

An Embarrassment of Riches: Exposing the Well-Kept Secret of Local Fiscal Surplus

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News headlines of late have become redundant in describing the state of local government finances. Touting reductions in taxable property value, increased costs and cuts to state revenue, local leaders rail about inevitable reductions in service. Parks are closed, fire protection and law enforcement are scaled back, high profile capital improvement projects are cancelled, employee furloughs are imposed, and talk of “municipal bankruptcy” is heard. Conventional wisdom suggests local governments will face major financial challenges for the foreseeable future, and this is certainly the case for some communities. However, the story told by annual financial reports strongly suggests conventional wisdom does not apply equally to every local government sector. A review of Michigan local government fund balances unveils an amazingly well-kept secret.

The term *fund balance* describes the net assets of a government fund calculated on a budgetary basis. It is intended to serve as a measure of financial resources available in a government fund (GFOA, 2009). Officials often treat fund balance like a “rainy day” fund or savings account. *Restricted fund balance* refers to monies set aside for a specific purpose and not available for appropriation, while *unrestricted fund balance* represents resources held in reserve, but available for appropriation.

The Government Finance Officers Association (GFOA) advises governments to maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are also a crucial consideration in long-term financial planning. Those interested primarily in a government’s creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens’ groups, which may view high levels of fund balance as “excessive.” GFOA recommends, at a minimum, that general-purpose governments maintain an unrestricted fund balance in their general funds of no less than two months (16.6%) of regular operating expenditures (GFOA, 2009).

Fund balances of all local governments in Michigan were considered for purposes of this discussion. The Uniform Budgeting and Accounting Act (Act 2, P.A. 1968) requires a common reporting format for local government audits (sometimes referred to as the Comprehensive Annual Financial Report or CAFR). Local government units having a population of 4,000 or more must obtain an annual audit, and communities having a population less than 4,000 are required to obtain an audit biennially (MCL 141.425). Of 1,876 local governments in Michigan,¹ 1,330 (71.7%) reported a population of fewer than 4,000 in 2010. The remaining 526 (28.3%) with a population of 4,000 or more are required to obtain an audit every year. Table 1 shows population distribution by form of local government. Audit reports submitted for fiscal years 2008 and 2009 were considered here in order to present annual aggregate totals for a single fiscal year.

Table 1: *Local government population distribution (2010)*

	<u>Counties</u>	<u>Townships</u>	<u>Cities</u>	<u>Villages</u>	<u>Total</u>
Total	83	1,240	276	257	1,856
Population less than 4,000	1 1.2%	966 77.9%	113 40.9%	251 97.7%	1,331 71.7%
Population 4,000 and greater	82 98.8%	274 22.1%	163 59.1%	6 2.3%	525 28.3%

SOURCE: United States Department of Commerce, Bureau of the Census (2010)

Unrestricted fund balances vary widely among local governments, but some trends are clear. As a rule, municipalities with a smaller population base are more likely to sustain higher fund balance percentages than their more populous counterparts (see Figure 1). Townships and villages maintain fund balance percentages significantly greater than those maintained by cities and counties. No counties and only 4.0% of cities carried a fund balance greater than 100%, while 31.5% of villages and nearly 60% of townships reported a fund balance greater than 100%. By contrast, more than 45% of counties and 35% of cities reported fund balances below levels

¹ Local governments include counties, cities, villages, and townships.

recommended by GFOA, compared to 13.2% of villages and 2% of townships. Table 2 provides an overview of ranges in unrestricted fund balance among local government sectors.

