



State of Michigan
Department of Treasury

Local Governments in Michigan: A Few Updates and Treasury's new Approach

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Michigan Dept. of Treasury

On leave from Professor of Economics at Michigan State University

Three topics for today

- Treasury's new approach with local government and schools
- Michigan economy and local government fiscal status
- OPEB/pension legislation



NEW TREASURY-LOCAL GOVERNMENT/SCHOOL DISTRICT APPROACH



New Principles/Activities

- Engage with local communities and schools to jointly solve problems
- Be proactive and prevention oriented
- Facilitate bringing multiple state and federal resources for communities
- Work to ensure that state policymakers have accurate and up-to-date information on local finances
- Identify and work with partners on training and best practice dissemination



Local Fiscal Accountability Division
October 6, 2017

LFAD Summit 2017

Agenda

Time

Topic

Presenter

8:00am to 8:30am

Registration & Breakfast

Nick Khouri
State Treasurer





Financial Resources Conference

Community Engagement and Finance Division

October 9, 2017

Agenda

Time	Topic	Presenters
8:00 am to 8:25 am	Registration & Breakfast	
8:30 am to 8:45 am	Welcome & Introductions	Michael Wrobel <i>Michigan Department of Treasury, Community Engagement and Finance Division, Outreach, School Review, and Fiscal Analysis Section, Manager</i> Kyle Guerrant <i>Michigan Department of Education, Deputy Superintendent, Finance and Operations</i>





MI Community Financial Dashboard

Michigan Department of Treasury

view Counties ▾ Fiscal Year: 2016 ▾ Browse All



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Welcome to MI Community Financial Dashboard 2016

Welcome to MI Community Financial Dashboard! This dashboard is designed to provide you with easy-to-use, visual data regarding your municipality. Local units of government are a critical component of our infrastructure and it is important for citizens, businesses and officials to have access to information about their fiscal health.

The MI Community Financial Dashboard is provided by the Michigan Department of Treasury using data collected by local units of government.



Community Engagement and Finance Division

- New Division director Rod Taylor (former Dewitt township manager)
- Focused on working with communities and school districts to maintain fiscal health and prevent fiscal emergencies



CEFD Structure

- Local Audit Section (Cary Vaughn)
 - Audit review
- Municipal Finance Section (Harlan Goodrich)
 - Debt issuance and DEP's
- Data Analytics and IT Sections (Dan Horn and Carol Goslin)
 - Working on training, conferences and providing state policymakers with key information on local finances
- School finance section (Mike Wrobel)

Office of Local Government Assistance (OLGA)

- Developed to work directly with communities on assistance programs
- Larry Steckelberg, Randy Byrne and Eric Cline



