

# **Management's Discussion and Analysis**

## **City of Flint, Michigan Management's Discussion and Analysis**

As management of the City of Flint, we offer readers of the City of Flint's financial statements this narrative overview and analysis of the financial activities of the City of Flint for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented. All amounts, unless otherwise indicated, are expressed in millions of dollars.

### **Financial Highlights**

- The City's General Fund – fund balance is \$6.1 million at fiscal year end 2005. The \$26.6 million deficit at fiscal year end 2002 has been eliminated.
- The assets of the City of Flint exceeded its liabilities at the close of the most recent fiscal year by \$407.6 million (net assets). Of this amount, \$133.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Flint's governmental funds reported combined ending fund balances of \$26.1 million, an increase of \$11.4 million over the prior year. Approximately \$12.5 million of this total amount, is available for spending at the government's discretion (unreserved fund balance).
- The City of Flint's total debt increased by \$10.2 million (8.1%) during this fiscal year. The key factor in this increase was a sale of \$8 million of Financial Recovery bonds.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City of Flint's basic financial statements. The City of Flint's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Table 1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1. Major Features of the City of Flint’s Government-wide and Fund Financial Statements**

<b>Type of Statements</b>	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the water and sewer system, and the parking facilities	Instances in which the City is the trustee or agent for someone else’s resources, such as the retirement plan for City employees
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Flint's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Flint's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Flint is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Flint that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Flint include general government, police, fire, transportation, public works, parks & recreation and community enrichment and development. The business-type activities of the City of Flint include the hospital, water system, sewer system, the parking operation, and the golf courses.

The government-wide financial statements include not only the City of Flint itself (known as the primary government), but also a legally separate Downtown Development Authority, Atwood Stadium building Authority, and Economic Development Corporation, for which the City of Flint is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Flint, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Flint can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Flint maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be major fund. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Flint adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City of Flint maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Flint uses enterprise funds to account for its Hospital, Water & Sewer System, Golf Course and Parking System. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Flint's various functions. The City of Flint uses internal service funds to account for its Data Processing, Fringe Benefits, Central Maintenance Garage, and Self-Insurance functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Hospital and the Water & Sewer System, all of which are considered to be major funds of the City of Flint. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Flint's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Flint's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

**Government-wide Financial Analysis.** Net assets may serve, over time, as a useful indicator of a government's financial position. The City's total net assets exceeded liabilities by \$407.6 million, a \$2.4 million increase in net assets over the prior fiscal year.

**Table 2. City of Flint's Net Assets  
(in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 31.2	\$ 41.5	\$ 231.3	\$ 243.8	\$ 262.5	\$ 285.3
Capital assets	147.1	140.1	206.1	206.1	353.2	346.2
Total assets	<u>178.3</u>	<u>181.6</u>	<u>437.4</u>	<u>449.9</u>	<u>615.7</u>	<u>631.5</u>
Long-term liabilities outstanding	16.0	21.2	127.0	114.8	143.0	136.0
Other liabilities	11.7	11.3	55.9	76.6	67.6	87.9
Total liabilities	<u>27.7</u>	<u>32.5</u>	<u>182.9</u>	<u>191.4</u>	<u>210.6</u>	<u>223.9</u>
Net assets:						
Invested in capital assets, net of related debt	141.1	138.2	134.8	107.2	275.9	245.4
Restricted	27.0	21.2	9.2	7.6	36.2	28.8
Unrestricted	(17.4)	(10.3)	110.5	143.7	93.1	133.4
Total net assets	<u>\$ 150.7</u>	<u>\$ 149.1</u>	<u>\$ 254.5</u>	<u>\$ 258.5</u>	<u>\$ 405.2</u>	<u>\$ 407.6</u>

Total assets increased by \$15.8 million, recording the reduction in internal balances and the increase in cash due to the sale of the \$8 million of Financial Recovery bonds. Net increases and decreases of infrastructure resulted in a \$7 million reduction. Total liabilities increased by \$13.3 million, due to reclassifications at the Hurley Medical Center.

The largest portion of the City of Flint's total net assets of \$245.4 million (60.2%) reflects its investment in capital assets (e.g., land, buildings, streets, sidewalks, machinery, and equipment), less depreciation and any related debt used to acquire those assets that is still outstanding. The City of Flint uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Flint's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Flint's net assets of \$28.8 million (7.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$133.4 million (32.7% of net assets), may be used to meet the government's ongoing obligations to citizens and creditors. The governmental activities' net assets decreased by \$1.6 million (1%) during the current fiscal year. Business type activities increased by \$4.0 million (1%).