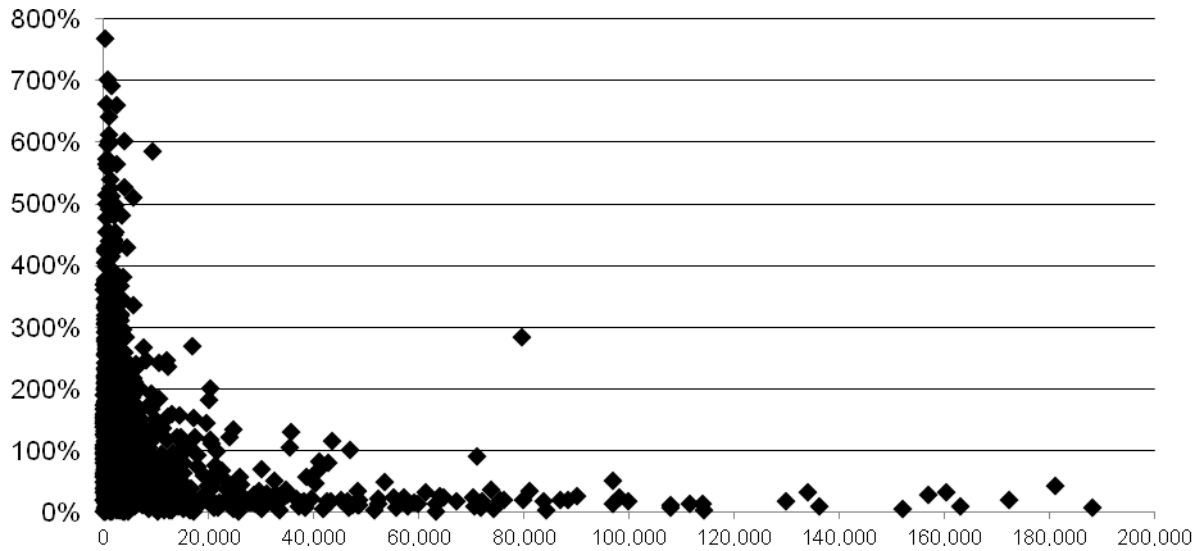


Figure 1: Unrestricted fund balance percentage distributed by population (truncated for space)

Table 2: Range of unrestricted fund balance as a percentage of regular local government operating expenditures (2008 - 2009)

	<u>Villages</u>	<u>Cities</u>	<u>Townships</u>	<u>Counties</u>
Average fund balance	100.96%	31.21%	148.30%	20.15%
Negative fund balance	11 (4.3%)	14 (5.1%)	5 (0.4%)	1 (12.0%)
Fund balance less than 16.6%	34 (13.2%)	96 (34.8%)	30 (2.4%)	38 (45.8%)
Fund balance greater than 100%	81 (31.5%)	11 (4.0%)	740 (59.7%)	0
Highest (Percent)	2,560.82% (Eagle)	263.97% (Harrisville)	1,037.31% (Verona Twp)	78.59% (Mecosta)
Lowest (Percent)	-292.79% (Elberta)	-114.47 (Ecorse)	-31.83% (Genesee)	-11.77% (Wayne)
Highest (Dollars)	\$3,337,086 (Sparta)	\$29,770,105 (Warren)	\$24,828,711 (Macomb)	\$39,087,804 (Macomb)
Lowest (Dollars)	-\$945,625 (Gagetown)	-\$331,925,012 (Detroit)	-\$2,240,731 (Genesee)	-\$68,949,000 (Wayne)
State Aggregate (Percent)	55.97%	2.91%	85.35%	8.92%
State Aggregate (Dollars)	\$72,863,367	\$116,301,882	\$757,627,207	\$257,567,355

On average, unrestricted/unreserved fund balances in Michigan townships reached 148.3% at the end of 2009, nearly *nine times higher* than the minimum recommended by GFOA. Verona Township in Huron County (population 1,259) reported the highest fund balance at 1,037%. That is to say, Verona Township could provide services at current levels using *only* fund balance dollars for almost eleven years! Nearly two-thirds of all townships hold enough funds in reserve to operate for more than one full year without collecting a single dollar in property taxes, revenue sharing, grant or any other revenue source. Stated in another way, townships have amassed more than three quarters of a billion dollars (that’s with a “B”) in unrestricted revenue. Figure 2 shows unrestricted fund balance distribution among Michigan townships.

