

## **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, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in millions of dollars.

### **Financial Highlights**

- The City acquired Capital Assets totaling \$17.2 million in the Governmental Funds and \$20.7 million in the Enterprise Funds.
- The City's General Fund – fund balance increased to \$8.9 million at fiscal year end 2006.
- The assets of the City of Flint exceeded its liabilities at the close of the most recent fiscal year by \$404 million (net assets). Of this amount, \$132 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 \$30.8 million, an increase of \$4.7 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).

### **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 golf courses	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 and 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, and the golf courses.

The government-wide financial statements include not only the City of Flint itself (known as the primary government), but also legally separate entities; the Downtown Development Authority, the Flint Area Enterprise Community, and the 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. The government-wide financial statements can be found on pages 4-11 of this report.

**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 19 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. Data from the other 18 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.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

**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 and Golf Course activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Flint's funds. The City of Flint uses internal service funds to account for its Data Processing, Central Maintenance Garage, Fringe Benefits, and Self-Insurance activities. Because these services predominantly benefit governmental rather than business-type activities, 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, the Water, and the Sewer Funds, 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. The basic proprietary fund financial statements can be found on pages 17-26 of 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. The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

**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. The notes to the financial statements can be found on pages 35-82 of this report.

**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. Required supplementary information can be found on pages 83-86 of this report.

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. Combining and individual fund statements and schedules can be found on pages 92-126 of this report.

**Government-wide Financial Analysis.** Net assets may serve over time, as a useful indicator of a government's financial position (See Table 2). The City of Flint's total net assets exceeded liabilities by \$404 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 41.5	\$ 47.6	\$243.8	\$251.9	\$285.3	\$299.5
Capital assets	<u>140.1</u>	<u>143.3</u>	<u>206.1</u>	<u>204.4</u>	<u>346.2</u>	<u>347.7</u>
Total assets	<u>181.6</u>	<u>190.9</u>	<u>449.9</u>	<u>456.3</u>	<u>631.5</u>	<u>647.2</u>
Long-term liabilities outstanding	21.2	22.8	114.8	111.3	136.0	134.1
Other liabilities	<u>11.3</u>	<u>13.0</u>	<u>76.6</u>	<u>96.0</u>	<u>87.9</u>	<u>109.0</u>
Total liabilities	<u>32.5</u>	<u>35.8</u>	<u>191.4</u>	<u>207.3</u>	<u>223.9</u>	<u>243.1</u>
Net assets:						
Invested in capital assets, net of related debt	138.2	131.6	107.2	108.5	245.4	240.1
Restricted	21.2	23.1	7.6	8.8	28.8	31.9
Unrestricted	<u>(10.3)</u>	<u>0.4</u>	<u>143.7</u>	<u>131.6</u>	<u>133.4</u>	<u>132.0</u>
Total net assets	<u>\$149.1</u>	<u>\$155.1</u>	<u>\$258.5</u>	<u>\$248.9</u>	<u>\$407.6</u>	<u>\$404.0</u>

Total net assets for governmental activities increased by \$6 million. Total net assets decreased in business-type activities by \$9.6 million due to losses at the Hurley Medical Center.

The largest portion of the City of Flint's total net assets of \$240.1 million (59%) 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 \$31.9 million (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$132 million (33% of net assets), may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental Activities.** Changes in Net Assets (Table 2) provide some insight into current year activities as compared to those of the prior year. The City Of Flint changed the method used for cost allocation in 2005. The method used in 2006 reverts back to the methods used in 2004 and prior years. Governmental activities' revenues increased by \$10.1 million during fiscal year 2006. An Increase in revenue of \$6.2 million from Operating Grants and Contributions was a result of increased activity brought about by staffing changes in the Department of Community and Economic Development. Total expenses increased slightly by \$2.2 million, most of which was in Public Safety. The increase in Public Safety was for the additional expense of hiring of additional police officers in the current fiscal year and in the last two quarters of fiscal year 2005. Expenses declined by \$10.6 million to \$19.6 in the Public Works Department includes the stopping of the \$2.4 million parking meter program and more capitalized street construction in 2006.

