



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

November 27, 2007

Office of the City Clerk
CITY OF ANN ARBOR
P.O. Box 8647
Ann Arbor, Mi 48107

Dear City Clerk:

Several years ago, the Michigan Department of Treasury commissioned the Institute for Public Policy and Social Research at Michigan State University to evaluate local government fiscal distress indicators contained in existing State law and to propose more effective indicators. The purpose of that endeavor was to identify indicators which would be predictive of fiscal distress rather than reflective of that which already had occurred, thereby providing State officials, local officials, and the general public with objective, measurable, and straightforward information concerning the degree, or absence, of fiscal distress in units of local government.

The resulting study proposed the use of nine fiscal distress indicators, including population growth, real taxable valuation growth, general fund expenditures as a percent of taxable valuation, general fund operating deficits, and general long-term debt. Utilizing this approach, the Department now is in the process of compiling fiscal distress indicator scores for all units of local government.

I have enclosed for the consideration and review of the City Council, one copy of the fiscal distress indicator scores for your city for its 2006 fiscal year. Also enclosed is a detailed description of each of the nine fiscal distress indicators and the numeric points assigned to each. Aggregate scoring is based upon zero to one point for each indicator (zero to two points for a prior year general fund operating deficit). A low aggregate score reflects no, or relatively little, fiscal distress, while a higher aggregate score reflects significant fiscal distress.

The Department will post this information on its website within 30 days hence, but we first wished to afford the city council an opportunity to offer comment. Therefore, the Department asks that, in your official capacity to receive documents on behalf of the council, you take the appropriate steps to distribute this letter and the enclosed report to its members. Should the council members have any questions or comments regarding the fiscal distress indicators, or the related scores, they may contact me by telephone at (517) 373-3305 or by e-mail at headenf@michigan.gov. I trust that this information will be of assistance. If I may be of further assistance, let me know.

Sincerely,

Frederick Headen, Director
Bureau of Local Government Services

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Enclosure

ANN ARBOR

City

2006 SCORE: 1

INDICATOR	DESCRIPTION	YEAR	CATEGORY	Score	
Population Growth	This first indicator measures population change. If a unit lost population, then it scores a 1, otherwise it is assigned a 0. The estimates provided are from the U.S. Census Bureau. Note that the values for Year 2000 are not estimates but taken from the Census that year.	2006 2000	Population Population	113206 114024	1
Real Taxable Value Growth 1.090588699	Two-year growth periods of real taxable value for each unit are computed. Units score a 1 if they demonstrate negative real growth, and a 0 if they exhibit positive real growth. To compute real taxable value, the current year taxable value is divided by the adjusted deflator indicated to the left.	2006 2004	Taxable Value Real Taxable Value Taxable Value	\$4,227,329,588.00 \$3,876,190,530.74 \$3,757,777,768.00	0
Large Real Taxable Value Decrease	This indicator uses the same data and time lag as indicator 2. The only difference is that a different standard is used. For this indicator, units measuring less than -0.04 receive a 1 and others are marked 0.	2006 2004	Taxable Value Real Taxable Value Taxable Value Standard	\$4,227,329,588.00 \$3,876,190,530.74 \$3,757,777,768.00 0.03151	0
General Fund Expenditures as a Percent of Taxable Value	This indicator has no time lag and deals solely with data from within the same year. To compute this variable, general fund expenditures are divided by taxable value. This is the only variable for which separate standards are used. A standard of 0.05 is used for cities and villages and 0.01 for townships and counties. Units with ratios above the standard receive a 1 and those below score a 0.	2006 2006	General Fund Expenditure Taxable Value Standard	\$69,243,071.00 \$4,227,329,588.00 0.01638	0
General Fund Operating Deficit	This variable is computed by subtracting general fund revenues from general fund expenditures for a given year. This figure is then divided by general fund revenue. If the number that results is less than -0.04, this indicates a unit has a nontrivial operating deficit and this unit received a score of 1. If the unit does not have a general fund operating deficit, or if this deficit is trivial, the unit is given a 0.	2006	General Fund Expenditure General Fund Revenue	\$69,243,071.00 \$72,113,717.00	0
Prior General Fund Operating Deficits	This indicator captures whether a unit had an operating deficit in the past two years. A score of 1 is assigned for each prior year in which an operating deficit had occurred.	2005 2004	General Fund Expenditure General Fund Revenue General Fund Expenditure General Fund Revenue	\$67,953,809.00 \$70,071,251.00 \$76,314,100.00 \$80,155,539.00	0 0 0
Size of General Fund Balance	The actual variable constructed for this indicator is the general fund balance as a proportion of general fund revenue. If a unit maintains a general fund balance less than 13 percent of its general fund revenue, it scores a 1. Conversely a general fund balance above the 0.13 level scores a 0.	2006	General Fund Balance General Fund Revenue	\$12,448,705.00 \$72,113,717.00	0
Fund Deficits in Current or Previous Year	If there are any fund deficits in one or more of the unit's unreserved major fund balances the unit scores a one, otherwise is scores a zero.	2006 2005	Major Fund Deficit Major Fund Deficit	<input type="checkbox"/> <input type="checkbox"/>	0
General Long-Term Debt as a Percent of Taxable Value	This variable is constructed by taking general long-term debt and dividing it by the taxable value of the unit. Any unit with a debt to taxable value ratio above 6 percent is scored a 1 and those beneath it a 0.	2006	General Long Term Debt Taxable Value	\$76,945,755.00 \$4,227,329,588.00	0 0.02