**Governmental Activities.** Governmental activities' revenues decreased by \$14.1 million during fiscal year 2005. Charges for services declined by \$8.7 million as a result of a change to cost allocation methods. Reimbursements for expenses from operating grants declined by \$7.5 million as a result of reduced spending. Income tax revenues increased by \$.8 million.

A reduction of \$7 million in public safety expenses is mostly due to a change in cost allocation methods. Community development activity resulted in a decrease in reimbursable expenses of \$4.6 million.

**Table 3. City of Flint's Changes in Net Assets  
(in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 27.3	\$ 18.6	\$ 377.8	\$ 394.8	\$ 405.1	\$ 413.4
Operating grants and contributions	23.0	15.5	1.4	0.3	24.4	15.8
Capital grants and contributions	3.9	2.0	0.1	0.8	4.0	2.8
<b>General revenues</b>						
Income taxes	19.9	20.7	-	-	19.9	20.7
Property taxes	24.5	27.2	-	-	24.5	27.2
State shared revenues	20.0	19.8	-	-	20.0	19.8
Grants and contributions not restricted to specific programs	1.2	1.1	-	-	1.2	1.1
Other	0.1	0.9	1.8	6.1	1.9	7.0
<b>Total revenues</b>	<u>119.9</u>	<u>105.8</u>	<u>381.1</u>	<u>402.0</u>	<u>501.0</u>	<u>507.8</u>
<b>Expenses</b>						
Legislative	0.5	0.7	-	-	0.5	0.7
Judicial	5.1	3.9	-	-	5.1	3.9
General government	32.5	35.1	-	-	32.5	35.1
Public safety	39.3	32.3	-	-	39.3	32.3
Public works	26.1	25.5	-	-	26.1	25.5
Parks and Recreation	4.3	3.1	-	-	4.3	3.1
Community development	11.4	6.8	-	-	11.4	6.8
Interest on long term debt	0.4	0.3	-	-	0.4	0.3
Hospital	-	-	323.2	346.6	323.2	346.6
Water	-	-	32.9	30.4	32.9	30.4
Sewer	-	-	24.0	19.5	24.0	19.5
Golf Course	-	-	1.5	1.1	1.5	1.1
Parking facilities	-	-	0.1	0.1	0.1	0.1
<b>Total Expenses</b>	<u>119.6</u>	<u>107.7</u>	<u>381.7</u>	<u>397.7</u>	<u>501.3</u>	<u>505.4</u>
Increase (decrease) in net assets before transfers	<u>0.3</u>	<u>(1.9)</u>	<u>(0.6)</u>	<u>4.3</u>	<u>(0.3)</u>	<u>2.4</u>
Transfers	(0.7)	0.3	0.7	(0.3)	-	-
Increase (decrease) in net assets	<u>(0.4)</u>	<u>(1.6)</u>	<u>0.1</u>	<u>4.0</u>	<u>(0.3)</u>	<u>2.4</u>
<b>Extraordinary item:</b>						
Retroactive implementation of capital infrastructure	117.3	-	-	-	117.3	-
Net assets - beginning	33.8	150.7	254.4	254.5	288.2	405.2
<b>Net assets - end</b>	<u>\$ 150.7</u>	<u>\$ 149.1</u>	<u>\$ 254.5</u>	<u>\$ 258.5</u>	<u>\$ 405.2</u>	<u>\$ 407.6</u>

**Business-Type Activities.** Business type activities' revenue increased by \$20.6 million to \$401.7 million. The largest part of the increase was from charges for patient services at Hurley (\$17.0 million). Expenses for business type activities increased by \$16 million. Payroll taxes and fringe benefits at Hurley Medical Center accounted for \$13.3 million. Purchased services at Hurley increased by \$6 million. Expenses in the Water and Sewer funds decreased by \$7 million. Decreases in water and sewer expenses are a result of a decrease in operating costs: \$1.2 million in salaries and wages, and \$2 million in professional services. Bad debt expense also decreased by \$3.5 million due to a large one-time write off in the prior year.

## **Financial Analysis of the Government's Funds**

As noted earlier, the City of Flint uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Flint's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City of Flint's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the 2005 fiscal year, the City of Flint's governmental funds reported combined ending fund balances of \$26.1 million, an increase of \$11.1 million from the prior year. Approximately \$12.5 million constitutes unreserved fund balance, which is available for spending.