**Business-Type Activities.** Business type activities revenue decreased by \$15.3 million (13%). The largest part of the revenue decrease was from charges for patient services at Hurley Medical Center (\$14.4 million). Expenses for business type activities decreased by \$1.7 million from the previous year. Total operating revenues increased in the Water Fund while total operating expenses declined resulting in an increase in net assets of \$5.2 million. The Sewer Fund and the Golf Fund had decreases in net assets of \$0.9 and \$0.6 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 18.6	\$ 20.7	\$ 394.8	\$ 381.3	\$ 413.4	\$ 402.0
Operating grants and contributions	15.5	21.7	0.3	0.5	15.8	22.2
Capital grants and contributions	2.0	4.5	0.8	0.6	2.8	5.1
<b>General revenues</b>						
Income taxes	20.7	19.7	-	-	20.7	19.7
Property taxes	27.2	25.5	-	-	27.2	25.5
State shared revenues	19.8	19.5	-	-	19.8	19.5
Other	2.0	4.3	5.8	4.0	7.8	8.3
Total revenues	<u>105.8</u>	<u>115.9</u>	<u>401.7</u>	<u>386.4</u>	<u>507.5</u>	<u>502.3</u>
<b>Expenses</b>						
Legislative	0.9	1.3	-	-	0.9	1.3
Judicial	5.2	5.3	-	-	5.2	5.3
General government	17.2	19.4	-	-	17.2	19.4
Public safety	42.8	49.7	-	-	42.8	49.7
Public works	30.2	19.6	-	-	30.2	19.6
Parks and Recreation	4.0	4.5	-	-	4.0	4.5
Community development	7.1	9.7	-	-	7.1	9.7
Interest on long term debt	0.3	0.4	-	-	0.3	0.4
Hospital	-	-	346.6	343.7	346.6	343.7
Water	-	-	30.4	30.2	30.4	30.2
Sewer	-	-	19.5	20.7	19.5	20.7
Golf Course	-	-	1.1	1.4	1.1	1.4
Parking facilities	-	-	0.1	-	0.1	-
Total Expenses	<u>107.7</u>	<u>109.9</u>	<u>397.7</u>	<u>396.0</u>	<u>505.4</u>	<u>505.9</u>
Increase (decrease) in net assets before transfers	<u>(1.9)</u>	<u>6.0</u>	<u>4.0</u>	<u>(9.6)</u>	<u>2.1</u>	<u>(3.6)</u>
Transfers	0.3	-	-	-	0.3	-
Increase (decrease) in net assets	<u>(1.6)</u>	<u>6.0</u>	<u>4.0</u>	<u>(9.6)</u>	<u>2.4</u>	<u>(3.6)</u>
Net assets - beginning	<u>150.7</u>	<u>149.1</u>	<u>254.5</u>	<u>258.5</u>	<u>405.2</u>	<u>407.6</u>
Net assets - end	<u>\$ 149.1</u>	<u>\$ 155.1</u>	<u>\$ 258.5</u>	<u>\$ 248.9</u>	<u>\$ 407.6</u>	<u>\$ 404.0</u>

### 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 2006 fiscal year, the City of Flint's governmental funds reported combined ending fund balances of \$30.8 million, an increase of \$4.7 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 \$8.9 million fund balance in the general fund is 14% of 2006 total expenditures. The general fund has \$9.2 million in pooled cash and investments and an advance from the sewer fund of \$7.3 million at June 30, 2006. The unreserved portion of the general fund fund balance is \$5.2 million.

The City continued to control payroll costs issuing 1,600 W-2 forms totaling \$41.4 million during calendar year 2005 as compared to 1,669 W-2 forms for wages totaling \$40.7 million in tax year 2004 an increase of \$0.7 million (1.7%).