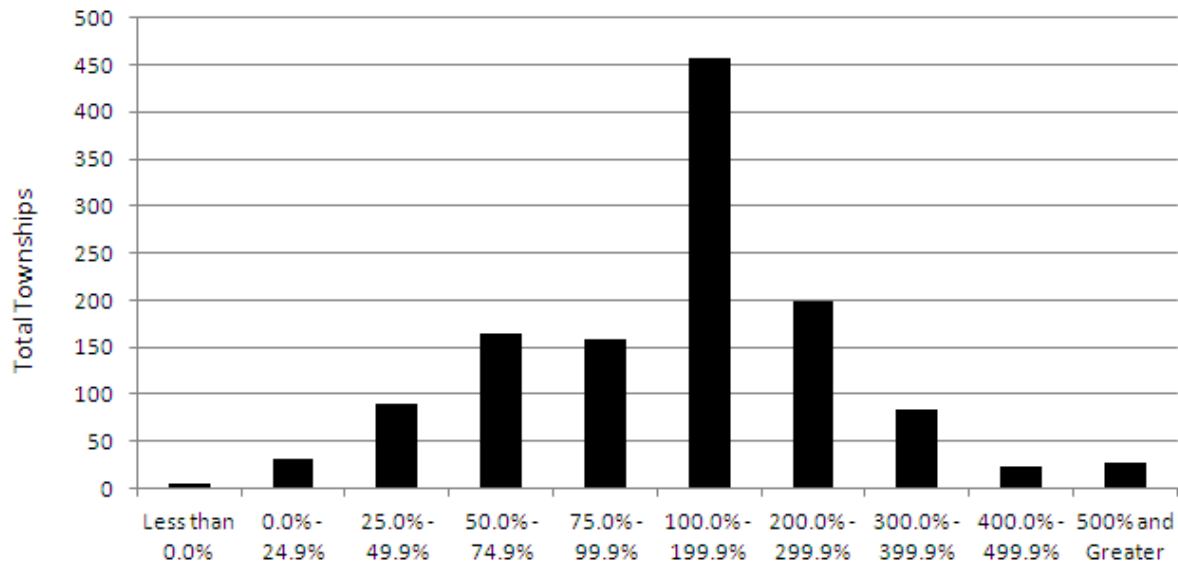


Figure 2: Unrestricted fund balance percentage among Michigan townships

In a report published by Michigan Information & Research Service (MIRS), Michigan Townships Association (MTA) Executive Director Larry Merrill cited the importance of methodology employed for compiling fund balance figures. He said approximately half of all townships operate on an April to March fiscal year, and some fund balances “may appear high because 60-70 percent of the money isn’t going to be used until the next tax collection begins” (MIRS, 2011). Additional research would be necessary to determine how many townships operate on an April to March fiscal year and to extract data for those particular townships.

However, application of the Merrill hypothesis against aggregate empirical data gathered for this report would still leave more than \$540 million in unrestricted township reserves statewide.

Merrill also suggested unrestricted fund balance dollars might actually be set aside for a specific purpose, “such as funds that are set aside for a new fire truck” (MIRS, 2011). During the report period an additional \$91,812,102 was separately designated by townships for specific purposes such as the purchase of a new fire truck and cash flow purposes cited earlier. In total, Michigan townships set aside nearly \$850 million in restricted and unrestricted reserves during the 2008-2009 fiscal year.

Among Michigan villages, unrestricted/unreserved fund balances averaged 100.46% or six times the GFOA-recommended minimum level. The Village of Eagle in Clinton County (population 123) reported the highest fund balance at 2,560.8%. That’s more than \$3,500 per village resident! One-third of villages carry unrestricted reserves in amounts capable of funding current services for more than one full year, amassing a total of \$72,863,366 throughout the state. Figure 3 shows unrestricted fund balance distribution among Michigan villages.