The general fund is the chief operating fund of the City of Flint. The \$6.1 million surplus in the general fund is 10.5% of 2005 total expenditures. The general fund has a short-term advance from the sewer fund of \$7.3 million at June 30, 2005 to complete the fiscal year.

The general fund has recovered from a \$26 million deficit in fiscal year 2002 to a \$6.1 million surplus in 2005 through aggressive cost cutting. During calendar year 2001, the City issued 2,195 W-2 forms, totaling \$56.1 million. The City issued 1,669 W-2 forms in tax year 2004, for wages totaling \$40.7 million.

The remaining governmental funds have a fund balance of \$20 million, of which \$8 million is undesignated. The major and local street funds have \$13.3 million available for maintenance and capital improvements. Approximately \$5.8 million is designated for future year's expenditures and is not available for new spending. The undesignated fund balance is also \$5.8 million.

Other special revenue funds include federal grants, \$1.0 million in fund balance, economic development authority, with \$1.2 million in fund balance, and the parks and recreation fund, with a \$.9 million fund balance. Federal or local laws restrict the spending of the money in these funds.

The garbage collection fund (almost) broke even in this fiscal year. In prior years, the fund has required a subsidy from the general fund of about \$500,000 each year. Increasing maintenance costs on the aging garbage trucks has hampered the fund. However, the City Council has approved the purchase of 20 new trucks at a cost of \$3.2 million in fiscal year 2006.

**Proprietary funds.** The City of Flint's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Hurley Medical Center amounted to \$88.4 million, an increase of \$19.1 million. The increase is a result of a reclassification of a prior year (2004) balance. The Hurley Medical Center did not issue any bonds in 2005. The hospital refinanced the interest rate on the \$35 million 2003 bonds, going from a fixed rate of 5.69% to a variable rate of 3.3% over 7 years. Hurley has signed three-year agreements with all nine of its bargaining units.

Unrestricted net assets in the Water Fund are \$5.4 million. The Water Fund has a bond reserve account of \$2.7 million and an equipment reserve account of \$1.6 million. Water revenues decreased by \$0.5 million while cost of water purchased increased by \$0.7 million, a result of a rate increase from Detroit. The balance of water operating costs decreased by \$2.4 million, primarily in salaries & wages, bad debt expense and professional services.

Unrestricted net assets of the Sewer Fund increased by \$3 million to \$48.3 million. Sewer revenues decreased by \$0.7 million from the previous year. The decrease was due to a reduction in sewer rates from the prior year. Sewer operating costs decreased by \$4.5 million, primarily in salaries & wages, bad debt expense and professional services.

### **Budgetary Highlights**

General Fund expenditures totaled \$58.2 million, about \$5.6 million below the final amended budget. General Fund revenues were \$68.1 million, \$9.5 million below the amended budget. Most of the large difference between budget and actual was in fringe benefits and charges for services. The difference in expenditures was a result of continued cost cutting by most departments. A reduced number of employees, and hiring freezes, resulted in delays in filling vacant positions. Revenues from charges for services were \$12.6 million below budget, primarily due to the change in the cost allocation plan methods. Healthcare and other benefits totaled \$10.6 million, of which \$6.4 million was allocated to the General Fund. Total fiscal year 2005 charges for post-retirement health care were \$16.5 million, of which \$9.5 million was allocated to the General Fund. Data processing charges of \$2.3 million and self-insurance charges of \$2.1 million were allocated \$1.4 million and \$1.2 million, respectively, to the General Fund. Excess revenues and other sources over expenditures and other uses were \$13.9 million. Revenues exceeded expenditures by \$9.9 million. Bond proceeds amounted to \$8 million. Other financing uses totaled an unfavorable \$5.2 million of general fund transfers to avoid deficits in other City funds.

The Major Street fund received \$0.4 million more in State revenue than budgeted. The City has been active in maintaining and repairing streets. The Major Street fund's amended budget of \$15.1 million in 2005 was \$5.1 million above the original budget. The Local Street fund was \$2.2 million above the original budget. The Major Street fund has a fund balance of \$10.7 million and the Local Street fund has a fund balance of \$2.6 million.

## Capital Assets and Debt Administration

**Capital assets.** The City of Flint's investment in capital assets for its governmental and business-type activities, as of June 30, 2005, amounted to \$346.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges (see Table 4). Additional information on the City of Flint's capital assets can be found in note IV D.