Chart

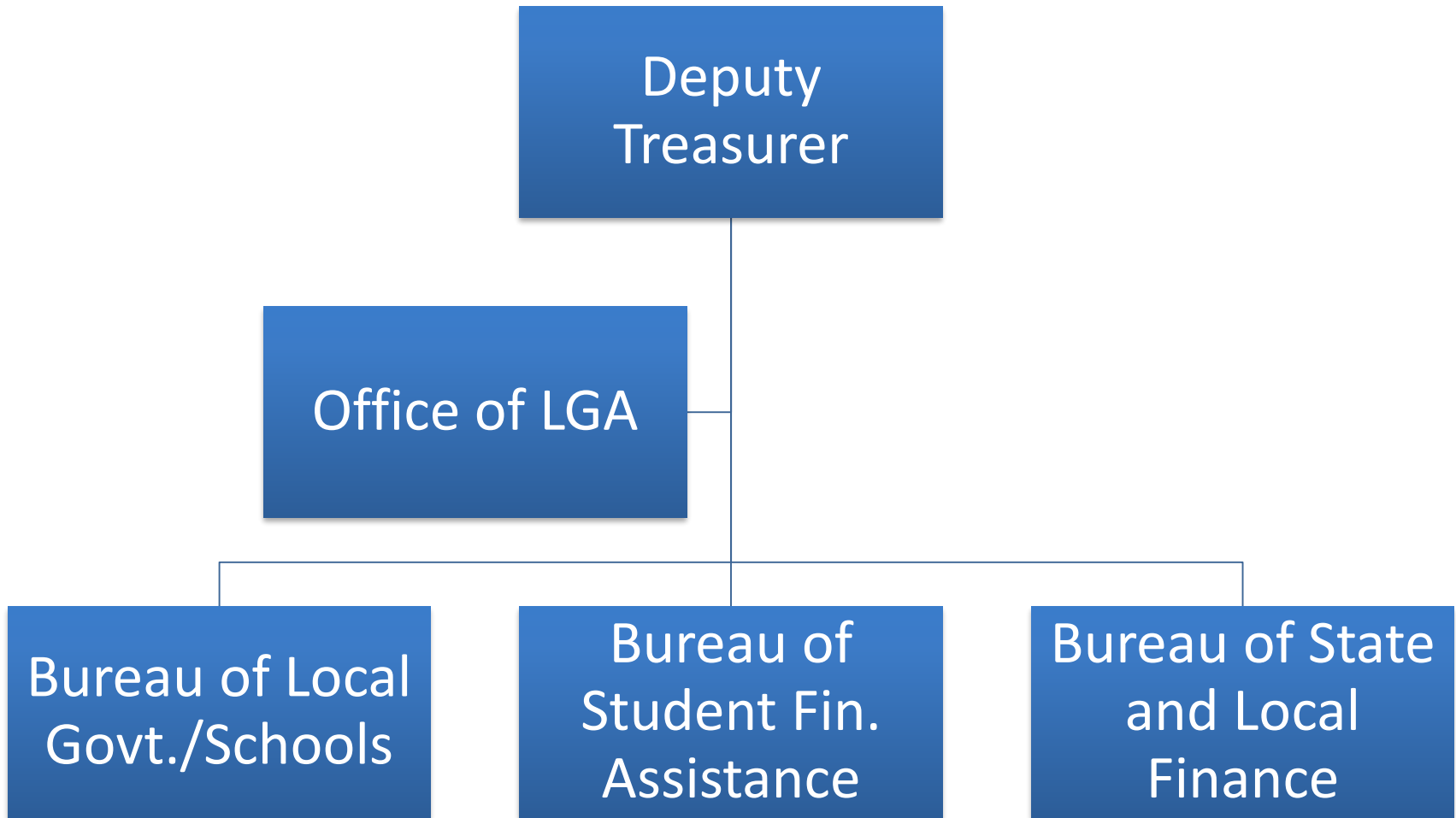


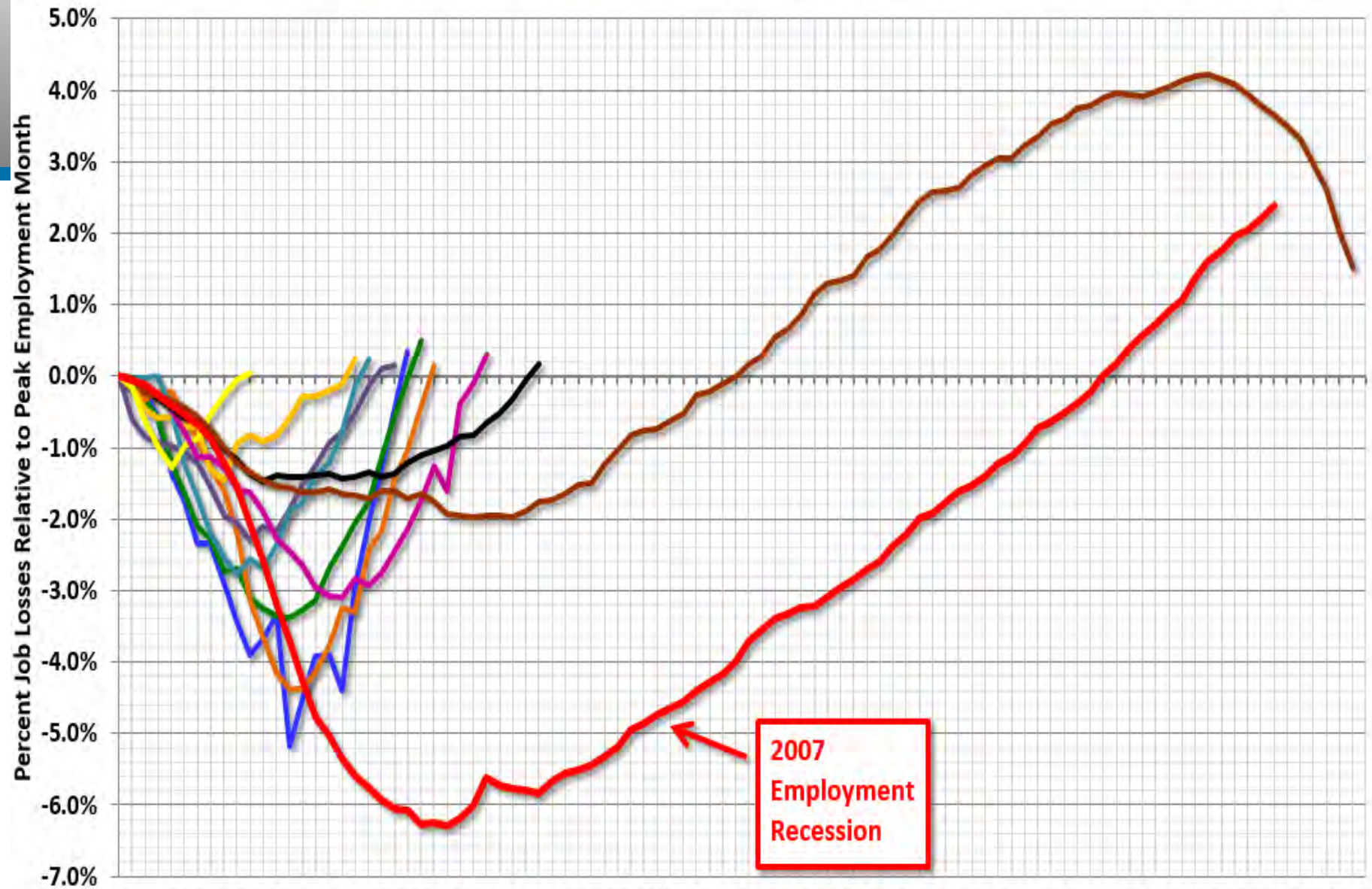
Chart 2



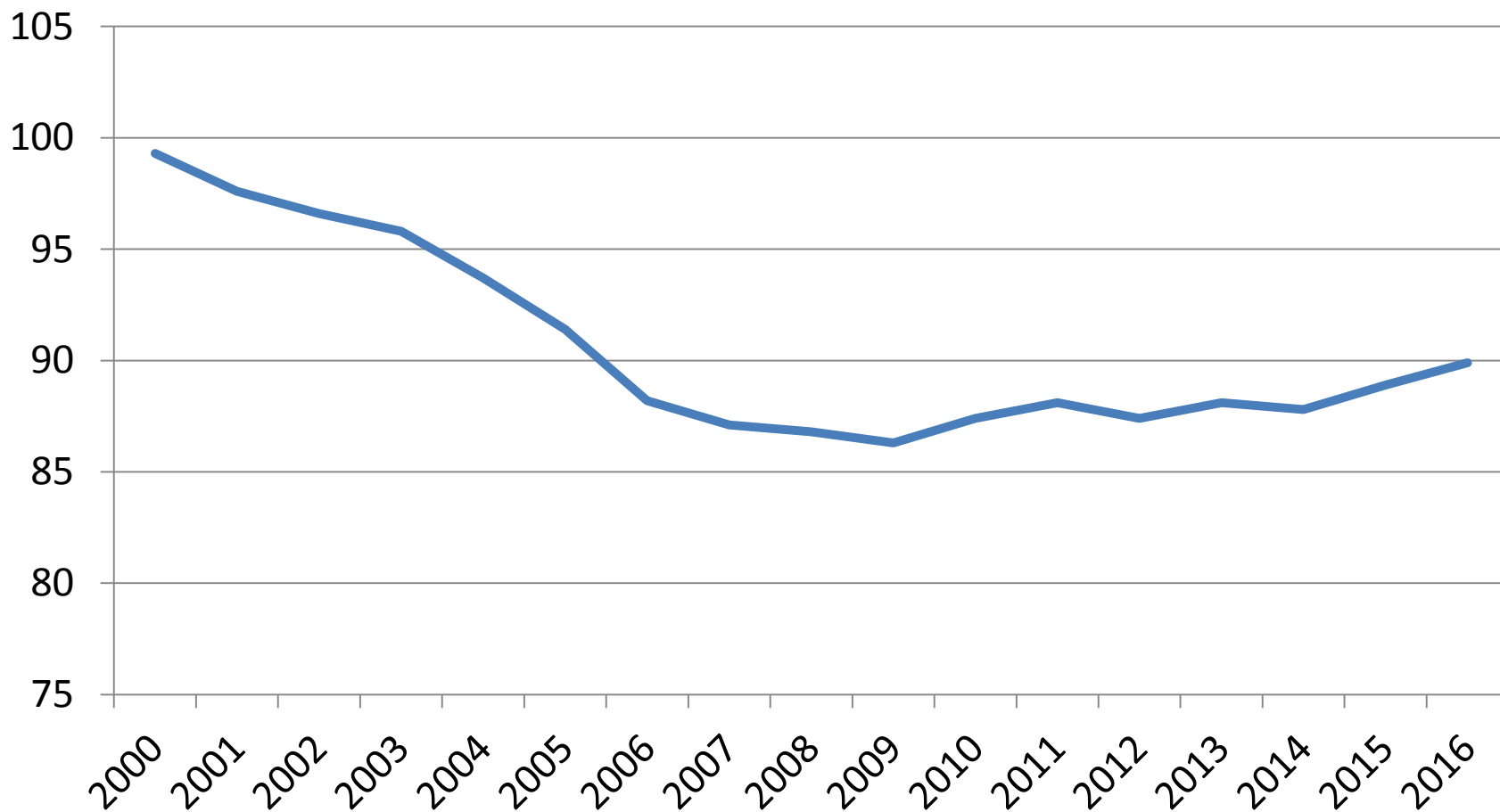
ECONOMIC BACKGROUND FOR MICHIGAN



— 1948 — 1953 — 1957 — 1960 — 1969 — 1974 — 1980 — 1981 — 1990 — 2001 — 2007



Michigan Per Capita Income (% of US)



WHERE ARE WE ON LOCAL FISCAL HEALTH?



Michigan Local Government Challenges (since 2001...)

2013-14
Detroit
Bankruptcy

Revenue
sharing cuts
and tax base
shock

State assistance
to Detroit Public
Schools and other
school districts

Mayor of Detroit and Allen Park
indicted and convicted

Rising legacy costs
from pension and
retiree health care

Infrastructure challenges
including roads and
underground lines



MI Local Government is a major Industry

- Michigan economy is about \$500 billion
- Local government/schools represents \$45 billion or nearly 10 percent
 - Manufacturing is \$85 billion
 - Professional and business services \$60 billion
 - Finance, insurance and real estate \$75 billion

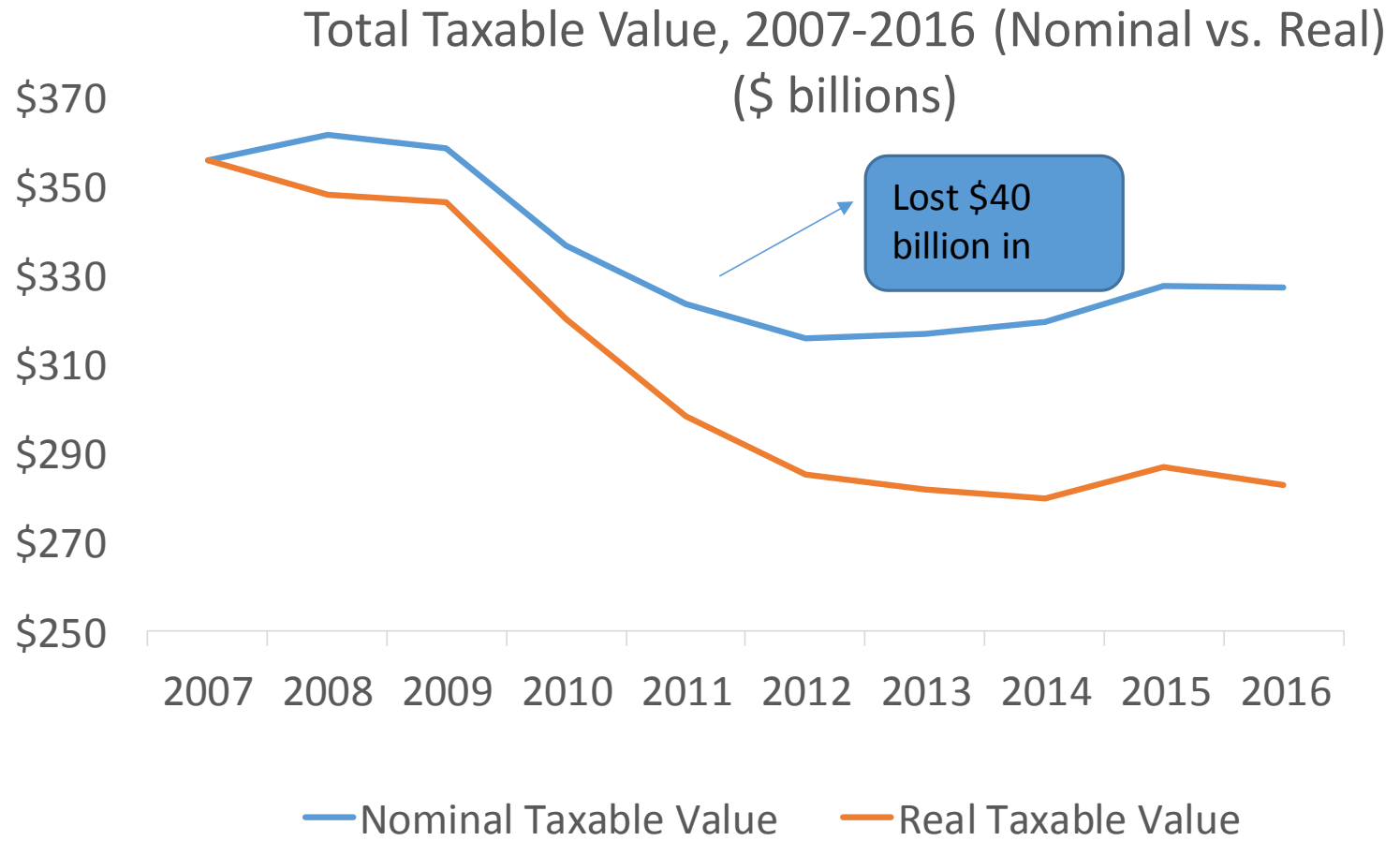


Long-Term Local Government Fiscal Sustainability

- Revenues grow = inflation + population + maintenance capital stock
- Local government to sustain its current spending and tax policy without threatening solvency or default

