrne
Office of Fiscal Responsibility
Michigan Department of Treasury

The Office of Fiscal Responsibility (OFR)

- Created out of the PA₄ process – Began operations January 2012
- Staff with extensive local government experience to assist communities:
 - Edward Koryzno, Bureau Director
 - Randall Byrne, State Administrative Manager
 - Eric Cline, RTAB Manager
 - Patrick Dostine, Departmental Specialist
 - Drew Van de Grift, Esq., Department Analyst
 - Robert Widigan, Department Analyst


OFR's Mission

PA 436 of 2012 allows the OFR to:

- Provide operational and technical assistance to communities in financial distress.
- Provide support to Receivership Transition Advisory Boards (RTABs).
- Provide assistance to communities with Emergency Managers, Consent Agreements, or in the Neutral Evaluation process.
- NOTE: The OFR, unlike other Treasury divisions, has no regulatory authority to enforce State laws.



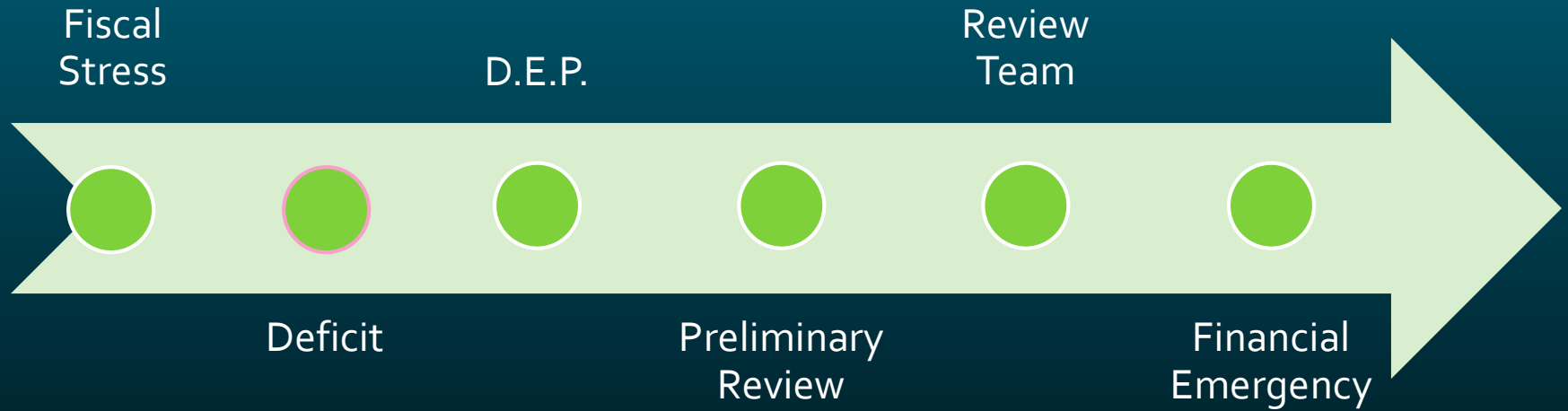
Types of Assistance for Distressed Local Units

- Financial and operational recommendations
 - Five-year budget formulation
 - Pension analysis
 - OPEB analysis
 - Other technical and operational assistance
- 

Fiscal Distress



Fiscal Distress Continuum



Signs of Fiscal Distress

- Closing of large facilities that comprise a significant portion of the tax base
- Borrowing from a restricted fund
- Large county chargebacks
- Levy of maximum millage rates
- More retirees than active workers
- Rising long-term debt obligations
- Rising pension/OPEB obligations
- Sharp decline in property values
- Large General Fund deficit
- Aging infrastructure
- Aging payables
- Declining population



Fiscal Distress Triggers

PA 436 identifies fiscal “triggers”:

The first sign of fiscal distress is usually a fund deficit.

- The Local Audit and Finance Division (LAFD) reviews the local 's annual financial statements and reports on those with fund deficits.
 - Reviews over 2,500 financial statements
- The Glenn Steil State Revenue Sharing Act of 1971, Public Act 140 of 1971, Section 21(2) states that units of local government that end their fiscal year in a deficit condition shall formulate a Deficit Elimination Plan (DEP).

Fiscal Triggers (continued)

- Missed payroll seven days beyond date of payment
- Default on bond payments
- Missed pension payment
- Failure to comply with a DEP
- Violation of local government debt or budgeting rules
- Low credit rating at or below BBB
- Imposition of a court ordered tax levy
- Delinquent in distribution of tax revenues to other jurisdictions

Fiscal Triggers (continued)

- Failure to file Comprehensive Annual Financial Report in timely manner
- Violation of a Local Emergency Financial Loan Board order
- Request for a preliminary review by the State House of Representatives or State Senate
- Fiscal Year ends in deficit condition
- Any other facts that, in the Treasurer's estimation, may threaten the fiscal stability of the local government

Financial Review

Preliminary review finds probable financial stress and a decision is made by the Emergency Loan Board for Financial Review.

- Governor appoints Review Team
 - Treasurer or designee
 - Director of DTMB or designee
 - Nominee of Senate Majority Leader
 - Nominee of Speaker of the House of Representatives
 - Other appointees at Governor's discretion
- Review Team reports to the Governor their findings, if any.
- Governor confirms or disagrees if a financial emergency exists.

Four Options

The community selects one of four options:

I. Emergency Manager

- Expansive powers are authorized under state law.
- Presently, one (1) city under an EM.

II. Consent Agreement

- A legal contract between local and state officials describing actions that must be taken to rectify the financial emergency.
- Presently, six (6) cities under CAs.
- Detroit is under a Financial Review Commission.

Four Options (continued)

III. Neutral Evaluation (Mediation)

- Local government meets with creditors to negotiate a settlement about who can be paid and how much.
- Presently, one (1) city has a neutral evaluation.

IV. Chapter 9 Bankruptcy

- Designed to help a municipality restructure certain financial obligations so it can continue to function and provide critical public services.
- Governor approval is required.

Financial Take-Aways

- Carefully review and monitor legacy costs.
- PA 345 of 1937; Fire Fighters and Police Officers Retirement Act.
- PA 33 of 1951; Police and Fire Protection.
- Consider preparing a five-year budget.
- Review existing debt service schedules. Are they front-loaded, back-loaded, or smoothed?
- Monitor tax appeals, especially commercial and industrial. What is the potential impact to the budget?
- Review all fees and water/sewer ratio each year, before the end of the fiscal year. Do you have additional expenses during the year?

Continued



- Review PA 153 of 2013, which eliminates personal property tax.
- Explore shared services.
- Consider updating or developing a Capital Improvement Plan.
- Account for losses of revenue and the additional costs associated with workforce reductions.
- Do you have a fund balance of at least 15%?



Questions or
Comments?



Contact Information

Randall Byrne, State Administrative Manager
MI Department of Treasury, Office of Fiscal Responsibility

Ph: 517-335-2521

Email: ByrneR1@michigan.gov

Treasury Website

<http://www.michigan.gov/treasury>

