CITY COUNCIL REPORT

September 10, 2009

TO: The Honorable Mayor and City Council Members

FROM: John Szerlag, City Manager
John M. Lamerato, Assistant City Manager/Finance & Administration

SUBJECT: Response to September 6, 2009 Detroit Free Press Article Titled "State Fears Worsening Financial Outlooks"

We write this statement in response to the September 6, 2009 Detroit Free Press article titled, "State fears worsening financial outlooks".

I'm sure that many Troy residents were alarmed when they read that the City of Troy is on the State's financial watch list along with cities such as Detroit, Flint, Pontiac, and Riverview. Several years ago the State developed a financial indicator test in order to gage the financial conditions of cities. From the beginning the City of Troy registered concerns with the State over flaws in the report based on how data collected and used to determine a score that represents the financial viability of a community.

The State looks at such criteria as population growth; real taxable value growth; general fund expenditures as a percentage of taxable value; general fund operating deficit; prior general fund operating deficits; size of fund balance; fund deficits in current or previous year and general long-term debt as a percent of taxable value. Cities receive a point if there is a negative result in any of these indicators. If a city has 0-4 points it is considered fiscally neutral; 5-7 points puts a city on the fiscal watch list; and 8-10 points indicates a community is in fiscal stress. The City of Troy received a score of 6, placing it in the "fiscal watch" category.

We don't necessarily have an argument with the criteria being used, but rather with how it is calculated and determined. For example, in the category called "Population Growth", if a community lost population it receives a point. Our contention is that the 2007 population number is an estimate provided by the U.S. Census Bureau and that number appears low compared to the City's and SEMCOG's estimate. The 2007 population estimate compared to 2000 shows a loss of 406 residents from 80,959 to 80,553 or 0.5%. The City believes that since the population number is based on an estimate there should be at least a 5% reduction or get more reliable data in order to be penalized based on these criteria.

The City received points for reductions in taxable value and large real taxable value as were sure most cities in the state had. We don't disagree with this measure although there are standards for this rating.

The City rated favorably based on our General Fund expenditures as a percentage of taxable value; size of General Fund balance; no fund deficits in current or previous year and General long-term debt as a percent of taxable value.

The area in which we have major objections is the General Fund operating deficit for current and prior fiscal years where we received 3 points. The State considers only operating revenues and expenditures when scoring these criteria. As a matter of practice the City of Troy recognizes and records all major and local road maintenance and operations in the General Fund. The revenue to cover these expenses from the State of Michigan are recorded in a Special Revenue Funds and then transferred to the General Fund to cover these expenses. The State will not recognize these transfers as revenue thus we have expenditures over revenues in two years or two points. The third point comes in a year when once again if we could count the transfers in for street expenditures we would have been ok, but the City transferred out funds to our Budget Stabilization Fund and Retiree Health Care Fund because we over our 17% Fund Balance threshold.

In closing we find the report flawed for the above mentioned reasons not to mention that the State has reduced our State Revenue Sharing by $1.8 million per year for the last several years.

The City of Troy like most cities in the state will be facing difficult financial times for the near future due to a fall in property values and the continued reduction in state shared revenue.