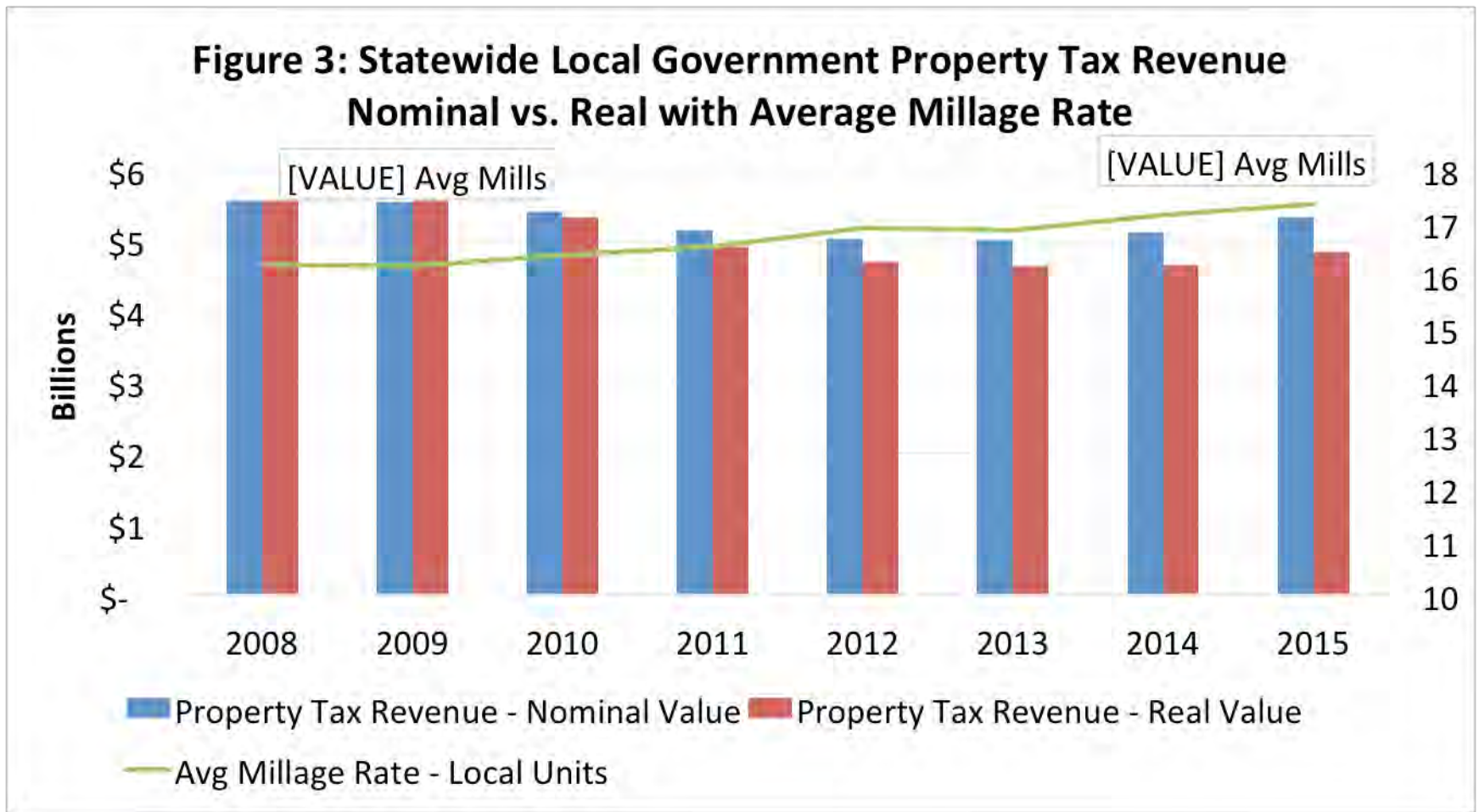


Michigan Taxable Value: Tax Base for Locals

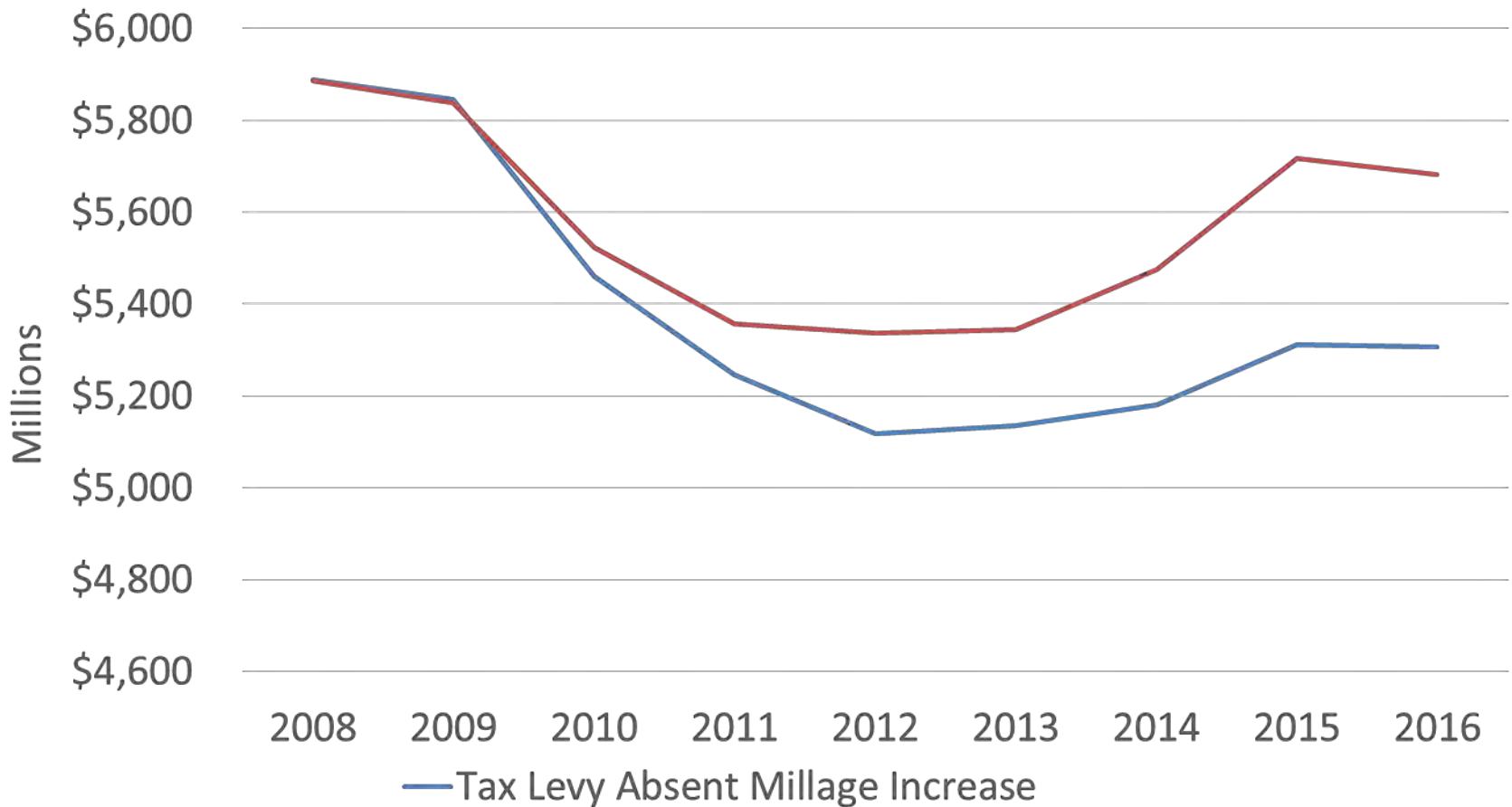


Local Property Tax Revenues

**Figure 3: Statewide Local Government Property Tax Revenue
Nominal vs. Real with Average Millage Rate**



Effect of Millage Increases on Property Tax Revenues (\$Millions)



