Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5567 (Substitute H-2 as passed by the House) (enacted version)
Sponsor: Representative John Kivela
House Committee: Detroit's Recovery and Michigan's Future
Senate Committee: Government Operations

Date Completed: 6-2-14

CONTENT

The bill would amend the Home Rule City Act to do the following with respect to a city with a population of more than 600,000 (Detroit):

-- **Require the city to establish the position of chief financial officer, and require the city mayor to appoint that person.**
-- **Specify qualifications and responsibilities of the chief financial officer.**
-- **Require the city to adopt a four-year financial plan, and prescribe the contents of the plan.**
-- **Require the city to hold a revenue estimating conference each September and February.**
-- **Require the city and its officers, employees, agents, and contractors to comply with the Michigan Financial Review Commission Act (proposed by House Bill 5566), if applicable.**
-- **Authorize the city mayor to veto a line item appropriating money in an appropriation ordinance.**
-- **Allow the mayor, with the governing body's approval, to authorize the reduction of line-item expenditures during a fiscal year if expenditures exceeded revenue.**
-- **Require the city to post on its website copies of contracts it had entered into or awarded.**
-- **Appropriate $100,000 from the General Fund/General Purpose budget to the Department of Treasury for fiscal year 2014-15 for administration of the bill's provisions.**

Chief Financial Officer

Notwithstanding a charter provision or ordinance to the contrary, the bill would require the city to establish the position of chief financial officer (CFO). The mayor would have to appoint the CFO subject to the approval of the city governing body and, if applicable, the Financial Review Commission created in the Michigan Financial Review Commission Act.

The CFO would have to have substantial experience with sophisticated municipal financial transactions, complex multidimensional governmental restructurings, governmental labor relations, health care benefits or pension matters, and local government management with governmental units having average revenue of $250.0 million or more.

The CFO would have to report to the mayor and do all of the following:

-- Supervise all financial and budget activities of the city.
-- Coordinate the city's activities relating to budgets, financial plans, financial management, financial reporting, financial analysis, and compliance with the city's budget and financial plan.
-- Certify that the city's annual budget complied with the Uniform Budgeting and Accounting Act and, if applicable, submit that certification to the proposed Financial Review Commission.
-- Submit in writing to the mayor and the governing body the CFO's opinion on the effect that policy or budgetary decisions made by the mayor or governing body would have on the city's annual budget and its four-year financial plan.

The local elected and appointed officials and employees of the city would have to promptly and fully provide financial information requested by the CFO.

<u>Four-Year Financial Plan</u>

For each fiscal year beginning after the bill's effective date, the city would have to adopt a financial plan covering that and the next three fiscal years. If a two-year budget were in effect for the city under Section 21 of the Local Financial Stability and Choice Act, the financial plan would have to be consistent with that budget. (Section 21 of that Act requires an emergency manager for a local government in receivership to adopt and implement a two-year budget before the receivership ends or before a transition advisory board is appointed, and prohibits the local government from amending that budget without the State Treasurer's approval.)

The mayor would have to propose the financial plan and the governing body would have to approve it. If applicable, the plan also would have to be approved by the proposed Financial Review Commission before it took effect.

The financial plan would have to include at least all of the following information for each of the four fiscal years covered by the plan:

-- A projection of all revenue and expenditures of the city, including debt service.
-- A projection of cash flow.
-- A schedule of projected capital commitments.
-- Measures to assure that projected employment levels, collective bargaining agreements, and other employee costs were consistent with projected expenditures and available revenue.
-- Measures to assure compliance with mandates under State and Federal law consistent with projected expenditures and available revenue.
-- Measures to assure adequate reserves for mandated and other essential programs and activates in case revenue was overestimated, expenditures were underestimated, or both.
-- A statement of significant assumptions and methods of estimation used for the projections.
-- Any other information the major, governing body, or CFO considered appropriate.

Projected revenue and expenditures for each fiscal year covered by the plan would have to result in a balanced budget according to generally accepted accounting principles (GAAPS), including compliance with the Uniform Budgeting and Accounting Act.

