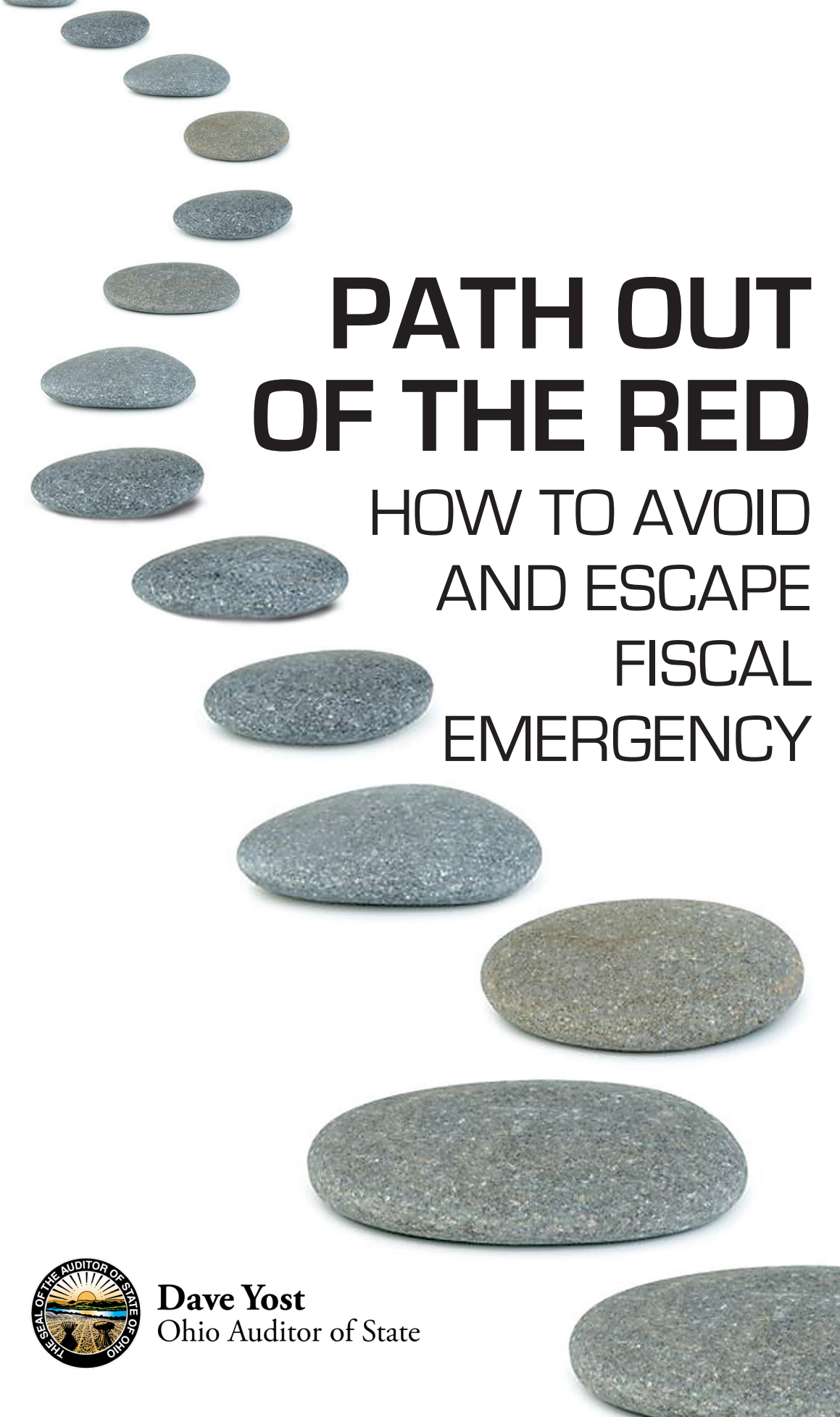




PATH OUT OF THE RED

HOW TO AVOID
AND ESCAPE
FISCAL
EMERGENCY



Dave Yost
Ohio Auditor of State

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Photo by 123rf.com



Dave Yost
Ohio Auditor of State

SPECIAL REPORT

A message from the Auditor



The words “fiscal emergency” probably give local government officials heart palpitations. I’ll be honest: A declaration of fiscal emergency is the one aspect of my job as Auditor that I dislike the most, and it’s no fun for anyone else involved, either.

