State of Michigan
Department of Treasury

House
Local Government Committee

Representative Amanda Price, Chair

March 2014

Office of Fiscal Responsibility

Since the inception of the new Emergency Manager law in 2012, the Department of Treasury is continuing its efforts to improve the fiscal health of local units of government by:

- Focusing on ensuring long-term stability through the use of Receivership Transition Advisory Boards (RTAB)
- Exploring policy changes needed to decrease the incidence of healthy municipalities falling into receivership
- Treasury wants to predict fiscal distress earlier, and to foster collaborative opportunities to save communities money and implement best practices

Distressed Local Units and School Districts

Treasury's Office of Fiscal Responsibility is involved in all stages of the PA 436 process. The principal functions of the Office are:

- Identify and provide financial and operational assistance to local units of government in fiscal or operational distress
- Analyze municipal services to determine fiscal viability
- Provide ongoing review of local operations in order to improve efficiencies and minimize further fiscal distress
- Coordinate oversight between Treasury and Emergency Manager and Consent Agreement local units
- Provide staff services to Receivership Transition Advisory Boards
- Provide a framework for communities to be successful

Local Units Under Financial Review (PA 436)

- City of Highland Park
  - Financial Review Team report issued January 24, 2014, concluded a financial emergency exists
- Royal Oak Charter Township
  - Financial Review Team report issued January 24, 2014, concluded a financial emergency exists (Governor declared financial emergency on March 19, 2014)
- City of Lincoln Park
  - Financial Review Team appointed February 10, 2014
  - Report due April 11, 2014

Local Units Under Consent Agreement

- City of Inkster
  - Agreement effective February 28, 2012
  - City Treasurer has been granted Emergency Manager authorities to implement the agreement except those in Section 19(1) of PA 436

- City of River Rouge
  - Agreement effective December 15, 2009

Local Units Under Emergency Manager

- Flint – Emergency Manager appointed November 28, 2011
- Allen Park – Emergency Manager appointed October 26, 2012
- Hamtramck – Emergency Manager appointed June 26, 2013
- Detroit – Emergency Manager appointed March 14, 2013
  - City filed for Chapter 9 Bankruptcy on July 18, 2013
  - A federal judge ruled on December 3, 2013 that the City is eligible for bankruptcy
  - Plan of Adjustment filed

Local Units Under Receivership Transition Advisory Board

- City of Ecorse
  - Emergency Manager status ended April 30, 2013
  - Three-member Board appointed May 1, 2013
- City of Pontiac
  - Emergency Manager status ended August 12, 2013
  - Four-member Board appointed August 13, 2013
- Benton Harbor
  - Emergency Manager status ended March 10, 2014
  - Four-member Board appointed March 10, 2014

School Districts in Distress

- Ecorse Public Schools
  - Financial review – Emergency Loan Board determined no probable financial stress - October 2013
- E. Detroit Public Schools
  - Financial review – Emergency Loan Board determined no probable financial stress - September 2013
- Hazel Park Schools
  - Financial review – Emergency Loan Board determined no probable financial stress - August 2013
- Benton Harbor
  - Under review – No Emergency Loan Board determination as of this date.
- Pontiac Public Schools
  - Consent Agreement effective September 18, 2013
- Detroit Public Schools
  - Emergency Manager appointed March 2009
- Muskegon Heights Public Schools
  - Emergency Manager appointed April 2012
- Highland Park Schools
  - Emergency Manager appointed May 2012

Early Warning/Predictive Modeling

A two-pronged approach is envisioned:

1. Enhance data collected by the Department through augmentations to the F-65 Annual Local Unit Financial Report
    - Improve the integrity of the data
    - Includes revising the Uniform Chart of Accounts
    - Identify other options for collecting the data
    - Upload general ledger directly to system
    - Expanding user functionality
    - Better reporting tools for comparisons, trending, and forecasting
    - Expect PILOT model by 12/2014

2. Identify predictive data points
    - Analyze a wide variety of data, which may be collected by multiple state agencies
    - Data analyzed may include fiscal, community health, demographics, housing, or public safety
    - Identifying which of these data points are predictive by creating a model to analyze historical budgetary trends
    - Once predictive data points are identified, create a system for routinely collecting the pertinent data in one stream, and analyzing it regularly so the potential for fiscal distress is identified earlier

Early Warning/Predictive Modeling

(Continued)

Benefits

- Development of a reliable, predictive modeling system for statewide use
- Better, cleaner data – will benefit both schools and municipalities, as well as the State
- Identify local units heading for distress, and create an opportunity to identify less obvious indicators of stress
- Provide assistance while problem is still fixable

Tools

- Reporting tools to assist with trend analysis and forecasting
- Internal control reviews conducted by Treasury staff
- Operational assistance from the Office of Fiscal Responsibility

Other Services

- Local Audit and Finance Division
  - Review annual financial statements of local units and assess quality of audit
  - Approve/deny local unit borrowings by assessing ability to repay
  - Review deficit elimination plans to determine reasonableness and achievability
  - Require monthly reporting of select local units to ensure adherence to DEP or financial plan
- Assessment and Certification Division
  - State Equalization – Provide recommendations to STC for state equalization of property tax assessments after reviewing and studying all 83 counties equalized value
  - Oversight and Training of Local Assessment – Provide technical assistance, oversight and training of over 1,500 local assessing units, 83 county equalization departments, and the officials associated with those units and departments
  - State Assessed Property – Assess the property of telephone, telegraph, railroads and rail carline companies resulting in an assessment roll for those state assessed properties
  - State Average Tax Rate – Collect millage information each year from all local units of government to calculate the State Average Tax Rate which is the millage rate that is levied on state assessed property

Other Services

- Property Services Division
  - Property Tax Exemption Section - Assist local governmental units in the administration of 11 specific taxes and tax exemptions, by reviewing tax exemption applications, recommending approval or disapproval, conducting audits, and serving as an informational resource
  - Tax Foreclosure Section – Administer inspection, notification, foreclosure, and auction provisions of the tax-foreclosure process within counties for which the State is the foreclosing governmental unit
  - Deferred Special Assessment Administration - The State pays the special assessment for senior and disabled citizens with comparatively low incomes as a loan and allows the applicant to defer payment until the property is sold or until one year after the owner's death
- State Tax Commission
  - Provides general supervision of the administration of the property tax laws of the State of Michigan
  - Oversees training of assessors, issues certifications in assessment administration, and, if necessary, revokes those certifications to assessors that are required by law to be certified
  - Oversees the development and implementation of certification renewal programs, and reviews property valuation appeals made to the Michigan Tax Tribunal on an annual basis
  - Annually conducts audits of local unit assessing practices to determine compliance with State Law and STC policies and procedures
  - Annually completes Equalization on all classes of property by the fourth Monday in May