**Table 4. City of Flint's Capital Assets - net of depreciation  
(in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Land	\$ 11.6	\$ 13.8	\$ 7.4	\$ 5.3	\$ 19.0	\$ 19.1
Construction in progress	-	-	10.3	21.3	10.3	21.3
Buildings and System	6.9	6.6	65.0	59.5	71.9	66.1
Improvements other than buildings	5.2	5.3	6.8	6.5	12.0	11.8
Machinery and Equipment	6.5	7.9	116.6	113.5	123.1	121.4
Infrastructure	116.9	106.5	-	-	116.9	106.5
Total	<u>\$ 147.1</u>	<u>\$ 140.1</u>	<u>\$ 206.1</u>	<u>\$ 206.1</u>	<u>\$ 353.2</u>	<u>\$ 346.2</u>

Major capital asset events during the current fiscal year included the following:

- The City made \$6.3 million dollars of infrastructure improvements, mostly to street repairs, and purchased \$3.2 million in machinery and equipment in the governmental activities funds and \$10.8 million in machinery and equipment in the business-type activities funds.
- The Hurley Medical Center purchased \$9.4 million in capital assets.
- Water System construction in progress amounted to \$8.9 million.

The Water Fund issued \$19 million in revenue bonds in September 2003. The bonds were issued through the Michigan Municipal Bonding Authority's (MMBA) state shared revenue program to acquire and construct improvements to the Flint Water Treatment Plant. The program pledges the City's future state shared revenues. The MMBA disburses the proceeds to reimburse the Water Fund for expenses related to the improvements to the Flint Water Treatment Plant.

**Debt Administration.** Debt is administered through three debt service funds. Three debt service funds, the Hyatt, Windmill and Buick City funds, accumulate resources and administer debt for those specific projects. In addition, the Water Fund services debt for bonds issued for Water Plant improvements.

**Long-term Debt.** At year-end the City had \$13.1 million in bonds and notes outstanding for governmental activities and \$114.8 million in bonds and notes outstanding for business-type activities (see Table 5). Total long-term debt increased by \$10.2 million to \$136 million at year-end. Annual debt service requirements for governmental activities' debt increased over the six-year period 2006 to 2012 as a result of the December 2004 sale of \$8 million in financial recovery bonds. Additional information on the City of Flint's long-term debt can be found in note IV G.

**Table 5. City of Flint's Long-term Debt  
(in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
General Obligation Bonds	\$ 2.4	\$ 9.2	\$ 4.2	\$ 3.0	\$ 6.6	\$ 12.2
Revenue Bonds and Notes	-	-	98.2	106.1	98.2	106.1
Other Notes	4.1	3.7	0.5	0.4	4.6	4.1
Capital Leases	0.5	0.2	6.9	5.3	7.4	5.5
Accrued Annual & Sick Pay	9.0	8.1	-	-	9.0	8.1
<b>Total</b>	<u>\$ 16.0</u>	<u>\$ 21.2</u>	<u>\$ 109.8</u>	<u>\$ 114.8</u>	<u>\$ 125.8</u>	<u>\$ 136.0</u>

**Limitations on Debt.** The State limits the amount of general obligation debt the City can issue to 7% of the assessed value of all taxable property within the City's corporate limits. The City's legal debt limit is \$117.4 million. The amount of debt available to the City (unused portion of the debt limitation) is \$105.3 million. The City can issue bonds through the Michigan Municipal Bonding Authority's state shared revenue program. The program pledges the City's future state shared revenues.

**Bond Ratings.** Moody's Investors' Service rates the City of Flint's general obligation unlimited bonds at Ba3 and Flint's general obligation limited tax debt at B1. The Flint Tax Increment Finance Authority's outstanding debt is rated B1, which is secured by the City's GOLT tax pledge. Moody's has improved the outlook on the City of Flint's debt to "stable." Moody's has scheduled a visit to the City of Flint in February 2006. Existing debt service requirements for governmental activities will drop significantly due to the expiration of debt service obligations over the next three years.

### **Economic Factors and Next Year's Budget and Rates**

**Economic Factors.** The City of Flint's economy, like that of Michigan, is strongly tied to the automobile industry. The City of Flint remains an important part of the General Motors Corporation's future manufacturing plans. GM has ongoing improvements of \$60 million at the Flint Metal Center, \$300 million at the Flint Engine South plant and \$150 million at the Flint Truck Assembly plant.