But it’s not as bad as most fear.

I say that because I know how supportive our Local Government Services team (LGS) is to those who find themselves in this difficult situation and based on what I hear from those who have been helped by the team.

As you will read in this report, local officials are pleasantly surprised at how instrumental the LGS team is in finding a solution. LGS partners with local leaders to analyze the fiscal situation, identify root causes for the financial challenges and help craft a path to recovery.

There are 17 local governments in fiscal emergency currently, while 62 have been released from that designation. Two school districts are in fiscal emergency, and 41 have been released. No two entities have the same circumstance. Because each situation is different, each solution is different. In some communities, the issue is expenses that have climbed out of control for one reason or another. In others, a change in the economy has led to a significant drop in revenues. LGS helps local leaders customize options for reducing expenses, cutting debt or raising fees.

Make no mistake, entities dealing with fiscal emergency have difficult decisions to make. And local leaders must have the courage to think differently in order to find the best possible solution. LGS will provide local officials with the information to make informed decisions and allows for transparency with the communities they serve.

While declaring a fiscal emergency is one of the worst parts of my job, one of the best parts is rescinding that designation and congratulating communities that have worked their way back to solvency.

A handwritten signature of Dave Yost in blue ink.

The Path Out

Fiscal emergency declarations can be unpleasant, but worthwhile

Few things can be more traumatic to a county, school district, city, village or township than to be declared to be in fiscal emergency after defaulting on debt, failing to make payroll, running fund deficits, or failing to pay bills.

These are the triggers that can activate state law and lead to intervention by state officials, including the Auditor of State.

The result is typically years of budget austerity mandated by state law and presided over by state officials.

What is it like to have your government, its budgets, policies and priorities subject to the veto of outsiders?

“It is daunting,” said Tracy Fast, fiscal officer of the Village of Lakemore in Summit County. “Especially when you walk in and you’re hit with, ‘You have 100 things you have to fix before we consider releasing you from fiscal emergency.’”

For Lakemore, a Summit County community of 2,500 people, fiscal problems came to a head in 2010, when it faced fund deficits of nearly \$840,000 and a treasury deficit of \$585,000.

According to Fast, Lakemore had been hit by a triple whammy: First came the Great Recession, which resulted in plunging property values and property-tax revenues. Then a major employer, Edwin Shaw Rehabilitation Hospital, closed. Finally, the state began reducing local-government funding, resulting in a punishing hit to village revenues.

Village officials were slow to react, Fast said. “They were still spending the money as though it was there, and they just got into a lot of trouble with that.”

When reality finally became inescapable, village officials called on the Auditor’s office for help. After assessing the situation, the Auditor declared a state of fiscal emergency on Aug. 31, 2010. It was the start of a recovery that would take more than six years.

Fortunately, only a small percentage of local entities face fiscal emergency – but it does happen.

This report looks at the reasons local governments found themselves in fiscal emergency, the experience of being in fiscal emergency, and how they got out of it.

PLUNGING INTO THE RED

Lakemore’s experience is one familiar to scores of other Ohio communities, and to the staff of the Local Government Services (LGS) division of the Auditor of State’s office.

It is LGS that comes to the rescue when local governments decide they need outside expertise to address their fiscal problems and it is LGS that acts as financial supervisor to governments declared to be in fiscal emergency.

While the Auditor has the authority to step in and examine a local government’s books and declare a fiscal emergency if conditions warrant it, it is the financially troubled local government that asks the Auditor’s office for help in sorting out its problems in the vast majority of

FISCAL EMERGENCY

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cases. If LGS discovers problems that state law defines as triggers for a fiscal emergency declaration (see sidebar on Page 19), the declaration follows.

Generally, the law requires that a financial planning and supervision commission made up of state and local officials, and three appointees, come up with a plan to restore fiscal health.

LGS acts as advisor to this commission to ensure that the recovery plan is sound.

Unice Smith, chief of LGS, has two messages for local officials facing fiscal emergency: “We are here to help. It’s not the end of the world.”