The remaining governmental funds have a fund balance of \$21.9 million of which \$7.3 million is unreserved. The Major and Local Street funds have \$14.2 million in fund balance. Other special revenue funds include Federal Grants, \$1.0 million, Economic Development Revolving Loan with \$0.9 million, Parks and Recreation with \$1.3 million, and Capital Improvement with \$4.0 million in fund balance. Federal or local laws restrict the spending of the money in these funds.

**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 \$71.2 million, a decrease of \$17.2 million. The decrease is primarily a result of an \$11.9 million operating loss. Hurley has labor agreements with all nine of its bargaining units. The Hurley Medical Center did not issue any bonds in 2006.

Unrestricted net assets in the Water Fund are \$11.3 million, an increase of \$5.9 million from the previous year. The Water Fund has a bond reserve account of \$2.8 million and an equipment reserve account of \$2.5 million. Water operating revenues increased by \$3.3 million while cost of water purchased remained about the same. Water operating revenues plus interest income exceeded total operating costs less depreciation by \$8.3 million. The combined debt service requirement, with interest and principal payments, were \$2.7 million during 2006, providing a debt service margin well above the 125% required by the bonds.

Unrestricted net assets of the Sewer Fund increased by \$0.7 million to \$49.0 million. Sewer operating revenues decreased by \$1.2 million from the previous year. The decrease was due in part to a change in sewer rates for biological oxygen demand and the elimination of chemical oxygen demand rates. Sewer operating costs increased by \$1.4 million, primarily in salaries and wages, utilities and supplies.

### **General Fund Budgetary Highlights**

**Original to Amended.** The difference between the general fund's original and amended budget was an increase of \$3.7 million (5%) of which \$2.5 million was from federal revenue that was not included when the original budget was prepared. Staffing additions in the Department of Community and Economic Development enabled the Department to apply for and receive additional grant funding. Of the \$2.5 million, Community Development received \$1.5 million, the Law Department received \$0.5 million, and the Transportation Department received \$0.5 million. Other revenue items where the budget was amended were Charges for Service and Local Grants. The Charges for Services budget increased (\$0.5 million) because of better efforts to bill for services. The Local Grants budget increased by \$0.5 million and came from a variety of sources in conjunction with a celebration of the City's 150<sup>th</sup> year. The increased expenses are reflected in the Mayor's budget (\$0.5 million) and in the Parks & Recreation budget (\$0.5 million).

**Amended to Actual.** The difference between the amended budget and actual expenditures was favorable, recording an excess of \$2.8 million (4%). General Fund expenditures totaled \$65.6 million, \$4.5 million below the final amended budget. General Fund revenues are \$68.9 million, \$2 million below the amended budget. Most of the difference between budget and actual is in federal grant revenue and expenditures from which only \$1.3 million was spent from the \$3.1 million budget. Lower than expected Property Taxes (\$0.8 million) and Income Taxes (\$0.6) million were offset by better than expected revenue from Charges for Services (\$1.2 million) and Interest (\$1.4 million). The various differences in expenditures are under budget (except for Union Representatives) as a result of continued cost “watching” by all departments. A reduced number of employees and hiring freezes resulted in delays in filling vacant positions. Healthcare and other benefits total \$12.4 million of which \$7.7 million is allocated to the General Fund. Total fiscal year 2006 charges for post-retirement health care are \$15.8 million, of which \$9.7 million is allocated to the General Fund. The City will implement GASB 43 and 45 in fiscal year 2007. Budget to actual for Other financing uses in the General Fund recorded a favorable \$0.6 million from the Sale of Capital Assets but an unfavorable \$0.6 million in Transfers Out. This year (2006), the General Fund transferred \$1.2 million, which is favorable when compared to the \$4.2 million (net) transferred last year. Transfers Out were made to avoid deficits in other City funds.