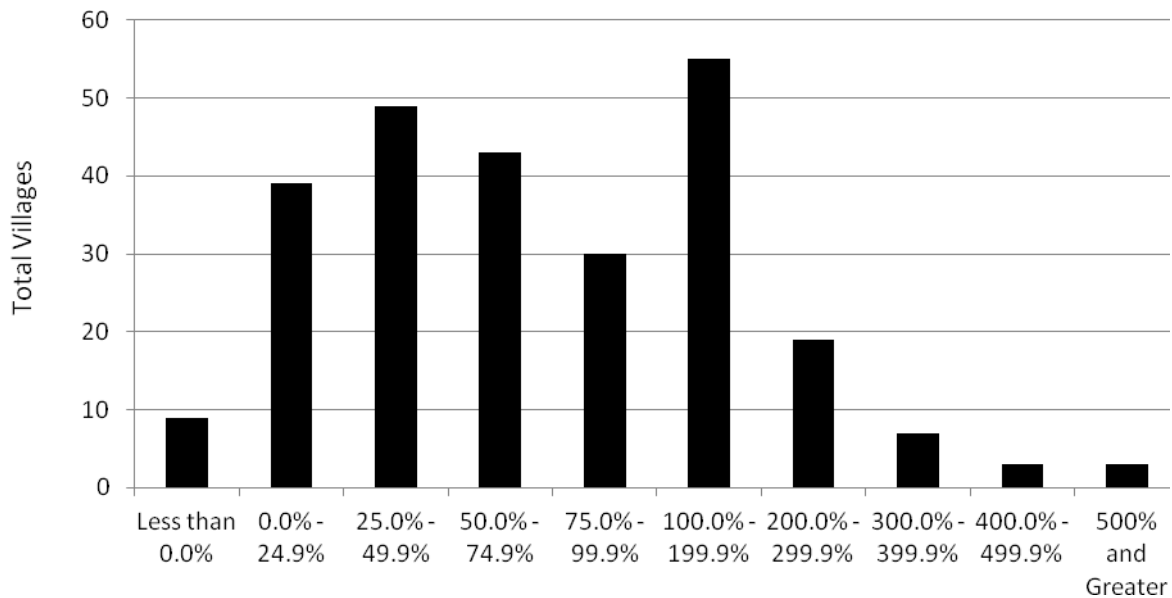


Figure 3: Unrestricted fund balance percentage among Michigan villages

Michigan cities have experienced financial challenges for several years resulting in an average unrestricted/unreserved fund balance of just 31.2%. Unrestricted fund balances in roughly 40% of cities fell below 25%, while just over 23% reported an unrestricted fund balance of more than 50%. The City of Harrisville in Alcona County had the highest fund balance at 263.97%. Fourteen cities (5%) stated a negative fund balance in 2009. Figure 4 shows unrestricted fund balance distribution among Michigan cities.