“When I walk into an entity in fiscal emergency I say, ‘Yeah, things are not good for you at this time. But, we are here to help you turn this deficit into a positive. We can turn it around. If we all work together and make the tough decisions to pull this entity up by its boot straps, we can get you back in the black. It may take some time but, together, we can do it.’”

Local governments fall into fiscal distress for several reasons, Smith notes. Sometimes, it is because of events beyond their control. Other times, problems are of their own making. Often, it’s a combination of these.

That was the case in Lakemore. Not only was the village hit with a sudden loss of revenue, but the village’s books were in disarray, and it lacked basic policies and controls that are necessary to ensure that village finances are transparent and can be clearly and regularly reported to decisionmakers.

Prior to entering fiscal emergency, decisionmakers in the Village of Edgerton were working in the dark, according to Dawn Fitzcharles, who was village administrator at the time. As in Lakemore, Edgerton was hurt by the Great Recession and by cutbacks by local employers. But poor financial practices played a role, too, Fitzcharles said, including using money from one fund to subsidize another.

“Our council was not completely aware of what was going on because money was being shown in those funds when it really wasn’t there,” she said.

The City of Campbell fell into fiscal emergency not only because of a declining economy, but because no one wanted to take responsibility for ensuring that the city operated in the black, according to City Council President George Levendis. Previous finance directors didn’t know how to say “no” to poor financial decisions by city officials, Levendis said.

The city’s books also were a problem. “Our audit costs were astronomical because the bookkeeping was a mess. I mean not being reconciled for six, seven, eight months. So when the state would come in to audit, instead of them being in and out of there within a week, they were there for months. Those are all billable hours.”

Sometimes the bookkeeping in a local government is in such disarray that the Auditor declares the local government unauditable. It is in such circumstances that LGS helps reconstruct the books based on whatever evidence can be found. Only when the books are restored to the point they are auditable can a plan be devised to help the government recover financially.



“The policies, even though they were very daunting in creating, they are very helpful. If nothing else, it keeps the fiscal officer or clerk-treasurer on their toes to make sure. Because it’s easy to start forgetting things. And there are so many things that are timely – quarterly reports, monthly reports, reconciling your bank account.”

— Dawn Fitzcharles
Former Edgerton village administrator

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TAKING STOCK

A fundamental step in restoring a local government to fiscal health is not only assessing the government's current financial situation, but overhauling the financial policies that ensure the timeliness and accuracy of this financial data going forward. Unless a government creates sound policies and internal controls – and follows them – it could fall back into the mistakes that led to fiscal emergency.

Creating policies with the guidance of LGS was a huge undertaking in Lakemore's recovery, said Fast, the village fiscal officer.

"At first, we were meeting every month and we would work on the books and then we would work on policies and we were constantly – and I still do it all through the year – keep checking where we are financially," she said.

"The policies, even though they were very daunting in creating, they are very helpful. If nothing else, it keeps the fiscal officer or clerk-treasurer on their toes to make sure. Because it's easy to start forgetting things. And there are so many things that are timely – quarterly reports, monthly reports, reconciling your bank account. Our fiscal officer before did not do that."

The process is educational for village officials, said Fitzcharles, former village administrator in Edgerton:

"The biggest assist that the state can provide is not only a plan for recovery, but they can work with the fiscal officer on how to forecast, how to truly understand the numbers that are before them."

"That's something that we're continuing to do and look at and put into action, not just, 'Oh, tomorrow we're just going to buy a big piece of equipment.' Really, planning and thinking through the process on what we're doing and how we're doing it."

Fitzcharles encourages communities facing fiscal emergency to be optimistic. "Yes, it can be a negative thing, but you really can make it into something positive. And your town can come out so much better, if you just work through it and you utilize the resources that the Auditor extends through Local Government Services."

RECOVERY

Smith, head of LGS, has a simple formula for restoring a local government to fiscal health: Cut expenses or increase revenues. Sometimes, it takes both. No two local governments have the same financial profile, but their profiles are made up of the same elements: revenue, expenses, salaries, benefits, capital assets and debt, among others. Typically, entities work with a combination of these elements to restore solvency.

Staff reductions have been the most frequently used budget-balancing tool for the 26 villages, townships and cities that have emerged from fiscal emergency since Auditor Dave Yost assumed office in 2011. In all, 15 of these entities, or 58 percent used this approach.