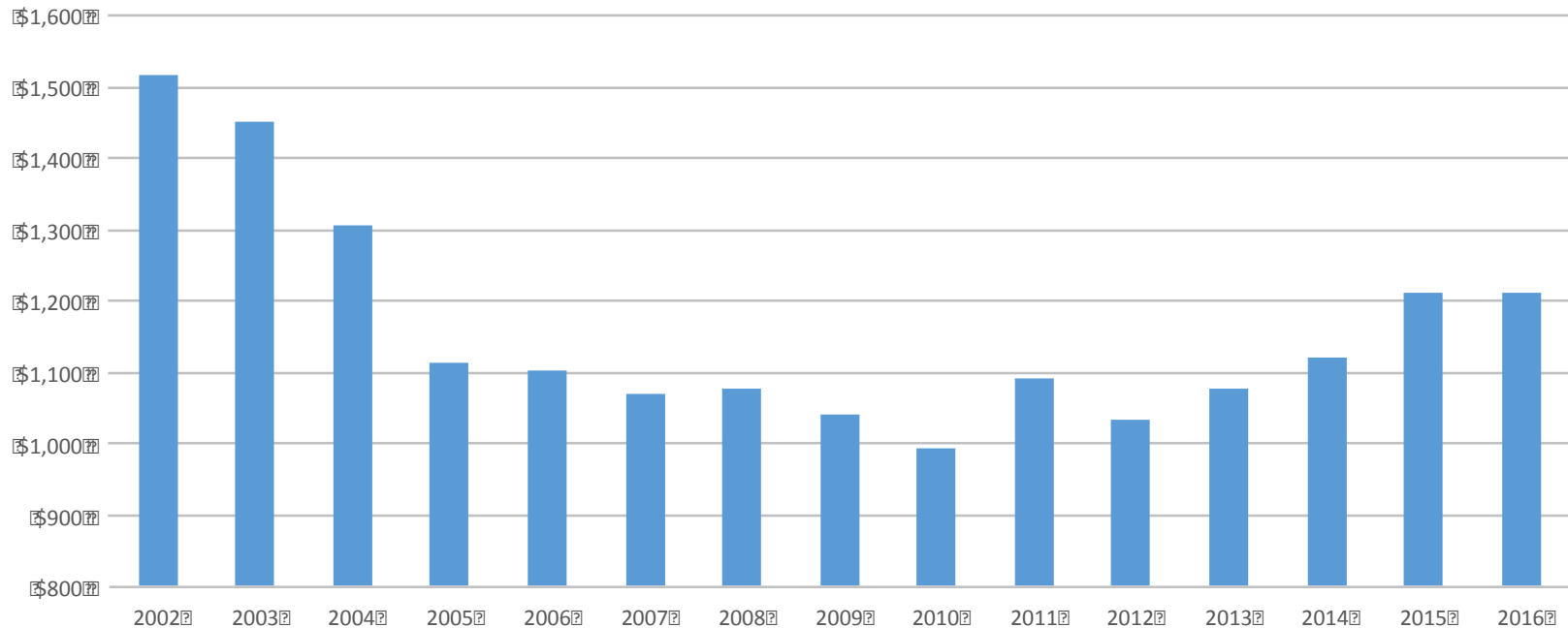
Changes in TV per Capita

**Table 2: Change in Taxable Value per Capita,
Statewide and by Type of Unit
2008 to 2016**

<u># of Units</u>	<u>TV/Capita</u>	<u>2008</u>	<u>2016</u>	<u>\$ Change 2008 to 2016</u>	<u>% Change 2008 - 2016</u>
1852	Statewide	\$ 36,017	\$ 32,893	\$ (3,123)	-8.67%
276	Cities (exc. Detroit)	\$ 35,202	\$ 28,781	\$ (6,421)	-18.24%
83	Counties	\$ 36,143	\$ 32,977	\$ (3,166)	-8.76%
1239	Townships	\$ 41,263	\$ 39,344	\$ (1,918)	-4.65%
253	Villages	\$ 31,479	\$ 27,868	\$ (3,611)	-11.47%
1	City of Detroit	\$ 10,683	\$ 9,534	\$ (1,149)	-10.76%

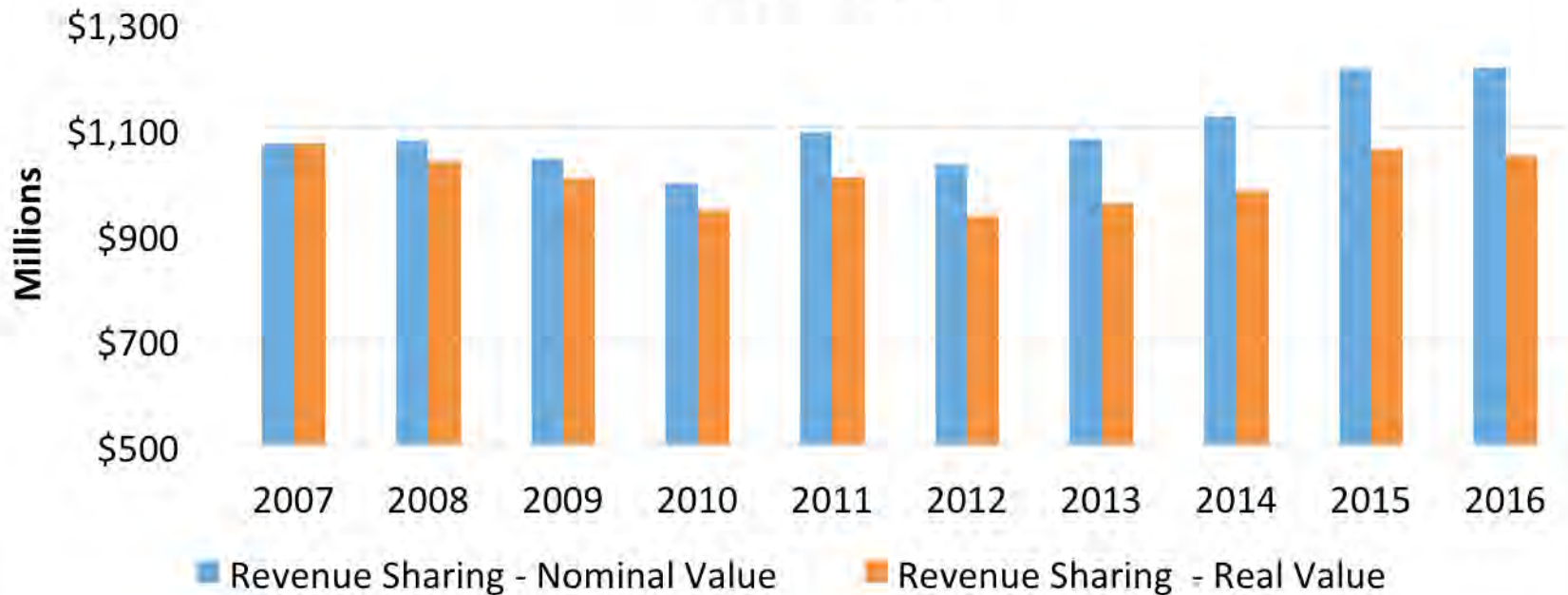


State Revenue Sharing to Local Government



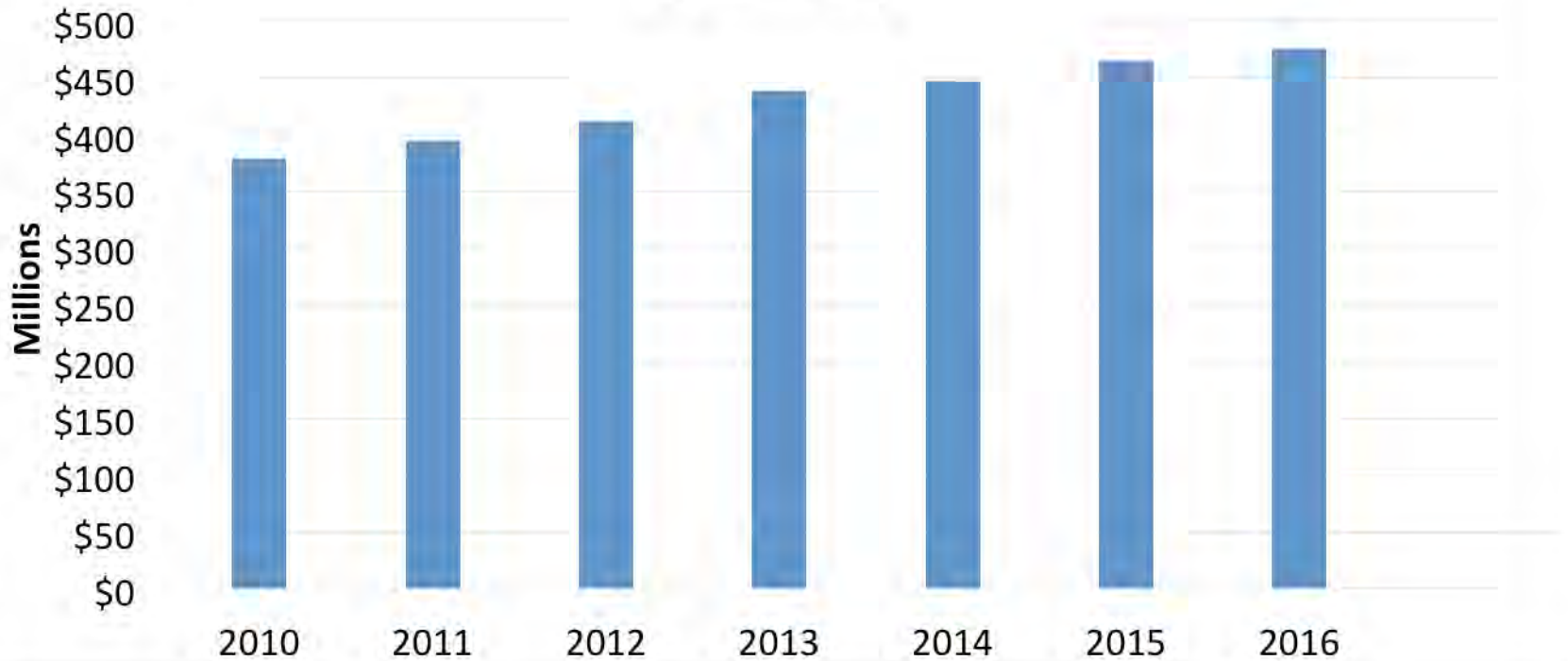
Revenue Sharing Inflation Adjusted

Figure 6: Total General Revenue Sharing 2007 - 2016
Counties, Cities, Townships, and Villages
Nominal vs. Real Dollars
(\$ Millions)