### 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, 2006 amounts to \$347.7 million (net of accumulated depreciation) a net increase of \$1.5 million. 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 III D.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Land	\$ 13.8	\$ 13.4	\$ 5.3	\$ 5.5	\$ 19.1	\$ 18.9
Construction in progress	-	-	21.3	22.6	21.3	22.6
Buildings and System	6.6	6.3	58.2	55.5	64.8	61.8
Improvements other than buildings	5.3	5.1	7.7	7.3	13.0	12.4
Machinery and Equipment	7.9	11.2	113.6	113.5	121.5	124.7
Infrastructure	106.5	107.3	-	-	106.5	107.3
Total	<u>\$ 140.1</u>	<u>\$ 143.3</u>	<u>\$ 206.1</u>	<u>\$ 204.4</u>	<u>\$ 346.2</u>	<u>\$ 347.7</u>

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

- The City made \$11.5 million dollars of infrastructure improvements, mostly to streets and purchased \$5.4 million in machinery and equipment in the governmental activities funds.
- The Hurley Medical Center purchased \$26.1 million in capital assets.
- Water System Capital Asset additions amounted to \$3.0 million.
- Sewer System Capital Asset additions amounted to \$2.8 million.
- Golf Course Capital Asset additions amounted to \$0.8 million.

**Debt Administration.** Debt is administered through three debt service funds. The 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 (see Table 5).

**Revenue Bonds.** 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.

**Long-term Debt.** At year-end the City had \$13.9 million in bonds and notes outstanding for governmental activities and \$111.3 million in bonds and notes outstanding for business-type activities. Total long-term debt decreased by \$1.9 million to \$134.1 million at year-end. Additional information on the City of Flint's long-term debt can be found in Note III G.

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

	Governmental		Business-type Activities		Total Primary Government	
	Activities					
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
General Obligation Bonds	\$ 9.2	\$ 6.8	\$ 3.0	\$ 1.7	\$ 12.2	\$ 8.5
Revenue Bonds and Notes	-	-	106.1	105.9	106.1	105.9
Other Notes	3.7	7.1	0.4	0.3	4.1	7.4
Capital Leases	0.2	-	5.3	3.5	5.5	3.5
Accrued Annual & Sick Pay	8.1	8.8	-	-	8.1	8.8
<b>Total</b>	<u>\$ 21.2</u>	<u>\$ 22.7</u>	<u>\$114.8</u>	<u>\$111.4</u>	<u>\$136.0</u>	<u>\$134.1</u>

**Limitations on Debt.** The City Charter 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. This Charter provision is consistent with State law that limits debt to 10% of assessed value. The City's legal debt limit is \$137.6 million. The amount of debt available to the City (unused portion of the debt limitation) is \$129.2 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. The City as of June 30, 2006 can issue up to \$20 million in additional bonds through the Michigan Municipal Bonding Authority.

**Bond Ratings.** Moody's Investors' Service rates the City of Flint's general obligation unlimited bonds at Ba1 with a stable outlook. Moody's plans to visit the City of Flint in February 2007. Existing debt service requirements for governmental activities will drop significantly due to the expiration of debt service obligations over the next two years.

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

**Economic Factors.** The City of Flint, like the State of Michigan, remains closely tied to activity in the North America automobile industry. Flint's manufacturing sector accounted for the largest share of the business receipts flowing into the City's private sector. The City of Flint is the primary source of the four door models of General Motors highest volume products, the standard size Chevrolet Silverado pick-up truck and the GMC Sierra. The Flint truck assembly plant is also the sole source for the Chevrolet Kodiak and GMC Topkick medium duty trucks. In addition, according to recent issues of the Harbour Report, prepared by the Troy based consultant Harbour and Associates, Flint's engine plants produce about 19% of the engines required by GM's North American vehicle assembly operations. Local pressed metal plants in Flint and Grand Blanc produce about 7% of the major metal stampings fabricated within GM for those cars and trucks.