Half of the 26 turned to the income tax, either by levying it for the first time, or by increasing the rate of an existing one. The next most frequent options, both adopted by 10 – or 38 percent -- of the entities, were



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raising utility rates and finding ways to reduce expenses, such as changing internet carriers, reducing discretionary services, contracting for income-tax collections or turning over water and sewer operations to the county.

Changing benefits in order to save was an approach used by 9, or 35 percent, of local governments, followed by adopting or increasing property taxes or user fees, each favored by 8 entities, or 31 percent. Just two, or 8 percent, borrowed against future allocations from the Ohio Local Government Fund.

Many found unique ways to save or generate revenue, such as selling timber, taking part in a shared service agreement, earning gas royalties, selling land and renegotiating debt payments, among others.

The circumstances specific to each government will determine where opportunities exist to increase revenue or to trim expenses, taking each along a different path to fiscal health.

The first step is accepting the situation for what it is, said Fitzcharles.

“The best way I can describe it is just ripping off the Band-Aid. We ripped off the Band-Aid, things were bad, and they got worse, but once we hit the floor, then we could start building ourselves back up.”

“You really take a look at how you’re doing things and make changes,” she said.

LGS brings a wealth of experience to that task, said Fitzcharles.

“We relied heavily on Local Government Services and their expertise. Some people think that Local Government Services or the Auditor are maybe the enemy, especially when they come in to your town and they tell you, ‘You need to do this, this and this,’ and they’re kind of like your watchdog. Some towns get really upset about that. Well, once we got over the initial shock, we worked with them and they were a huge part in us getting where we are.”

In the Village of Lakemore, the changes were dramatic.

“We really had to reduce all of our expenses,” said Fast. “We ended our police department and we contracted with the township that surrounds us. We did that for a few years and that reduced our expenses. We passed a property-tax levy for the fire department. We reduced staffing. We really just cut everything back to the bare bones. We also reduced our income tax credit from 100 percent to 50 percent.”

In August 2009, Scioto County became the first Ohio County to be placed in fiscal emergency. The declaration came after a growing problem with fund deficits that started three years earlier. The county was released from fiscal emergency in June 2014.

There was no magic bullet to fix the problem.

“There wasn’t any one thing that did it, it was just taking a really conservative approach and trying to do what we could with what we had,” said County Commissioner Mike Crabtree.

Ultimately, the county was able to shave expenditures by \$1.62 million annually by closing its juvenile detention center, eliminating rent payments by buying the county courthouse annex, refinancing a bond, reducing personnel costs by leaving some vacant positions unfilled and hiring employees at lower pay. The county revamped its health benefits, saving about \$650,000 just



“We ended our police department and we contracted with the township that surrounds us. We did that for a few years and that reduced our expenses. We passed a property-tax levy for the fire department. We reduced staffing. We really just cut everything back to the bare bones.”

— Tracy Fast
Village of Lakemore
fiscal officer

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in the first year, Crabtree said. Furloughs also bolstered the bottom line.

The City of Campbell found numerous ways to save, according to Levendis.

One was to shave the benefits that City Council members enjoyed.

“Council members were getting full health care and they only had to attend two meetings a month – if they felt like it,” Levendis said. “So that was the whole history of our city, these five council members getting full health care for themselves and their families.”

He added, “And once I took office, I didn’t see any justification for that. It didn’t make sense.” So he persuaded council to give up the perk.

The city shaved costs by reducing staffing through attrition and replacing full-time positions with part-time employees, saving on pay and benefits.

“Another thing is, we have our own park. We were paying about \$70,000 a year for us to maintain our park – maintain it, cut the grass, maintain our baseball field. What we did as a council, we outsourced all of it. And those are coming in at \$30,000 a year, \$35,000,” Levendis said.

The city raised water rates to eliminate red ink in the water plant budget, contracted labor negotiations to an outside firm, and increased tax collection by outsourcing it to the Regional Income Tax Agency.

“I leased all the city property for gas and oil drilling. All of it. And we got an \$850,000 check, from Hilcorp (Energy Co.),” said Levendis. “We put that in a secured fund to use for equipment, like one-time purchases. So we put it in the infrastructure fund, and we didn’t put it into the general fund and then that money just sits there so as we need upgrades in equipment or anything we need, information technology stuff, we pull out of that, as a council.”