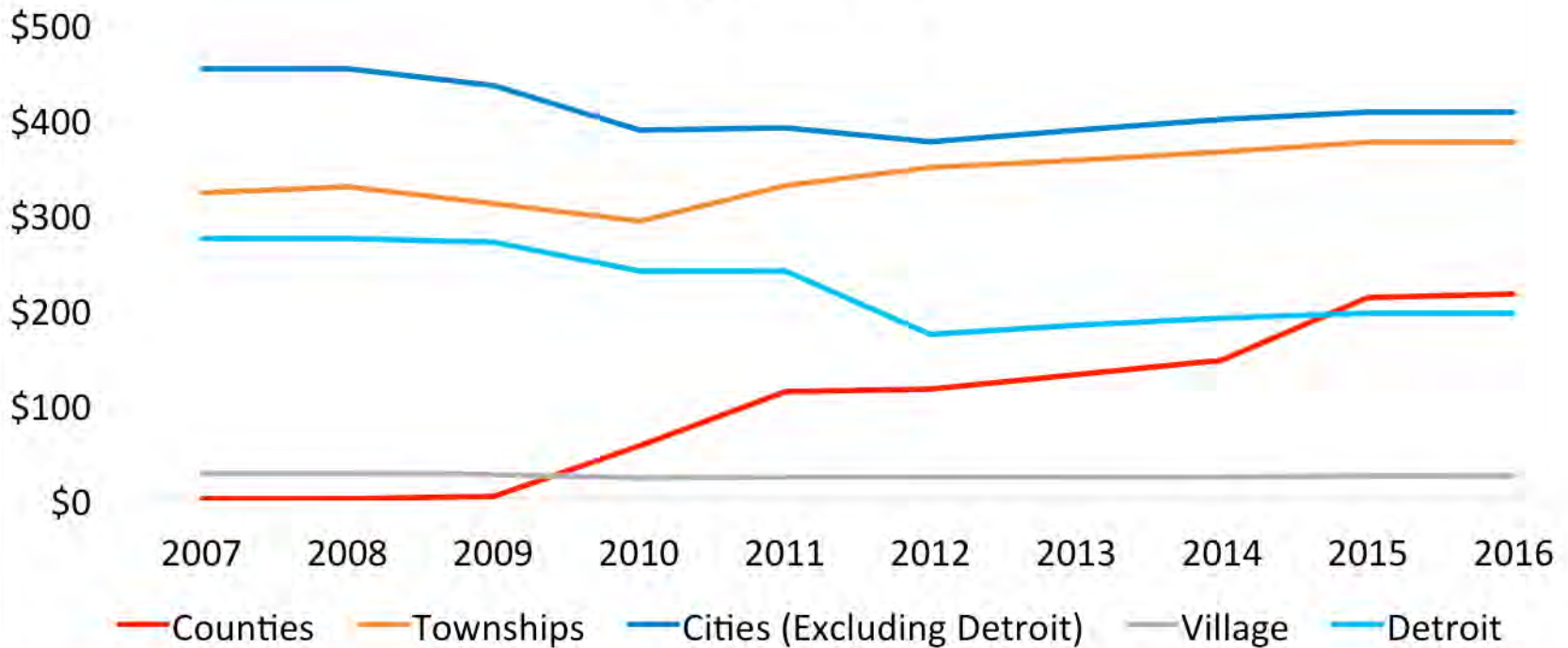
City Income Tax Revenues

**Figure 7: Statewide City Income Tax Revenue
2010 - 2016
(\$ millions)**



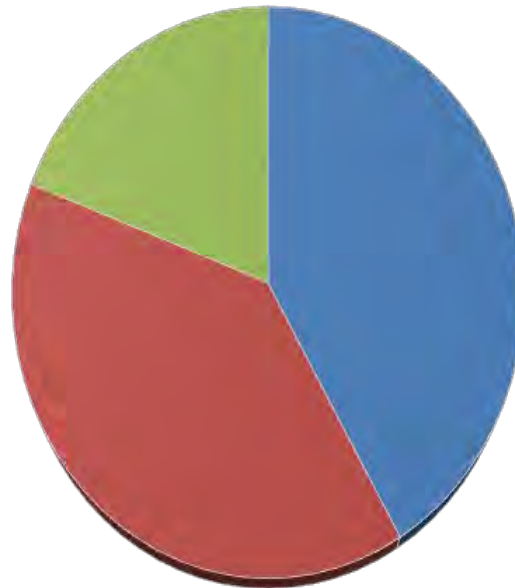
Revenue Sharing by Unit

**Figure 12: Total General Revenue Sharing by Type of Local Unit
2007-2016
(\$ millions)**



Michigan Local Government Liabilities

Local Governments



■ Pension Liability ■ OPEB liability ■ Bonded Debt ■

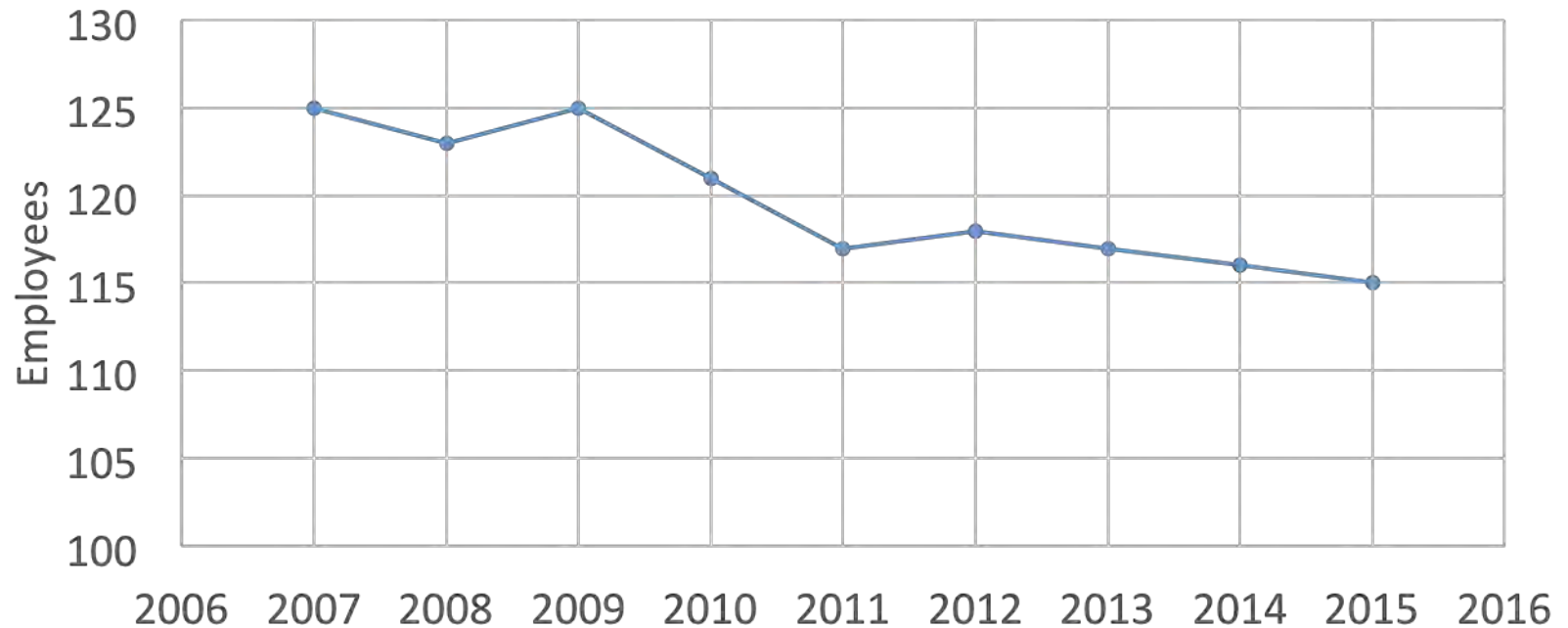


Employees by Function

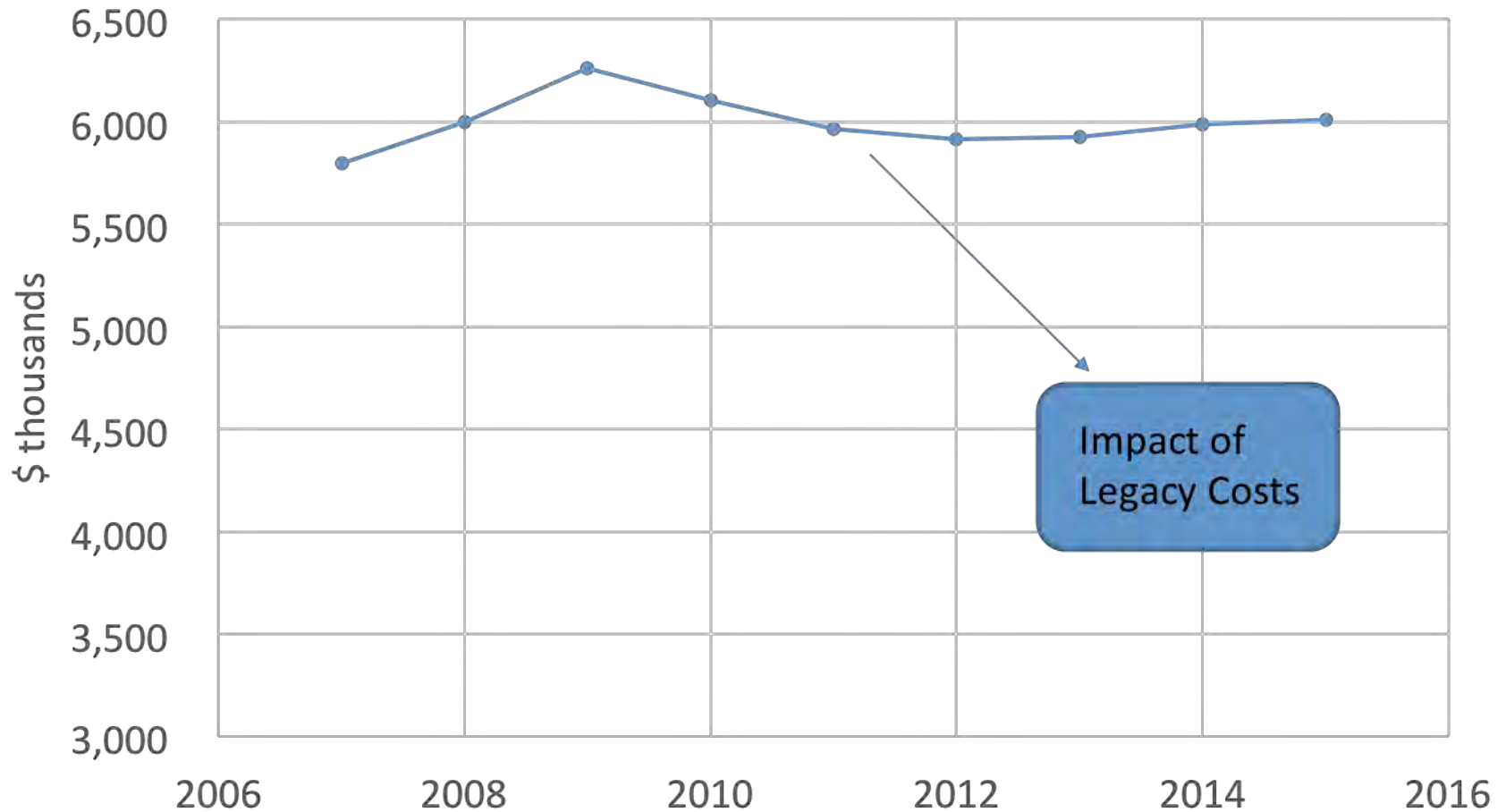
Function	Number of Employees
Police	16,700
Fire	5,700
Corrections	4,800
Highways	7,500
Health and Hospitals	14,500
Sewer	3,400
Parks and Rec.	1,900
Water	3,800
Transit	4,400
Education	147,000
Total	245,000



Total Municipal and County Workers (2007 – 2015) (Thousands)



Local Govt. Aggregate Payroll Expenditures Municipal and County Workers (2006-2016)



Unrestricted Fund Balance by Unit

