



State of Michigan
Department of Treasury

Michigan's Fiscal Indicator System, Early Warning and Prevention

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Fiscal Indicator System 2007

- Treasury implemented a local government fiscal indicator system in 2007.
- Michigan State University's Institute for Public Policy and Social Research designed it.
- Designed as:
 - Preventative tool;
 - To identify potential fiscal problems among cities, counties, villages, and townships.

Fiscal Indicator System 2007

The 9 indicators:

- 1) population growth;
- 2) real taxable valuation;
- 3) large real taxable value decrease;
- 4) GF expenditures as a percentage of taxable valuation;
- 5) GF operating deficits;
- 6) prior GF operating deficits;
- 7) size of GF balance;
- 8) fund deficits in current or previous years;
- 9) general long-term debt as a percentage of taxable value;

Fiscal Indicator System 2007

Observations

- Nine (9) metrics.
- The number of metrics provided comprehensive view of local unit.
- Local unit's long- and short-term viability was assessed.
- Each local unit's score was calculated and posted to Dept. of Treasury's website.
- Data static.

Fiscal Indicator System 2018

Analytics, Partnership, Prevention (APP)

- **Analytics, partnership, and prevention** are sequential components that:
 - Identify
 - Assist
 - Position (for success)
- APP is an early warning system;
- APP's objective: partner in developing fiscally resilient communities.



Analytics, Partnership, Prevention (APP)



Fiscal Indicator System 2018

the **Analytics** of APP

Four Indicators

Formulae

1. **Cash Ratio** - Cash and Cash Equivalents / Total Current GF liabilities.
2. **GF Balance Ratio** - (Assigned + Unassigned + Committed) / GF Revenues
3. **Net Assets Ratio** - (Total Assets - Total Liabilities) / Governmentwide Revenues
4. **Taxable Value per Capita** - Taxable Value / Population

Fiscal Indicator System 2018

EXAMPLE: Scoring Taxable Value per capita:

- **Current Year**
 - 15 points for less than 10k
 - 10 10-17.5k
 - 5 for 17.5k to 20k
 - 0 for >20000
- **Trend**
 - 10 points for declining ratio for 3 consecutive years
 - 6.67 points for declining ratio 2 of previous 3 years
 - 3.33 point for declining ratio 1 previous 3 years
 - 0 points for no declining ratio over previous 3 years
- A composite score out of 100 is generated for every local unit of government (1,856).
- The higher the composite score, the more likely stress is present.

Fiscal Indicator System 2018

What's being measured?

1. **Cash Ratio – Cash solvency.** A local government's liquidity and effective cash management, and its ability to pay current liabilities.
2. **GF Balance Ratio – Budgetary solvency.** The ability of the government to generate sufficient revenue to fund its current or desired service levels.
3. **Net Assets Ratio – Long-run solvency.** The impact of existing long-term obligations on future resources.
4. **Taxable Value per Capita -Service level solvency.** The ability of the government to provide and sustain a service level that citizens require and desire.

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Additional metrics utilized

- **Pension/OPEB data**
- **Qualified Statement of Deficiencies**
- **Auditing Procedures Report Deficiency (APR)**
- **Audit of Minimum Assessing Requirements (AMAR)**
- **Socio-economic** (per capita income, median household income, unemployment, industries, occupations, population distribution, etc.)

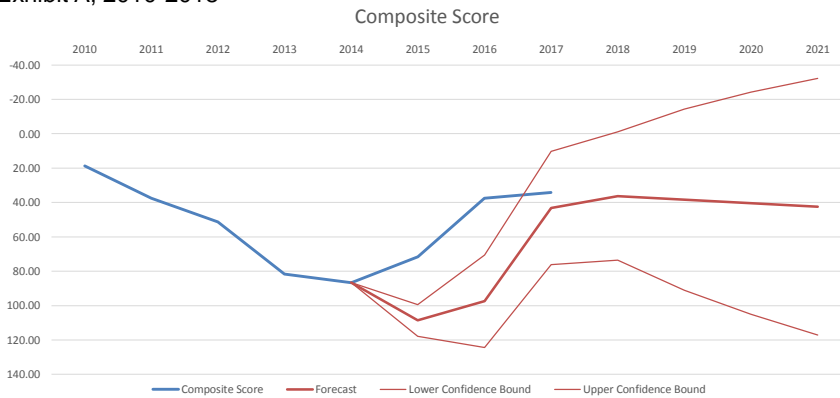
Fiscal Indicator System 2018

Exhibit A, 2010-2018

Year	Composite Score	Current Year Score	Trend Score	Cash Ratio	GF FB Ratio	Net Assets Ratio	TV Per Capita
2010	18.75	18.75	0.00	1.25	0.17	0.38	\$18,828.63
2011	37.50	27.5	10.00	2.57	0.16	0.38	\$17,093.29
2012	51.25	31.25	20.00	1.10	0.09	0.31	\$15,562.59
2013	81.66	45	36.66	0.55	0.00	0.15	\$14,553.75
2014	86.66	50	36.66	0.24	-0.05	0.25	\$14,099.70
2015	71.66	45	26.66	0.55	0.01	0.20	\$14,160.06
2016	37.50	27.5	10.00	2.14	0.14	0.32	\$14,160.35
2017	34.17	27.5	6.67	1.28	0.16	0.31	\$14,289.36

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Exhibit A, 2010-2018



Fiscal Indicator System 2018

Strengths:

- Simplicity. Less indicators. Real-time.
- Objective, consistent monitoring.
- Detects stress early.
- APP model predicated on communications, partnership, leveraging resources.
- Avoids state intervention or the need to take over local decision-making authority.

Weaknesses:

- Lacks statutory authority.
- No dedicated resources.
- Participation is voluntary.

To be continued...

the **Analytics** of APP

- Infrastructure-cost measurement (actual capital infrastructure debt).
 - How to capture unmeasured, unassessed capital needs?
- PA 202 pension / OPEB debt.
- **Local Unit Annual Financial Report (F-65), Auditing Procedures Report (APR), pdf Annual Audited Financial Statements, Retirement System Annual Report (Form 5572).**
 - local unit reporting fatigue
 - quantity v. quality (data)
 - eliminate duplication
 - etc.

PA 202 of 2017 Background

- Protecting Local Government Retirement and Benefits Act (PA 202) implements the recommendations from the Responsible Retirement Reform Task Force
- The act incorporates four stages:



Transparency
through reporting



Identification
of potential
problems



Review for fiscal
health
(waiver process)



Develop action
plan

- The act is not perfect – implementation challenges!



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