AVOIDING TROUBLE

Officials who experienced fiscal emergency have plenty of good advice to help other local-government officials avoid trouble.

A key element is a competent fiscal officer, said Fitzcharles.

“If your fiscal officer position becomes vacant, make it something where you’re a little bit slower to fill it,” she said. “A lot of people get in this panic, and they just throw somebody in there. But it’s really important that person knows what they’re doing, and is familiar with how everything works together, and is able to say ‘no’ when you just don’t have the money.”

And elected leaders need to be engaged in the fiscal officer’s work.

“Know what your numbers are,” Fitzcharles advises. “Everybody should have an investment policy. Everybody should have a cash-reserve policy. And they should know what those figures are. We’re running villages, but essentially, we’re running a business. So know what you have to be putting back for the future. Know the percentage of your annual budget that you need to hold back for your capital items.”

Council members have to be engaged and ask questions, Fitzcharles said. They have to ask if debt payments are being made, if vendors are being paid on time, if late fees are being incurred.

“What I would advise people to do is to be well aware that although they might have experienced a very healthy revenue stream for a number of years, those things can change a whole lot quicker than you realize.”

Mike Crabtree
Scioto County

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Fast underlines the point: “Elected officials really do need to pay attention to the policies that they are passing and read up on all the policies and procedures that are in place. You get so you trust the person and think, ‘Oh, they’re doing it, they’re doing it’ and they may not be. So somebody’s got to be the liaison to make sure that they’re staying on task.”

Complacency is a danger, too, said Crabtree:

“If you have several strong years of revenue and you assume that it’s going to be that way, you better not take it for granted,” he said.

“What I would advise people to do is to be well aware that although they might have experienced a very healthy revenue stream for a number of years, those things can change a whole lot quicker than you realize,” Crabtree said. Officials should root out waste and constantly seek ways to pare costs, to better position the local government in downturns.

Vigilance is a necessity, Fast said, because financial circumstances are volatile.

“It can change very quickly and the best thing that elected officials could do would be to ask for frequent financial reports, even if it’s a copy of the monthly bank reconciliation, so they can see where they are at, at least overall, financially,” she advises. “Make sure that they have purchase orders, policies for everything. When I came in there were so many policies we had to create and adopt. It’s so important because then they know what needs to be done and if they’re not seeing it done then they can handle it before it gets too far behind.”

Crabtree emphasizes the oversight role that elected leaders must play.

“I think the best thing people need to do is look at their overall budget. If things look like they don’t make sense, they probably don’t,” he said.

WHEN IN DOUBT, ASK FOR HELP

Keeping local government finances healthy requires teamwork. Fiscal officers must be competent and diligent. They must offer sound advice and be willing to speak up when elected leaders seek to make decisions that could put the local government at financial risk.

But elected officials also have a responsibility to ensure that the fiscal officer is performing his or her duties competently and diligently. This means routinely checking to make sure the fiscal officer is paying bills, taxes and salaries and keeping the books up-to-date and accurately reconciled.

Neither part of the team can ignore its responsibilities without putting the local government at risk. Yet it happens time and again.

Any local government official who thinks there might be a fiscal problem brewing has a responsibility to act -- by asking questions, demanding documentation and by calling in outside help if necessary, the sooner the better.

The Local Government Services division of the Auditor of State stands ready to help analyze local government finances, untangle financial knots and help design policies and procedures that will keep local government finances in the black.

To learn more, visit: <https://ohioauditor.gov/local.html>



“Council members were getting full health care and they only had to attend two meetings a month – if they felt like it. So that was the whole history of our city, these five council members getting full health care for themselves and their families.”

George Levendis

Campbell city council president

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Background

Many entities move swiftly to escape fiscal distress; others linger

Since 1980, 79 townships, villages and cities have found themselves in fiscal jams so severe that they were declared to be in fiscal emergency, with 17 currently working their way out of it. Since 1996, the same thing has happened to 43 Ohio school districts, with two currently in fiscal emergency.