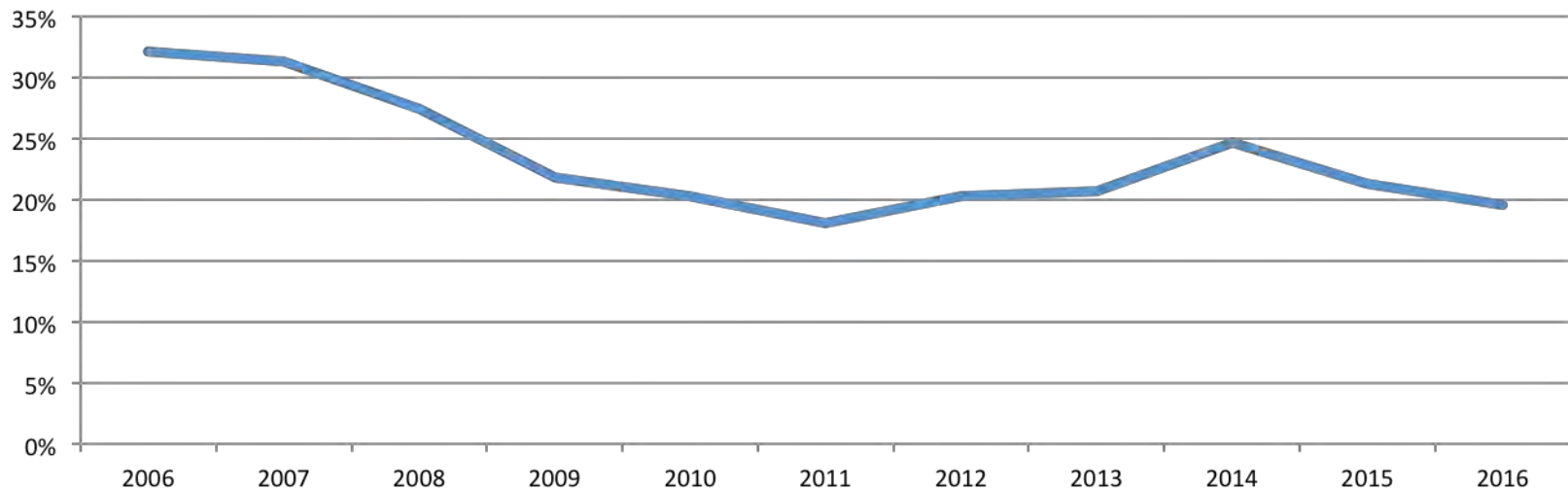
**Table 3: Aggregate Unrestricted General Fund Balance
as a Percent of Revenue
2012 - 2016**

	2012	2013	2014	2015	2016	Number of Units
Counties	14.01%	14.44%	16.47%	19.06%	21.93%	77
Townships	89.09%	90.02%	95.30%	96.52%	94.73%	759
Cities (Except Detroit)	20.02%	21.79%	23.97%	25.14%	25.93%	263
Villages	50.64%	58.15%	58.58%	55.87%	59.11%	215
City of Detroit	-26.22%	-6.52%	0.84%	5.27%	12.45%	1



Reserves of 25 Largest Local Governments in Michigan (2006-2016)

General Fund Balance as % of Revenue (median for 25 largest local govt.)



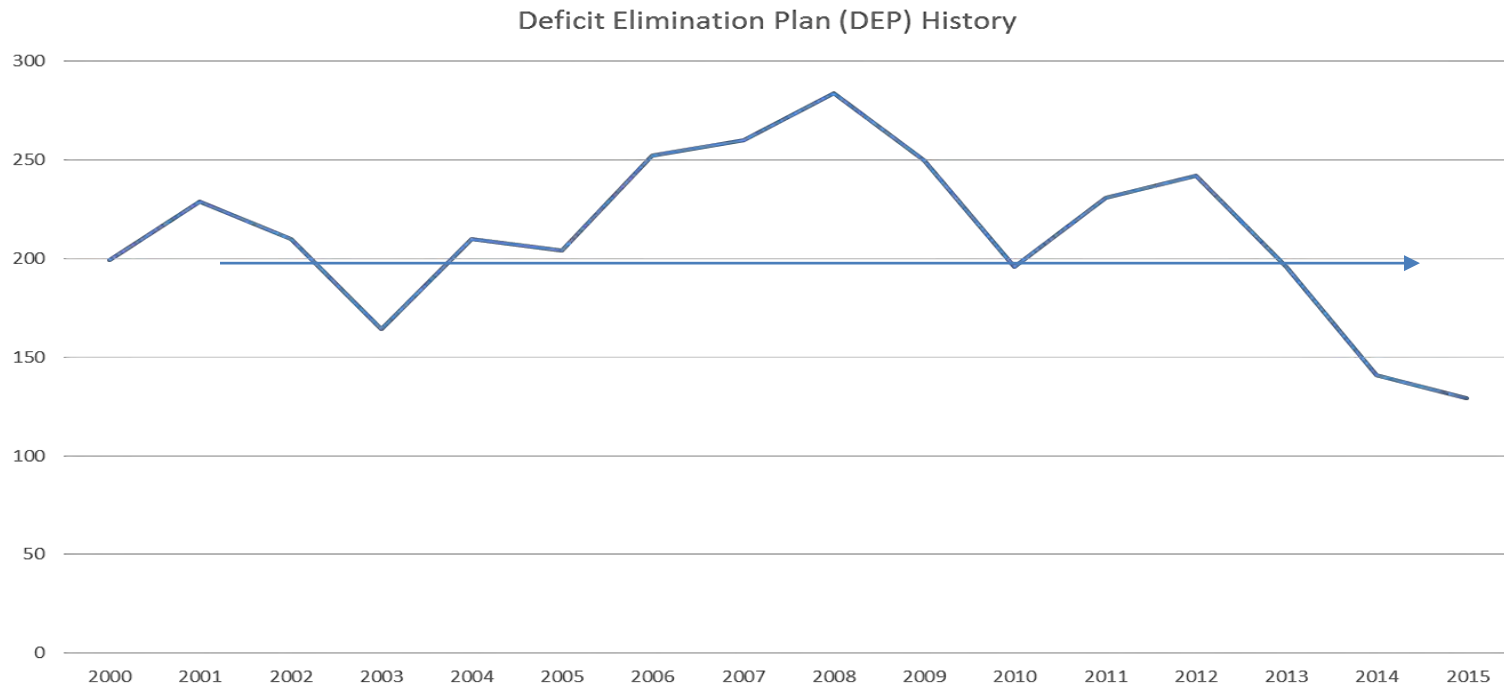
Less than 10% FB

**Table 4: Local Units with Unrestricted General Fund Balance
as Percent of Revenue Less Than 10 Percent
By Type of Local Unit and Range**

Type	Less Than 0%	0%	Less Than 0% and Greater Than 10%	Total
Counties	0	1	8	9
Cities	4	2	17	23
Townships	1	40	8	49
Villages	7	5	9	21
Total	12	48	42	102