A good measure of economic activity in the City of Flint is the value of payroll earnings at employer establishments inside and outside of the City, as measured by the amount of City income tax collections. Tabulation of income tax revenue shows the City's economy contracted during fiscal year 2004 from \$21.5 million to \$19.9 million, but expanded to \$20.7 million in 2005. The Flint metropolitan statistical area unemployment rate was 6.0%, slightly better than the State-wide 6.1% (October 2005), an improvement over the 7.9% Flint metropolitan statistical area rate of a year ago.

Payrolls in all sectors declined 2.4% in calendar 2004 (the latest year tabulated) from 2003. While earnings declined 6.8% in manufacturing during 2004, after stabilizing during 2003, the gross value of payrolls in private non-manufacturing sectors turned upward by 1% after decreasing fractionally (nine-tenths of a percent) in 2003.

While Flint manufacturing declined in 2004, as indicated by payroll earnings activity, activity at Flint's most high-profile factory prospered again in 2005. U. S. retail deliveries of all models of GM's popular Chevrolet Silverado pick-up truck and GMC's Sierra version of that vehicle declined about 18% during 2005 from 2004. However, sales of the four-door crew cab version of those products, built in Flint, have

not been affected, as indicated by production activity. Output of those vehicles was about 1% higher in 2005 (based on eleven months of data) than in 2004, while overall Silverado and Sierra production was down about 3%. Retail sales of the other vehicles produced at the Van Slyke Road truck assembly plant, the medium-duty Chevrolet Kodiak and GMC Topkick, were also up, about 35% higher in 2005 than 2004. Production of all vehicles at the plant will total about 213,000 during 2005, up 3.9% from 205,000 in 2004. With the start-up of the new capacity to the north side of GM's Flint Engine South plant, Flint will assume a larger role as a supplier of engines for various vehicles built by GM. Production is slated to start in June 2006, with employment set to eventually grow to 300 in the expanded area as the volume of production ramps up.

One of the reasons that payrolls in the City's non-manufacturing sectors rose slightly in 2004 is that retail spending in the City increased by 2.5% to \$1.02 billion, according to computations by *Sales and Marketing Management* magazine, from \$977 million in 2003. Construction activity in the City, based on the value of work authorized in building permits issued by the City's Building Inspection staff, rose 121.6% in the 2004-05 fiscal year from fiscal 2003-04. Residential real estate activity, however, moved sideways again in 2004 with 1590 homes sold at an average selling price of \$61,200, about the same as the 1,593 units sold in 2003 at a similar price of \$61,100.

An average of 46,400 members of Flint's resident labor force were estimated to be holding jobs within the City and at employment establishments in other parts of Genesee County and surrounding counties during 2004, according to surveys conducted by the Michigan Department of Labor and Economic Growth. That was 1.3% higher than the 45,800 who were at work during 2003. Unemployment in the City averaged 14.7% during 2004, the same as in 2003.

The total assessed and taxable value of property at July 1, 2005 in the City of Flint increased by 9.8% from the previous year. Property values have increased over each of the last four years.

**Budgets.** The City has again produced a timely and balanced budget for Fiscal Year 2006. There are \$6.1 million in funds available from fund balance for appropriation in the General Fund. The 2006 amended General Fund budget was adopted with \$66.7 million in revenues and expenditures. The City faces a number of issues that will impact the 2007 budget, including loss of income tax revenue if layoffs occur at the Flint Delphi facility, and the increase in payroll expenditure with the eventual settlement of the police and fire union contracts.

**Rates.** Although a City ordinance specifies a method to be used to set water rates, the resolution approved by City Council when authorizing the sale of Drinking Water Revolving Fund bonds establishes the current method of fixing and revising water rates. Per the resolution, the rates are set to provide for the payment of the expenses of the administration and operation of the water system so as to maintain the system in good repair. The rates must also be sufficient to pay an amount equal to 125% of the principal and interest on the bonds as well as any other obligations required by law.

The City has set rates each year to meet the requirements of the resolution. However, in order to reduce the impact of the annual water rate increase, the sewer rates have been reduced so that the total water and sewer bill has remained about the same over the last few years. The City plans to continue this policy for budget year 2007. The City is investigating the feasibility of drawing water from the Flint River system at a cost that is substantially lower than the cost of purchasing water from the City of Detroit.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Flint's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the Finance Director, City of Flint, 1101 South Saginaw Street, Flint, Michigan 48502.