When it happens, state law and state officials step in with statutes, mandates and deadlines. Local officials see much of their autonomy subject to oversight and veto by an appointed commission charged with bringing the local government's books back into balance.

Often, this means reducing expenses by cutting staff and services or through other means, or increasing taxes and fees, or a combination of these. The process can be mercifully brief or drawn out. The median time that local governments remain in fiscal emergency is 4.7 years, meaning that half of those governments are restored to fiscal health in no more than 4.7 years and half take longer than that.

Some take much longer: The Village of Manchester in Adams County has been in fiscal emergency for more than 20 years. Some have been in fiscal emergency more than once, such as the City of East Cleveland, which now is in fiscal emergency for the second time, for a total of more than 22 years (and counting) since 1988.

Among school districts, the median time in fiscal emergency is 3 years. Southern Local School District in Meigs County holds the duration record: It was released from fiscal emergency in April 2009 after 9.4 years.

For local governments other than school districts, the financial conditions that prompt a designation of fiscal emergency are spelled out in Chapter 118 of the Ohio Revised Code, but in general, the designation is applied when a local government defaults on debt, fails to meet payroll, experiences deficits in funds, has an overall treasury deficit, or fails to pay bills. (<https://ohioauditor.gov/fiscal/local.html>)

School districts in fiscal distress are covered by ORC 3316 (<https://ohioauditor.gov/fiscal/schools.html>).

By far, fund deficits are the leading trigger for a fiscal emergency declaration, with 65 instances since 1980. Treasury deficits are second, with 24 instances, followed by delinquent accounts payable in 21 instances, and default on debt, which occurred 13 times. Failure to make payroll has been a trigger just once in 47 years. In many cases, a government experienced more than one of these triggers.

Of the local governments (not including school districts) that currently are in fiscal emergency, nine are villages, six are cities and two are townships.

Of the local governments (not including school districts) released from fiscal emergency since 1980, 35 are villages, 20 are cities, one is a township and one is a county.

4.7 YEARS

» median time local governments are in fiscal emergency

20.3 YEARS

» time the Village of Manchester has been in fiscal emergency

3 YEARS

» median time school districts are in fiscal emergency

9.4 YEARS

» time the Southern Local School District was in fiscal emergency

FISCAL EMERGENCY

How they did it

Top methods used by 26 entities to escape fiscal distress

15 |  used staff reductions or department eliminations



10

Reduced expenses, including supplies, contracted services and utilities



10

Raised utility fees to better reflect the cost of service

13

Passed income tax levies or reduced income tax credits

8

Initiated or raised user fees to generate revenue



9

Benefit changes, including pay, furlough/vacation, health insurance and workers' compensation

8

Initiated or raised property tax levies to improve the balance sheet



2

Borrowed against future allocations from the state's Local Government Fund

Other, including: **18**
obtaining grants, selling timber, gas royalties, sale of equipment, shared services, receipt of delinquent income taxes, amnesty program for income taxes, RITA reporting, sale of land, renegotiating payment plan for debt and annexing property

FISCAL EMERGENCY

How they did it

Entities have a variety of options to restore fiscal stability

Bellaire Local School District

Belmont County

December 2009 to April 2017 | 7.3 years

- » Eliminated 60 staff positions
- » Ended 7 percent retirement pickup for new certified staff
- » Switched health insurance to replace two previous carriers
- » Increased employee share of health insurance premium
- » Reduced spending on supplies, contracted services and utilities

Village of Edgerton

Williams County

December 2013 to July 2017 | 3.6 years

- » Raised income-tax rate to 1.75 percent from 1 percent.
- » Contracted tax collection to the Regional Income Tax Agency
- » Imposed a two-year salary freeze
- » Increased water and sewer rates to pre-empt projected deficits

City of Girard

Trumbull County

August 2001 to June 2012 | 10.8 years

- » Eliminated 11 staff positions
- » Contracted tax collection to the Regional Income Tax Agency
- » Passed 3 tax levies
- » Sold timber and gas royalties

Hamilton Township

Warren County

April 2014 to October 2015 | 1.5 years

- » Closed medical fund and transferred \$2.2 million to General Fund
- » Used the money to eliminate deficits in other funds