The financial plan also would have to comply with all of the following:

-- Include contributions necessary to assure that pension systems for city employees and retirees were adequately funded.

- Provide for the city to issue or incur debt only in compliance with the Revised Municipal Finance Act and the proposed Michigan Financial Review Commission Act.
- Provide for the payment in full of debt service on all debt issued or incurred by or on behalf of the city.
- Provide for operations of the city to be conducted with projected cash resources based upon projected cash flow for each fiscal year.
- Include a general reserve fund for each fiscal year to cover potential reductions in projected revenue or increases in projected expenditures equal to at least 5.0% of the projected expenditures for the fiscal year.
- Provide for the elimination of any deficit incurred in the prior fiscal year according to GAAPS.
- Rely upon revenue and expenditure projections based on reasonable and appropriate assumptions and methods of estimation.
- Rely upon cash flow projections based upon reasonable and appropriate assumptions as to sources and uses of cash, including timing.

Revenue Estimating Conference

The city would have to hold a revenue estimating conference in the second week of September and the third week of February each year. The principals of a conference would be the CFO, the State Treasurer or his or her designee from within the Department of Treasury, and a person affiliated with another public entity, including a State institution of higher education, with experience in economic forecasting and revenue projection selected by the CFO and State Treasurer.

A conference would have to establish an official economic forecast of major variables of the national, State, and local economies. It also would have to establish a forecast of anticipated revenue of the city.

The official forecast of economic and revenue variables would have to be determined by consensus among the principals and be for the fiscal year in which the conference was held and the following two fiscal years. The conference also would have to forecast general fund revenue trendline projections for the city for an additional two fiscal years.

The principals would have to determine procedures to be used by the conference, although any final action establishing an official forecast would require the unanimous support of all principals. The conference would have to complete its work within five days, unless the principals extended the time period.

Conference meetings would be subject to the Open Meetings Act, and conference documents would be subject to the Freedom of Information Act.

A conference would have to distribute its economic and revenue forecasts to the city mayor and governing body and, if applicable, the Financial Review Commission. The city would have to publish the forecasts on its website.

If the city were subject to the proposed Michigan Financial Review Commission Act, it could be required to amend its revenue estimates pursuant to an order or directive of the Financial Review Commission.

Other Provisions

The bill would authorize the city mayor to veto a line item appropriating money in an appropriations ordinance. The portion of the appropriation approved would be effective. The item disapproved would be void unless reauthorized according to procedures prescribed in charter or law.

If expenditures for the city exceeded revenue during a fiscal year, the mayor could authorize by executive order the reduction of line-item expenditures during that fiscal year, subject to the approval of the city governing body.

The city would have to post on its website a copy of each contract entered into by the city during each fiscal year, within 30 days of the contract award. The city also would have to post all contracts in which it was a party that were in effect during each fiscal year.

Proposed MCL 117.4s & 117.4t Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would appropriate $100,000 General Fund/General Purpose revenue in FY 2014-15 to the Department of Treasury to administer the requirements of the bill. The use of these funds would be determined by the Department.

The bill would have an unknown fiscal impact on Detroit. In general, the bill would have some compliance costs; however, the requirements would tend to increase the financial stability of the city, which would reduce costs in the long run. Some of the provisions in the bill are similar to current practices; for example, the city currently has a chief financial officer and a consensus revenue estimating process similar to that required by the bill. The city charter currently authorizes the mayor to veto budgetary amendments made the council. The line item veto authorized by the bill could be interpreted as more general than the charter provision and thus offer an additional way to control spending. The proposed procedure for executive order budget reductions is similar to the current process, under which the budget can be amended by resolution. The requirement for the city's financial plan to include a general fund reserve for each fiscal year of at least 5.0% of the projected spending for that year would limit the city's ability to spend anticipated funds for city services; the availability of the reserve fund, however, would provide a cushion against service reductions if revenue were less than estimated. The requirement to post contracts on the internet within 30 days would increase local costs. Currently, the city charter requires that some information on each contract and change order be posted on the internet.

Fiscal Analyst: Elizabeth Pratt