FISCAL INDICATOR SCORING

HOW TO USE THESE INDICATORS

There are many indicators that can be used to measure the financial condition of local governments. These indicators are measurements at a point in time. They are not necessarily predictors of a local government's future financial condition. Some of these measurements should be given more or less consideration in evaluating the financial condition of a local government. In evaluating the financial condition of a local government, other indicators and information may require consideration to make a complete assessment of a local government's current and future financial condition. Examples include dependence on a major taxpayer, pending litigation, ability to fund long term commitments such as retiree health care, deferred capital outlay or maintenance, millage capacity, percent developed, etc.

FISCAL MANDATE

Under current law, the Michigan Department of Treasury is required to wait until local units of government show signs of severe fiscal stress before being able to directly address the local government issues. Rather than take this reactive approach, the Michigan Department of Treasury has developed a process to review certain fiscal indicators that encourage sound fiscal health for all of Michigan's 1,858 units of local government. The Department of Treasury's process also provides for guidance, upon request, for those local units of government needing it.

PURPOSE OF THE SCORES

The fiscal indicator scores are intended to provide State officials, local officials, and the general public with objective, measurable, and straightforward information concerning the degree of, or absence of, fiscal health in units of local government. This information provides the public with information that may not be publicly displayed from their local officials. The most cost-effective way to accomplish this goal is to publish the fiscal indicator scores on the Michigan Department of Treasury web site. It is similar to the school district report cards available for all Michigan school districts.

FISCAL SCORING ORIGIN

The Michigan Department of Treasury commissioned the Institute for Public Policy and Social Research at Michigan State University to evaluate local government fiscal indicators included in existing state law. As the Institute completed its evaluation of existing fiscal indicators it was asked to propose more effective fiscal indictors. To view study click here.

FISCAL SCORING PROCESS

Key factors from nine categories are analyzed and assigned points. They include, but are not limited to:

1. Population growth
2. Real taxable valuation growth
3. Large real taxable value decrease
4. General fund expenditures as a percent of taxable valuation
5. General fund operating deficits
6. Prior general fund operating deficits
7. Size of general fund balance
8. Fund deficits in current or previous years
9. General long-term debt as a percent of taxable value

Once the data has been collected and each local units score is calculated, a letter will be sent with the local unit's fiscal health score along with the criteria used to arrive at the score to all of the following offices: The Chief Elected Official, the City Manager, and the Finance Director or equivalent position. The local unit will then have *60* days to respond or comment on the score to Department of Treasury and address any factual errors they believe are present. Any substantiated factual errors will be used by the Department of Treasury to recalculate the local unit's fiscal health score. At the conclusion of the *60* day period, Treasury will electronically send the final fiscal *indicator* score report to all of above mentioned offices, plus the entire legislative body of the local unit, as well as the local unit Clerk and Treasurer. At the same time the fiscal *indicator* score of the local unit will be posted on the Michigan Department of Treasury website.

WHERE THE NUMBERS COME FROM

Population Growth: Information provided from the Population Estimates - U.S. Census Bureau (Note: With each new issue of July 1 estimates by the Census Bureau, the population estimates program revises estimates for years back to the last census. Previously released estimates are superseded. The scores will not be updated to reflect the revised estimates).

Real Taxable Value: Assessing Officers Report of the local unit of government filed with the Department of Treasury (includes real property only.) As this is a measure of a two year period, the most recent year is deflated using data from the US Bureau of Economic Analysis (BEA) (Note: The annual or 4th quarter gross domestic product is used to calculate the deflator. The BEA revises this figure on a regular basis and previously released data is superseded. The scores will not be updated to reflect the revised number.)

General Fund Revenue and Expenditures: Annual or biennial audit report of the local unit of government filed with the Department of Treasury (the general fund operating revenues and expenditures do not include other financing sources/uses such as operating transfers in or out.)

Fund Deficit: Annual or biennial audit report of the local unit of government filed with the Department of Treasury (includes a deficit in a major fund in current year and prior year. Major fund is defined as those funds with revenues, expenditures, assets or liabilities that make up at least ten percent of the total for the fund category or type (governmental or business-type) and at least five percent of the aggregate amount of all governmental and enterprise funds. Internal service funds are excluded from the major fund reporting requirements. The general fund is always a major fund. A local unit official may make any fund major.)

General Long Term Debt: Annual or biennial audit report of the local unit of government filed with the Department of Treasury (includes long-term debt for governmental activities.)

FISCAL HEALTH SCORE SIGNIFICANCE

A score of 0 reflects the presence of neutral fiscal health and a score of 8 or above reflects a local unit experiencing fiscal stress.

LATEST MICHIGAN CITIES' SCORING BREAKDOWN SUMMARY

The average score for Michigan cities was 2.4 for the fiscal year ending in 2006. The Department scored 269 of the 274 cities for which information was available. The breakdown for each numeric category is listed below:

0	13% scored in this category	88% Fiscally Neutral
1	22% scored in this category	
2	22% scored in this category	
3	19% scored in this category	
4	12% scored in this category	11% Watch List
5	7% scored in this category	
6	2% scored in this category	
7	2% scored in this category	
8	1% scored in this category	1% Fiscal Stress

Fiscally Neutral – Local Units that score in this category are deemed to be managing their financial circumstances appropriately, but local units should not interpret a score in this category as an indicator that they are in anyway insulated from financial concerns. It is a snap shot of a local unit's financial condition. It is not an indicator of ability to pay. Local decisions that impact a local unit's finances or deviations from their current financial strategies may result in changes to future fiscal health scores.

Watch List– Local Units that score in this category are considered to be in a financial circumstance that is cause for concern, but that can still be addressed by the local unit. Governing bodies of local units on the watch list should exercise added care when making financial decisions, and formulate a financial strategy to return to the local unit to a

fiscally healthy score. Local units may request assistance from the Department of Treasury in developing financial strategies that will assist in returning their score to fiscally healthy.

Fiscal Stress– Local Units that score in this category are considered to be in poor financial condition. Governing bodies of local units that score in this category should take immediate corrective actions to improve the financial health of the local unit. Assistance and potentially intervention by the Department of Treasury is expected for local units scoring in this category.

SUMMARY

In our capacity as fiscal watchdog for Michigan Local Units of Government, the Department of Treasury has provided an objectively measurable process that calculates fiscal indicator scores for Michigan's 274 cities. By creating this process we are able to identify the fiscal health of Michigan's cities. By posting the fiscal indicator scores on our web site we are discharging our duty of public disclosure to the citizens of Michigan relative to the fiscal health of their cities, as we did for Michigan's 83 counties in April 2007, and as we plan to do for all 1,858 local governments in Michigan.

TO VIEW SCORE SELECT YEAR

2006
2005

TO VIEW SCORES BY LOCAL UNIT TYPE

2006 Cumulative Scores-City
2006 Cumulative Scores-County