FISCAL EMERGENCY

How they did it



Village of Lakemore

Summit County

August 2010 to November 2016 | 6.3 years

- » Reduced income tax credit by half (restored after release from fiscal emergency)
- » Passed a 4.25-mill fire and EMS levy
- » Did away with Police Department and contracted with township for police service (Village police department later restored at a lower level)
- » Transferred money from General Fund to cover shortfalls in other funds

Liberty Local School District

Trumbull County

July 2011 to Dec. 2014 | 3.4 years

- » Eliminated 36 positions
- » Joined an insurance consortium and required employee health-premium contributions
- » Reduced salaries of four positions
- » Joined shared-service agreement for treasurer and assistant treasurer
- » Eliminated several supplemental programs

City of Mansfield

Richland County

August 2010 to July 2014 | 3.9 years

- » Raised money by selling unused buildings
- » Harvested timber from city-owned property
- » Increased EMS transport fees to peer-city levels
- » Reduced staff through attrition
- » Mandated furlough days for non-union staff
- » Passed a 0.25 percent income-tax increase

City of Massillon

Stark County

October 2013 to April 2017 | 3.5 years

- » Reduced income tax credit by 25 percent to eliminate general fund deficit
- » Passed a 0.2 percent income tax to generate money for the street fund
- » Required city employees to pay 15 percent of their health care premiums

FISCAL EMERGENCY

How they did it

Village of Newcomerstown

Tuscarawas County

October 2012 to June 2016 | 3.7 years

- » Covered cemetery fund deficit with transfer from general fund
- » Eliminated cemetery staff
- » Combined management of cemetery and street departments
- » Sought donations and grants to cover parks and capital needs
- » Hired full-time fiscal officer to generate fiscal data needed for decision-making and spending reduction

Village of Portage

Wood County

April 2009 to October 2017 | 8.5 years

- » Disbanded police department and mayor's court
- » Reduced salaries for employees and village council members
- » Enacted a 1 percent income tax
- » Contracted with the Regional Income Tax Agency to collect taxes

Scioto County

August 2009 to June 2014 | 4.8 years

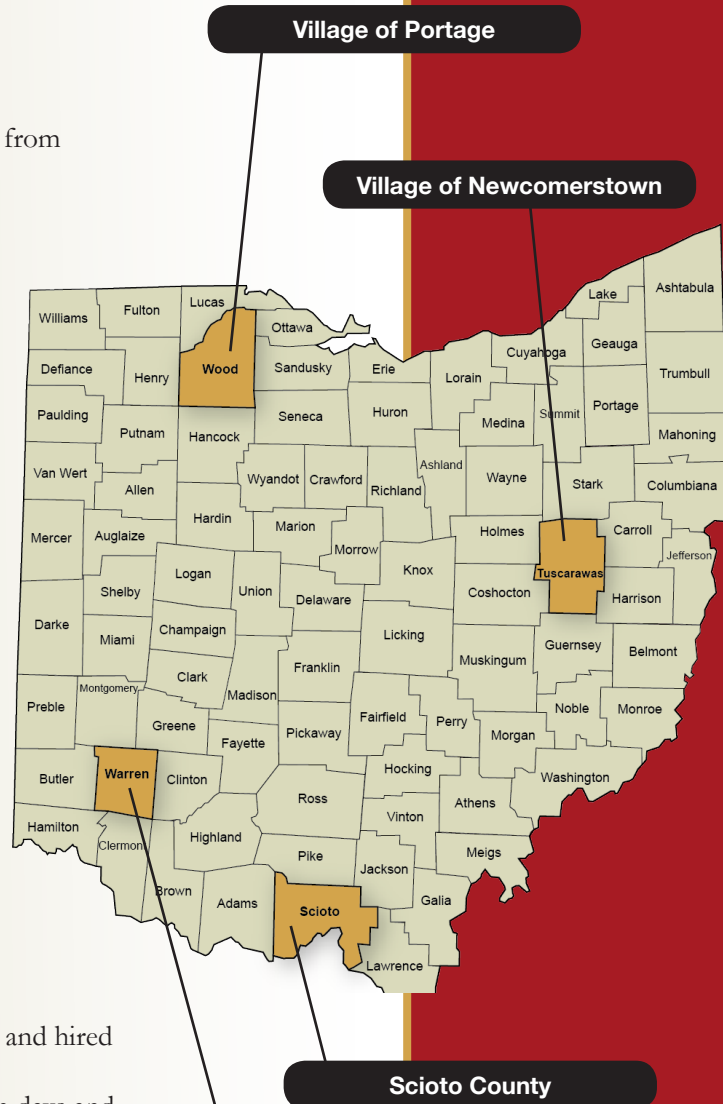
- » Closed juvenile detention center
- » For two years, filled only essential positions, and hired new employees at lower pay rates
- » Allowed county departments to use furlough days and reduce staff
- » Increased revenue by housing more jail inmates from outside the county
- » Changed health-benefits structure to reduce costs
- » Eliminated rent payments by buying courthouse annex