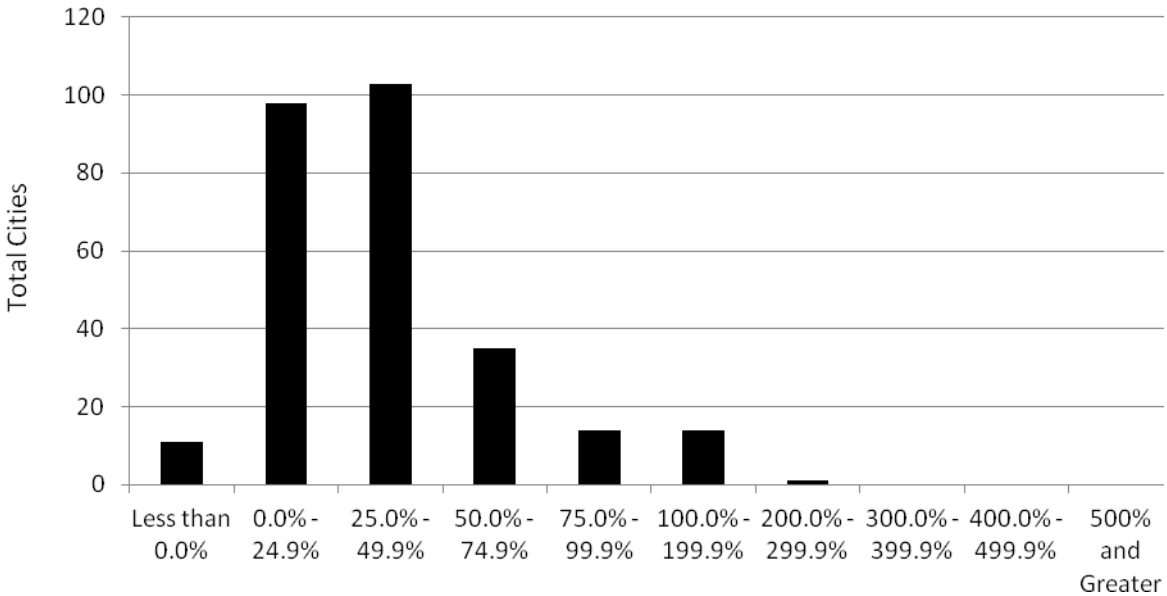


Figure 4: Unrestricted fund balance percentage among Michigan cities

Finally, Michigan counties reported the smallest average fund balance among local governments at just 20.15%. Growth in unrestricted fund balance in two-thirds of counties fell below the rate of inflation over a five-year period from 2005 to 2009.² A reduction in unrestricted reserves was experienced by 18% of counties during that same timeframe. Mecosta County had the highest reported fund balance among counties at 78.59%. Fund balances in only seven counties exceeded 50%. Figure 5 shows unrestricted fund balance distribution among Michigan counties.

² U.S. Department of Labor, Bureau of Labor Statistics Consumer Price Index, Midwest Urban Consumers

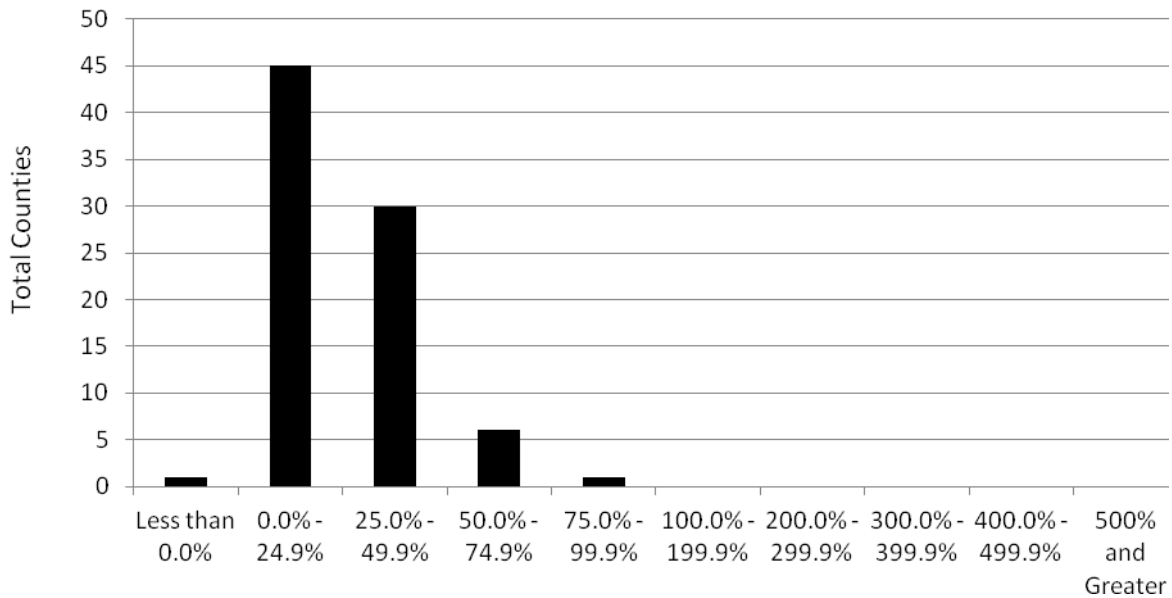


Figure 5: Unrestricted fund balance percentage among Michigan counties

Unrestricted fund balances in just nine counties (Charlevoix, Chippewa, Ingham, Jackson, Kalamazoo, Leelanau, Mecosta, Muskegon, and Oscoda) exceed cumulative fund balance amounts held by townships within their respective boundaries. On average, aggregate actual township fund balances exceeded actual county fund balances by a factor of three in the remaining 74 counties. Table 3 lists actual unrestricted fund balance amounts by county for all levels of local government.