Michigan Local Government Deficits



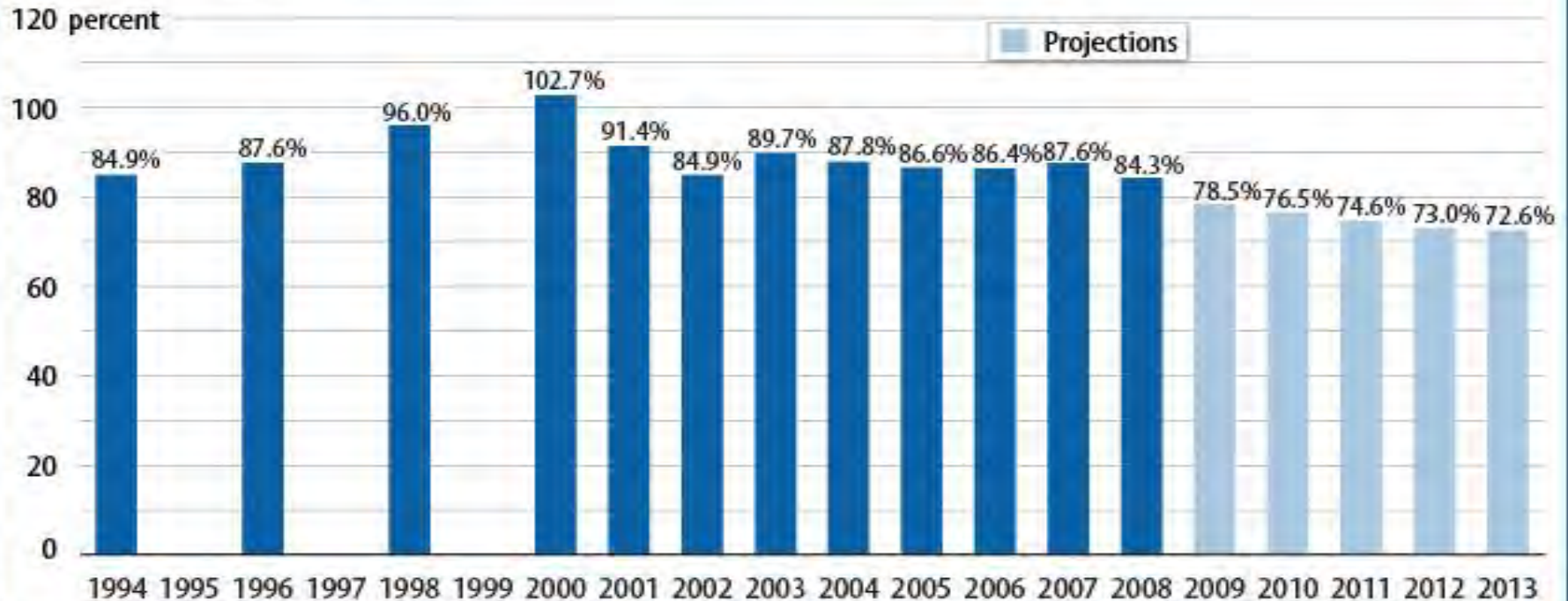
PENSION AND OPEB CHALLENGES



National State and Local Pension Funding

Figure 3:
Public Pensions Fully Funded in 2000 But Have Since Declined

Aggregate state and local pension assets as a share of trust fund liabilities
(based on plans' actuarial assumptions)



Source: Center for Retirement Research at Boston College (data not provided for 1995, 1997, and 1999).

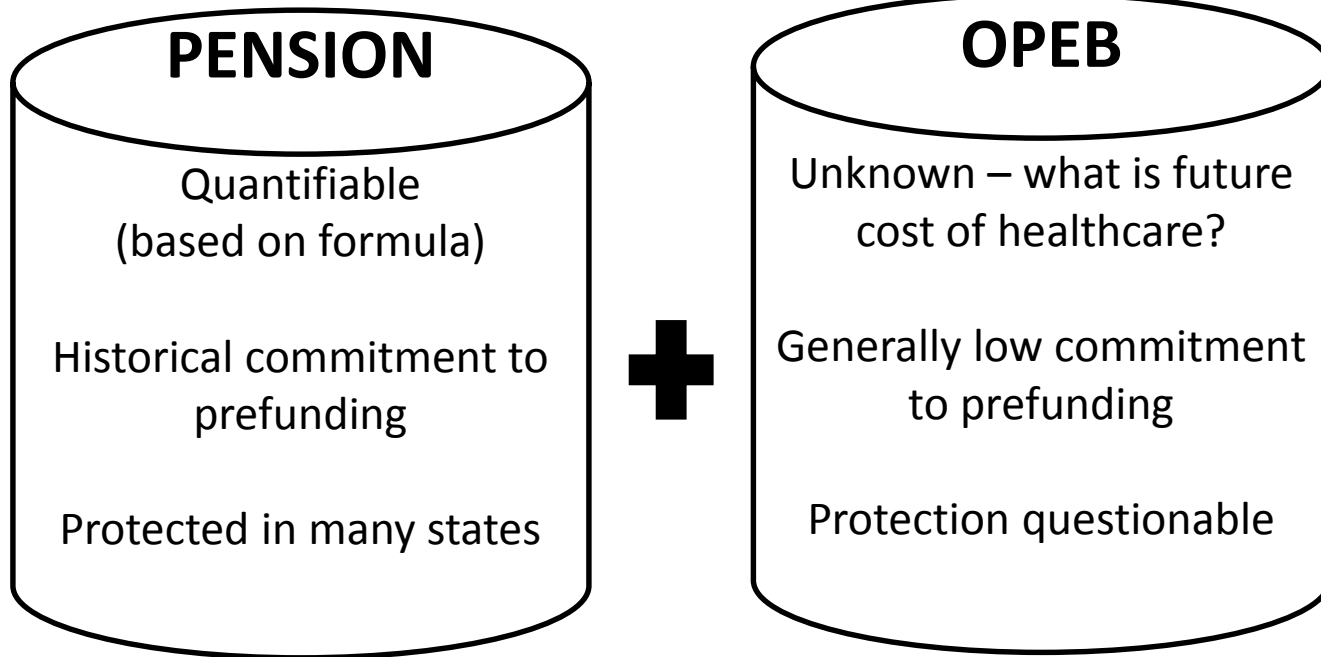
Center on Budget and Policy Priorities | cbpp.org

Local Pension and OPEB Systems

- **Local pension systems about 900 (560 general purpose)**
 - Teachers in one state system (MPSERS)
 - Some smaller governments don't offer these benefits or have very few employees
 - Police and fire generally not part of social security system
- **Local OPEB systems about 340**
 - More locals provide pension over a retiree health care benefit; retiree health generally provided by larger, urban governments
 - Provided to attract employees and maintain stable workforce



Legacy Costs



Legacy Cost Pressures

- Health care inflation is growing faster than local revenues and general inflation
- Demographics; Number of retirees often exceeds number of active employees
 - Some greater than 3 or 5 to 1 ratio
 - Police and fire typically retiree pre-Medicare due to job demands
- Many locals still struggling to meet full actuarial required payment for retiree health care



Local Pension Systems

- 900 local pension systems; 560 general purpose govt.
- \$24.3 billion in assets; \$34.0 billion in liabilities
 - \$9.7 billion in unfunded liabilities (Detroit is \$3 billion)
- Estimate that locals pay about \$900 million annually in pension contributions



Top 10 Highest Net Pension Liabilities in the State with Aggregate Funded Ratio

City of Detroit	\$2.9 billion	65%
Wayne County	\$564 million	58%
City of Lansing	\$306 million	59%
City of Warren	\$279 million	59%
Genesee County	\$185 million	55%
City of Grand Rapids	\$171 million	82%
City of Saginaw	\$154 million	54%
Ingham County	\$124 million	68%
Washtenaw County	\$102 million	71%
City of Ann Arbor	\$88 million	83%



Lowest Funded Pension Ratios in the State

Lincoln Park Police & Fire	22.0%
Lincoln Park General Employee	31.9%
Village of Capac	32.6%
City of Walled lake	35.7%
Arenac County Road Commission	37.0%
Village of Detour	37.9%
Benzie County Road Commission	40.0%
City of Burton	40.5%
Village of Breckenridge	41.7%
City of Jackson Police & Fire	42.7%

