

Legislative Analysis



DISCLOSURE BY APPOINTED FINANCIAL MANAGERS

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House Bill 5052 (Substitute H-1)

Sponsor: Rep. Jimmy Womack

Committee: Intergovernmental and Regional Affairs

First Analysis (6-24-09)

BRIEF SUMMARY: The bill requires that appointed emergency financial managers of cities and schools submit financial disclosure reports to the Governor and leaders of the Legislature every six months, and post those reports on the website of the local unit of government or the school district, as appropriate.

FISCAL IMPACT: The bill would have an indeterminate cost to local government for the preparation and distribution of the report.

THE APPARENT PROBLEM:

According to the Department of Treasury, in the 19 years since the Local Government Fiscal Responsibility Act has become law, there have been five times when the Governor has had to appoint an Emergency Financial Manager for a local unit of government: The City of Hamtramck (December 2000), the City of Highland Park (2001), the City of Flint (2002), the Village of Three Oaks (2008), and the City of Pontiac (2009). In addition, the Governor has appointed an emergency financial manager for the Detroit Public Schools (2008). Generally, the financial managers serve in appointed office until the local units of government where they are assigned report a balanced budget.

The emergency financial managers appointed in cities or villages submit a quarterly report that describes their activities to the State Treasurer in the Department of Treasury. Those appointed in school districts report to the State Superintendent for Public Instruction in the Department of Education. However, according to committee testimony, there is no statutory accountability process that requires public reporting under the Local Government Fiscal Responsibility Act.

To increase the accountability of emergency financial managers to the public, legislation has been introduced to explicitly describe the kind of information that must be reported; specify the frequency of submission; identify to whom the information must be submitted, and to require that the information be reported on either a local government or school district website so that it is available to citizens.

THE CONTENT OF THE BILL:

The bill would amend two sections of the Local Government Fiscal Responsibility Act to require that appointed emergency financial managers submit financial disclosure reports

to the Governor and leaders of the Legislature every six months, and post those reports on the website of the local unit of government or the school district, as appropriate.

More specifically and under the bill, an emergency financial manager appointed under the act would be required to file with the Governor, the Senate Majority Leader, and the Speaker of the House of Representatives and post on the internet on the website of the local units of government or school district a report that contained all of the following:

- A description of each expenditure during the reporting period that had a cumulative value of \$10,000 or more, and the source of the funds.
- A list of each contract that the emergency financial manager awarded or approved with a cumulative value of \$10,000 or more, the purpose of the contract, and the identity of the contractor.
- A description of each loan sought, approved, or disapproved during the reporting period that had a cumulative value of \$10,000 or more and the proposed use of the funds.
- A description of any new position created or any vacancy in a permanent position filled by the appointing authority.
- A description of any position that had been eliminated or from which an employee had been laid off.

The report would have to be submitted every six months, beginning six months after the emergency financial manager's starting date.

MCL 141.201 et al

ARGUMENTS:

For:

Occasionally financial audits of cities, villages, and school districts reveal irregularities in bookkeeping and operations. At other times the audits reveal accumulated deficits, the result of a sudden and unanticipated shortfall in revenue that is not met with corresponding cuts in services. When budget deficits and irregularities are not eliminated by local elected leaders, the Governor can appoint an emergency financial manager to oversee the budget, and right the imbalance between income and expenditures. Under the Local Government Fiscal Responsibility Act--Public Act 72 of 1990--the Governor has named emergency financial managers in Michigan cities and school districts six times in the past 19 years.

This bill would help ensure that emergency financial managers appointed by the Governor are accountable to the public, and also to those who oversee their day-to-day efforts--the State Treasurer (if a municipal emergency financial manager) and the State

School Superintendent (if the emergency finance manager is for a public school system). Further, the legislation requires reports every six months to the Governor and legislative leaders. Now all emergency financial managers file quarterly reports with those who oversee their work. However, the statute that allows for their appointment does not require that they report on their work activities regularly, or to the public.

POSITIONS:

No positions were advanced.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.