Knowledge of these extreme unrestricted reserve levels is important to counties from the standpoint that townships and villages frequently demand county services. In many cases townships and villages do not provide these services because they are too costly, nor do they reimburse counties for such services. Law enforcement, parks and recreation programs, MSU Extension, election administration, property tax appraisals, tax collection, and land use administration (planning and zoning) are services the public has come to expect from many county governments. As counties search for ways to fund such services at levels that meet citizen expectations, it would be reasonable to seek cost-sharing assistance from townships and villages with surplus funds. At the same time, redundant services offered by townships and

villages can be abandoned in favor of a value-added, more efficient regionalized approach to service delivery.

Viewing unrestricted fund balance as a measure of available financial resources suggests our townships and villages are, for the most part, quite healthy. In an ironic twist, the state's new Economic Vitality Incentive Program seeks to reward these same townships and villages for collaboration efforts. Indeed, this plan to replace long-established statutory revenue sharing payments seeks to provide even more state dollars to townships and villages that already possess disproportionately high financial reserves. Meanwhile, county governments that provide many state-mandated services in addition to local government services are locked out of the incentive program and face a trend of accelerated erosion of traditional revenue sharing dollars.

Michigan county governments face serious financial challenges into the foreseeable future. But then again, nobody said these challenges would be easy – or even fair.

Table 3: Actual unrestricted fund balance amounts by county**Unrestricted / Unreserved Fund Balance: FY 2008 - 2009**

County	Total	County	Townships	Cities	Villages
Alcona	\$ 4,448,982	\$ 1,142,908	\$ 2,591,493	\$ 430,793	\$ 283,788
Alger	\$ 2,151,334	\$ 226,697	\$ 1,393,981	\$ 475,755	\$ 54,901
Allegan	\$ 20,580,039	\$ 4,183,042	\$ 11,421,674	\$ 4,929,910	\$ 45,413
Alpena	\$ 8,177,081	\$ 2,773,317	\$ 3,314,625	\$ 2,089,139	\$ -