Village of Waynesville

Warren County

April 2008 to April 2014 | 6 years

- » Passed five-year, 1 percent income tax
- » Increased police levy to 7 mills from 5.5 mills
- » Eliminated one full-time police officer position



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Local Government Services

The Local Government Services division of the Auditor of State's office offers a variety of services to help local governments maintain and improve their fiscal practices and health.

"You can think of LGS as a financial health clinic," said Unice Smith, chief of LGS. "Like a doctor, we're here to help when a community is ailing financially, but we also promote financial wellness by teaching local government officials best practices for keeping their finances healthy."



The services available from LGS include:

- Fiscal watch, fiscal caution and fiscal emergency assistance
- Assistance with financial forecasts
- Reconstruction of financial records
- Reconciliation of books
- Development of policies and procedures
- Evaluation of internal controls
- Web-GAAP -- internet-based software to convert year-end cash-basis information into a GAAP conforming-financial report
- Dissolutions and mergers
- Financial management training to public officials
- Manuals and policy bulletins
- Annual reports, GAAP conversion and financial statements

For local governments that are declared to be in fiscal watch or fiscal caution, LGS offers technical assistance at no cost to the government.

Local governments in fiscal emergency receive LGS assistance at no cost for the first 24 months of service, pay 20 percent of the cost for months 25-30, and 50 percent of the cost for months 31 to 36. After that, the local government pays the full cost of services.

The LGS rate is \$50 an hour.

"For LGS and for local governments, it's much easier to prevent problems than to fix them once they occur. We hope local officials will look to us as a positive resource, not as a last resort," Smith said.

To contact LGS for information, visit: <https://ohioauditor.gov/contact/Inquiry.aspx>

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Emergency triggers

Emergency declaration begins with specific events

Ohio Revised Code Chapter 118 spells out the definition of fiscal emergency and outlines the procedures state and local officials must follow once a local government has been designated in fiscal emergency.

The presence of any one of these factors can prompt a designation of fiscal emergency:

- All accounts that were due and payable from the General Fund for more than 30 days — less the year-end balance — exceeded 1/6 of the budget for the year and this condition persists for at least four months after the end of the fiscal year.
- All accounts that were due and payable from all funds for more than 30 days — less the year-end balance — exceeded 1/6 of the available revenue for the preceding fiscal year from these funds and this condition persists for at least four months after the end of the fiscal year.
- Total deficit funds — less the total of any balances in the General Fund and any special fund — exceeds 1/6 of the total General Fund budget for that year and the receipts during that year (other than transfers from the General Fund) and this condition persists for at least four months after the end of the fiscal year.
- Failure to pay employees for more than 30 days and a period of agreed-upon extension that cannot last more than 90 days.
- Default on payment on any debt obligation for more than 30 days.
- An increase in the inside millage by the County Budget Commission that results in a reduction for any of the overlapping subdivisions or taxing districts.

Governments declared to be in fiscal emergency come under the oversight of a financial planning and supervision commission that includes local and state officials as well as three other appointees. The Auditor's office serves as the financial supervisor to the commission. For a village or township with a population of fewer than 1,000, the Auditor serves as the financial supervisor and has all the powers of a commission.

Fiscal emergency ends when these conditions are met:

- An effective financial accounting and reporting system is being implemented.
- All fiscal emergency conditions are being eliminated.
- Financial recovery plan objectives are being met.
- The entity has a five-year financial forecast that the Auditor's office determines is "nonadverse".



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