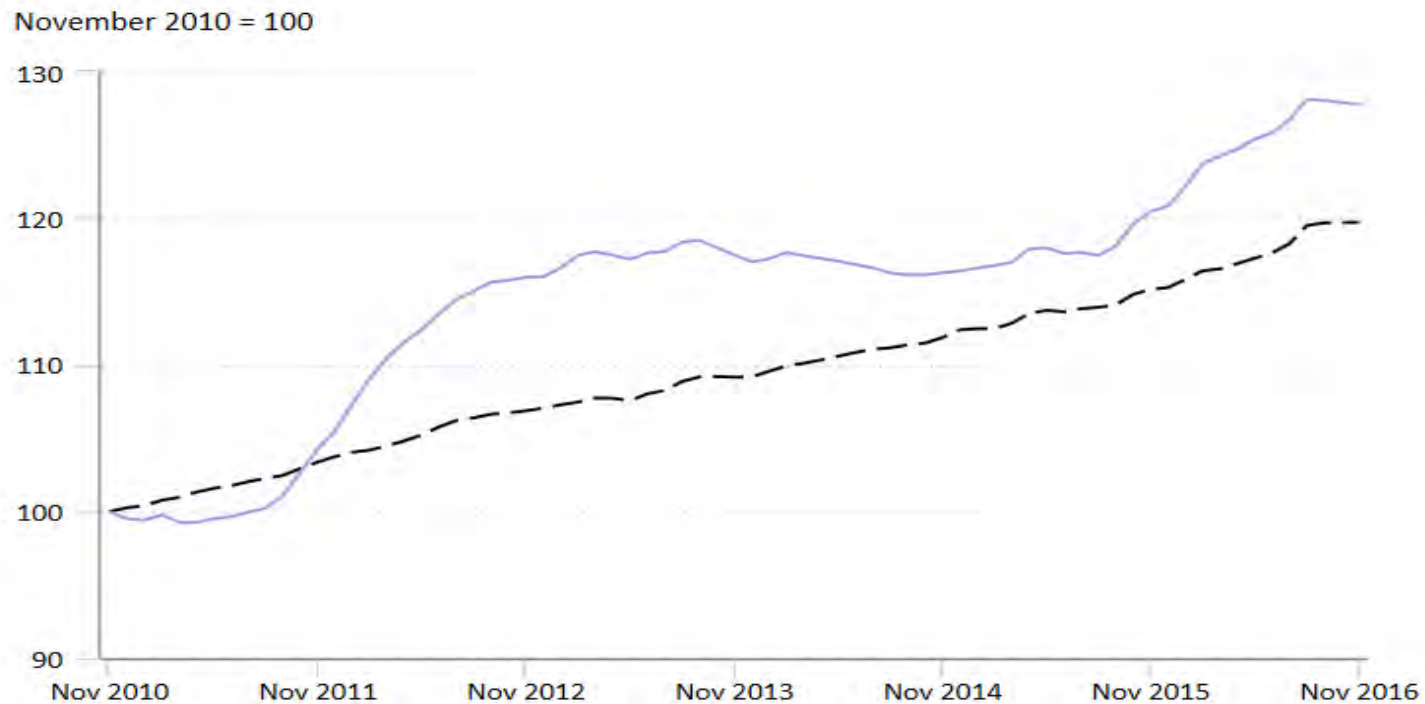


Local OPEB Systems

- 340 local OPEB systems
- \$3 billion in assets; \$12.1 billion in liabilities
 - \$9.1 billion in unfunded liabilities
- Employer contributions averaging around \$530 million annually with actuarial required contribution at about \$800 million
- Assets largely built up via OPEB bonding



Health Care Cost Pressures



Top 10 Local Government OPEB Unfunded Liabilities

Local Unit Name	OPEB Unfunded Actuarial Accrued Liability (UAAL)
Lansing	\$ 431,776,738
Warren	\$ 275,148,754
Flint	\$ 240,525,197
Taylor	\$ 232,697,568
Pontiac	\$ 231,427,530
Saginaw	\$ 220,255,745
Kalamazoo	\$ 187,860,805
Dearborn	\$ 181,847,229
Southfield	\$ 174,383,880
Ann Arbor	\$ 162,100,000
Total:	\$ 2,338,023,446



Changes in Municipal OPEB Liabilities, Assets and Funding (cities, villages and townships 2011 & 2015)

	FY 2011	FY 2015
OPEB Assets	\$810 million	\$1.3 billion
OPEB Liabilities	\$8.5 billion	\$8.3 billion
OPEB Unfunded Liability	\$7.7 billion	\$7.0 billion
OPEB Aggregate Funding Ratio	9.5%	15.8%
OPEB Average Funding Ratio	19.5%	19.3%



Who has Reduced OPEB Liabilities?

- Flint \$600 million
- Pontiac \$134 million
- Grand Rapids \$60 million
- Kalamazoo \$68 million
- Allen Park \$30 million
- Inkster \$24 million

More than half of municipal governments saw OPEB liability grow over the last four years



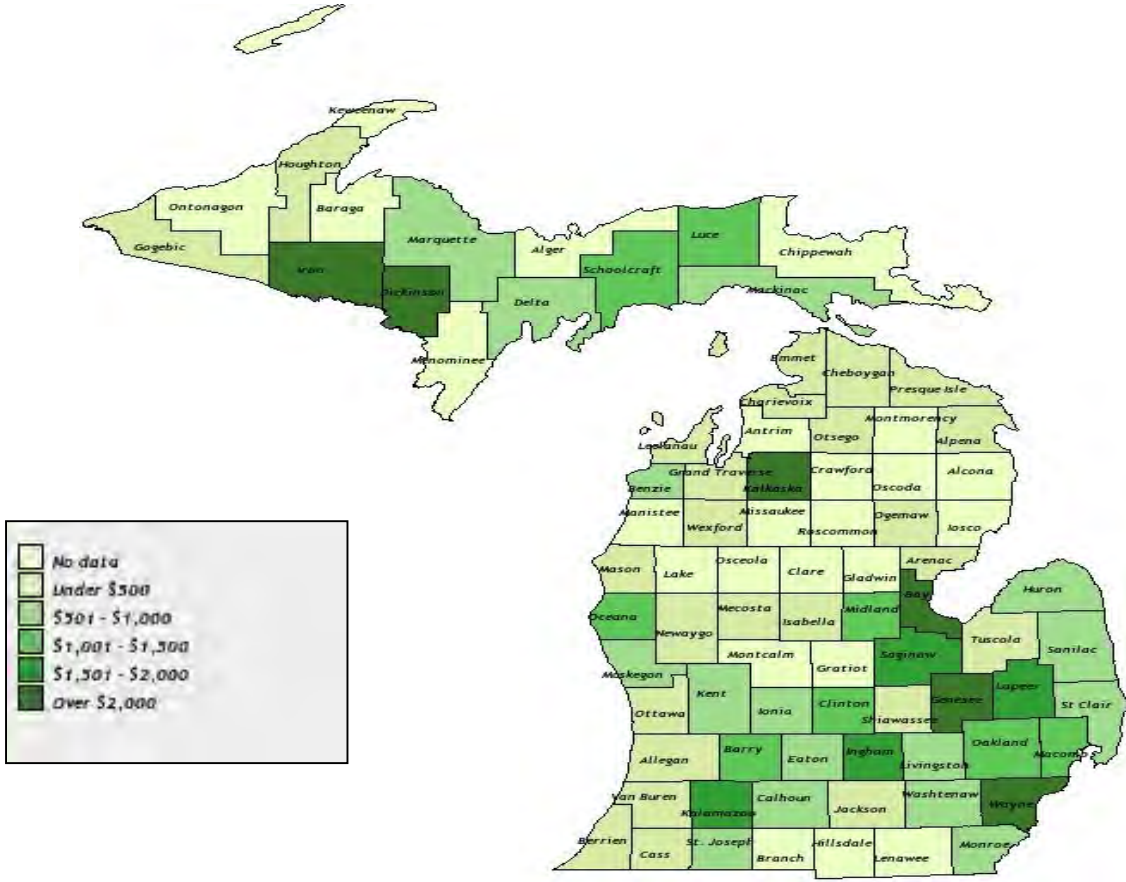
Who Increased OPEB Assets?

- Ann Arbor \$43 million
- Sterling Heights \$40 million
- West Bloomfield \$39 million
- Grand Rapids \$35 million
- Livonia \$22 million

About half of municipal governments increased assets but in many or most cases it was quite a small increase relative to the size of the liability



OPEB Liabilities Spread Across State



PUBLIC ACT 202 OF 2017

(PENSION/OPEB REFORMS)



Key Pieces of Legislation

Stage 1: Transparency and OPEB Reforms



Stage 2: Evaluation System and Underfunded Status



Stage 3: Waiver process and MSB



Stage 4: Correction Action Plan and MSB



Stage 5: Ongoing Implementation



Evaluation System I

- Goal: identify and resolve through corrective action the underfunded status of local Pension and OPEB systems
- Outcome: identification of “underfunded status” means the government must continue through the process

Evaluation System II: Triggers

- Key Triggers:

- OPEB: less than 40% funded status and equal to more than 12% of govt. activity revenue
- Pension: less than 60% funded and equal to or more than 10% of govt. revenue

- Other triggers:

- Failure to report
- Failure to pay normal cost for newly hired employees

Evaluation system III: Uniform Assumptions report

- Using standards promulgated by Treasury must provide for publically available report on:
 - Funded ratio
 - Annual required contribution
 - Operating revenues
 - Acturial assumptions
 - Waiver and underfunded status
 - Corrective action plans

Underfunded Status Waiver

- Governments have a chance to waive out of the process if they are determined to be in “underfunded status”
- Waiver criteria will likely include
 - Factual errors
 - Policy decisions that have already been made but not reflected in CAFR or annual financial report



Municipal Stability Board (MSB) I

- Three member board (gubernatorial appointees)
 - One resident of the state representing state officials
 - One resident of the state representing local officials
 - One resident of the state representing employees and retirees

MSB II

- Board shall issue an annual best strategies document to assist local governments in corrective action plans
- Board reviews and approves/denies corrective action plans (CAP)
 - 45 days to approve or deny
 - Denial: local govt. must resubmit within 60 days

MSB III

- Board shall monitor achievement of corrective plan no less than every two years



Corrective Action Plan (CAP)

- If no waiver is given or no waiver asked for, process continues
 - CAP is due within 180 days (6 months) to municipal stability board
- Potential Actions and Strategies in CAP
 - Closing defined benefit plans
 - Implementing multiplier limits
 - Reducing/eliminating new accrued benefits
 - Requiring cost sharing or capping employer payments
 - Others.....

- Thank you!
- Questions and Dialogue