Antrim	\$ 13,696,731	\$ 5,604,529	\$ 7,007,501	\$ -	\$ 1,084,701
Arenac	\$ 4,265,558	\$ 590,302	\$ 2,724,914	\$ 937,001	\$ 13,341
Baraga	\$ 2,460,716	\$ 713,034	\$ 1,520,011	\$ -	\$ 227,671
Barry	\$ 12,039,451	\$ 2,145,917	\$ 8,727,837	\$ 1,125,146	\$ 40,551
Bay	\$ 20,562,661	\$ 3,406,455	\$ 9,331,353	\$ 7,824,853	\$ -
Benzie	\$ 4,172,041	\$ 938,550	\$ 2,712,938	\$ -	\$ 520,553
Berrien	\$ 49,897,632	\$ 13,626,995	\$ 24,312,855	\$ 6,746,951	\$ 5,210,831
Branch	\$ 11,228,604	\$ 2,453,705	\$ 5,107,666	\$ 2,764,246	\$ 902,987
Calhoun	\$ 22,861,973	\$ 3,779,909	\$ 9,926,950	\$ 8,310,013	\$ 845,101
Cass	\$ 11,251,367	\$ 2,724,852	\$ 7,377,701	\$ 335,260	\$ 813,553
Charlevoix	\$ 16,473,348	\$ 7,035,399	\$ 6,974,809	\$ 2,492,390	\$ (29,250)
Cheboygan	\$ 13,374,745	\$ 4,958,303	\$ 6,282,659	\$ 1,101,572	\$ 1,032,211
Chippewa	\$ 12,643,626	\$ 6,369,759	\$ 4,757,365	\$ 1,464,568	\$ 51,934
Clare	\$ 8,717,193	\$ 2,111,318	\$ 4,608,410	\$ 1,791,538	\$ 205,927
Clinton	\$ 18,115,167	\$ 4,360,931	\$ 9,282,916	\$ 1,871,902	\$ 2,599,418
Crawford	\$ 2,497,896	\$ 732,948	\$ 1,646,550	\$ 118,398	\$ -
Delta	\$ 10,133,505	\$ 958,043	\$ 4,638,261	\$ 4,316,968	\$ 220,233
Dickinson	\$ 8,611,320	\$ 1,858,605	\$ 3,573,361	\$ 3,179,354	\$ -
Eaton	\$ 23,364,620	\$ 2,219,650	\$ 16,967,067	\$ 3,159,945	\$ 1,017,958
Emmet	\$ 13,402,016	\$ 1,705,731	\$ 8,280,190	\$ 2,971,875	\$ 444,220
Genesee	\$ 26,393,615	\$ 572,152	\$ 27,628,388	\$ (2,397,639)	\$ 590,714
Gladwin	\$ 4,881,015	\$ 10,519	\$ 3,869,829	\$ 1,000,667	\$ -
Gogebic	\$ 3,713,285	\$ 502,212	\$ 2,054,913	\$ 1,156,160	\$ -
Grand Traverse	\$ 15,376,637	\$ 7,210,651	\$ 8,198,875	\$ (176,972)	\$ 144,083
Gratiot	\$ 11,637,350	\$ 1,584,828	\$ 3,684,786	\$ 5,836,172	\$ 531,564
Hillsdale	\$ 9,425,144	\$ 834,132	\$ 5,607,528	\$ 1,355,321	\$ 1,628,163
Houghton	\$ 5,937,661	\$ 1,596,112	\$ 2,969,233	\$ 558,824	\$ 813,492
Huron	\$ 15,130,878	\$ 1,786,421	\$ 8,198,637	\$ 2,053,552	\$ 3,092,268
Ingham	\$ 34,196,635	\$ 12,169,644	\$ 12,035,645	\$ 9,247,432	\$ 743,914
Ionia	\$ 15,264,935	\$ 3,524,042	\$ 6,890,105	\$ 2,829,036	\$ 2,021,752
Iosco	\$ 8,217,479	\$ 1,597,611	\$ 4,584,266	\$ 2,035,602	\$ -
Iron	\$ 5,686,241	\$ 1,250,536	\$ 3,598,724	\$ (64,853)	\$ 901,834
Isabella	\$ 13,742,477	\$ 4,212,100	\$ 8,231,868	\$ 888,178	\$ 410,331

Unrestricted / Unreserved Fund Balance: FY 2008 - 2009

County	Total	County	Townships	Cities	Villages
Jackson	\$ 24,101,964	\$ 12,834,704	\$ 10,045,929	\$ 395,558	\$ 825,773
Kalamazoo	\$ 42,552,464	\$ 22,867,133	\$ 12,189,699	\$ 6,586,469	\$ 909,163
Kalkaska	\$ 4,069,496	\$ 60,385	\$ 3,889,342	\$ -	\$ 119,769
Kent	\$ 59,833,398	\$ 9,045,146	\$ 23,961,269	\$ 25,940,812	\$ 886,171
Keweenaw	\$ 1,790,503	\$ 572,729	\$ 983,618	\$ -	\$ 234,156
Lake	\$ 4,562,402	\$ 659,604	\$ 3,645,948	\$ -	\$ 256,850
Lapeer	\$ 19,780,365	\$ 3,909,939	\$ 9,576,753	\$ 2,384,377	\$ 3,909,296
Leelanau	\$ 11,433,529	\$ 6,539,536	\$ 3,883,453	\$ -	\$ 1,010,540
Lenawee	\$ 17,295,022	\$ 4,577,244	\$ 8,962,357	\$ 2,631,566	\$ 1,123,855
Livingston	\$ 43,247,985	\$ 18,170,939	\$ 21,536,636	\$ 3,344,934	\$ 195,476
Luce	\$ 2,877,307	\$ 692,077	\$ 1,635,678	\$ -	\$ 549,552
Mackinac	\$ 3,758,860	\$ 722,239	\$ 2,482,109	\$ 554,512	\$ -
Macomb	\$ 157,218,928	\$ 39,087,804	\$ 50,477,561	\$ 67,069,456	\$ 584,107
Manistee	\$ 11,914,722	\$ 498,723	\$ 7,004,586	\$ 853,777	\$ 3,557,636
Marquette	\$ 21,826,167	\$ 3,340,886	\$ 9,407,969	\$ 9,077,312	\$ -
Mason	\$ 9,201,844	\$ 2,937,649	\$ 5,940,322	\$ 1,133,269	\$ (809,396)
Mecosta	\$ 17,551,609	\$ 9,032,722	\$ 6,364,387	\$ 1,006,664	\$ 1,147,836
Menominee	\$ 7,980,808	\$ 2,676,270	\$ 4,339,541	\$ 777,526	\$ 187,471
Midland	\$ 14,387,903	\$ 4,107,194	\$ 6,995,911	\$ 3,085,362	\$ 199,436
Missaukee	\$ 4,364,494	\$ 738,267	\$ 3,071,869	\$ 554,358	\$ -
Monroe	\$ 26,823,775	\$ 2,636,804	\$ 21,002,594	\$ 2,755,689	\$ 428,688
Montcalm	\$ 14,348,298	\$ 2,073,505	\$ 6,434,091	\$ 2,453,383	\$ 3,387,319
Montmorency	\$ 4,341,520	\$ 1,282,274	\$ 2,429,619	\$ -	\$ 629,627
Muskegon	\$ 21,584,810	\$ 8,493,668	\$ 7,755,657	\$ 4,856,348	\$ 479,137
Newaygo	\$ 9,522,935	\$ 1,467,642	\$ 6,741,007	\$ 1,314,286	\$ -
Oakland	\$ 167,560,407	\$ 351,088	\$ 48,707,894	\$ 112,201,852	\$ 6,299,573
Oceana	\$ 11,016,030	\$ 2,223,391	\$ 5,130,444	\$ 296,709	\$ 3,365,486
Ogemaw	\$ 5,453,469	\$ 552,355	\$ 4,295,506	\$ 520,681	\$ 84,927
Ontonagon	\$ 2,132,733	\$ 741,272	\$ 978,248	\$ -	\$ 413,213
Osceola	\$ 7,360,089	\$ 2,663,817	\$ 3,100,552	\$ 445,894	\$ 1,149,826
Oscoda	\$ 2,425,551	\$ 1,248,671	\$ 1,176,880	\$ -	\$ -
Otsego	\$ 7,397,892	\$ 1,210,215	\$ 6,173,990	\$ -	\$ 13,687
Ottawa	\$ 61,506,696	\$ 9,656,964	\$ 38,853,221	\$ 12,442,565	\$ 553,946
Presque Isle	\$ 4,051,636	\$ 462,268	\$ 2,975,558	\$ 502,368	\$ 111,442
Roscommon	\$ 8,549,420	\$ 3,039,704	\$ 5,122,224	\$ -	\$ 387,492
Saginaw	\$ 22,880,776	\$ -	\$ 18,302,023	\$ 2,979,550	\$ 1,599,203
Saint Clair	\$ 36,249,075	\$ 5,915,937	\$ 19,697,953	\$ 10,485,478	\$ 149,708
Saint Joseph	\$ 15,228,435	\$ 4,540,199	\$ 6,372,944	\$ 2,921,414	\$ 1,393,878

County	Unrestricted / Unreserved Fund Balance: FY 2008 - 2009				
	Total	County	Townships	Cities	Villages
Sanilac	\$ 9,732,105	\$ 1,846,981	\$ 5,439,495	\$ 1,823,618	\$ 622,011
Schoolcraft	\$ 2,073,141	\$ 159,783	\$ 1,578,265	\$ 335,093	\$ -
Shiawassee	\$ 11,005,703	\$ 1,398,732	\$ 5,433,679	\$ 3,056,728	\$ 1,116,564
Tuscola	\$ 10,542,641	\$ 833,391	\$ 4,765,687	\$ 3,132,362	\$ 1,811,202
Van Buren	\$ 21,650,414	\$ 3,880,881	\$ 11,977,730	\$ 2,974,520	\$ 2,817,283
Washtenaw	\$ 69,159,721	\$ 9,773,059	\$ 36,591,318	\$ 19,880,312	\$ 2,915,032
Wayne	\$ (322,919,337)	\$ (68,949,000)	\$ 24,598,478	\$ (278,568,815)	\$ -
Wexford	\$ 8,603,101	\$ 3,520,705	\$ 4,386,630	\$ 357,708	\$ 338,058

SOURCE: Comprehensive Annual Financial Reports

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