North American production of all models of General Motors standard size pick-ups declined about 11% in calendar 2006 as a result of the surge in gasoline prices and lower levels of business activity in the construction industry and other select sectors. Production of pick-ups at Flint's highest profile factory, however, contracted by only about 4.6% to 165,000 units from 173,000 in 2005. Medium duty truck production, on the other hand, rose 6.2% to about 41,000 from 38,600. Local engine plant and pressed metal plant output of stampings declined in 2006 as North American production of all GM cars and trucks fell 4% to about 4.65 million units from 4.86 million units.

One of the measures of the status of the City's household sector is participation of their membership in the labor force. About 48% of City residents were in the labor force at mid-year 2006, up from about 47% in 2005. According to surveys conducted by the Michigan Department of Labor and Economic Growth, an average of 85.4% of the City's labor force held jobs during 2006 compared with 86.4% in 2005. The remaining 14.6% of the labor force during 2006 were unemployed, which is defined as persons without a job, but actively looking for work. By comparison, unemployment in the Flint metropolitan area (comprising Genesee County) averaged 9.2% in 2006, up from 7.7% in 2005.

Another measure of the household sector is its buying power. According to calculations by Claritas, Inc. reported in the 2005 ZIP Edition of Demographics USA published by Trade Dimensions International, Inc., household buying power amounted to \$2.23 billion in 2005 in the zip codes (48501 to 48507) that most closely comprise Flint's municipal boundaries. That compares with \$2.18 billion in 2004 and \$2.17 billion in 2003. That buying power, plus the buying power of Flint's suburban households, resulted in calculated retail expenditures of \$2.5 billion in those zip codes in 2005, up from \$2.43 billion in 2004 and \$2.19 billion in 2003.

The best measure of economic activity in the City's business sector is wage and salary earnings as represented by the City income taxes levied on the gross value of those earnings. According to tax receipts flowing into the Income Tax Division of the City's Treasurer's Office, Flint's overall economy continued to contract during calendar year 2005. Total income tax receipts declined to \$19.1 million in 2005, down from \$20.2 million in 2004 and \$20.7 million in 2003. The decline in 2005 from 2004 occurred primarily as a result of an 11.8% drop in earnings in manufacturing related to changes in GM's sources of supply, lower production volumes and little or no replacement of workers who were laid off, retired, or quit.

Earnings in private non-manufacturing sectors, now clearly the largest segment of Flint's labor market, posted a moderate 2.5% drop in 2006 from 2005 while earnings in the public sector fell 1.3%. Private sector investment in the City's industrial and commercial sectors was at an estimated actual value of \$1.81 billion at the close of the FY 2005-06; down from \$1.85 billion one year earlier, according to data calculated by the City's Assessment Division.

Construction activity in Flint jumped 46% to \$82.6 million in the 1,593 building permits issued by the City's Building Inspection staff during FY 2005-06, up from the \$56.5 million worth of work authorized in the 1,336 permits issued in FY 2004-05. Residential real estate activity in Flint, as tabulated by the City's Assessment Division, also surged during calendar 2005, the last year of recent housing market boom. Sales of existing homes in the City rose 54% to 2,452 units from 1,590 in 2004. The average selling price increased slightly to \$57,600.

**Budgets.** The City has again produced a timely and balanced budget for Fiscal Year 2007. The 2007 amended General Fund budget was intentionally adopted with a budget deficit of \$2.5 million. Of the \$8.9 million fund balance, \$0.8 million is reserved for contracts issued but not completed at year-end, \$0.4 million is designated for the City Jail, \$2.5 million is designated for the planned budget deficit, and \$5.2 million is available from fund balance for future appropriation in the General Fund. The City faces a number of issues that will impact the 2008 budget. State wide, reductions in State Shared Revenue and the combined effect of laws that place limitations on millage rates and taxable values, keep revenue collections well below the rate of inflation. The City of Flint also faces loss of City Income Tax Revenue from layoffs at the Flint Delphi facility, and the increase in payroll expenditure with the 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 2008.

The City Water Department has successfully processed water from the Flint River system. The City, in conjunction with the Michigan Department of Natural Resources, continues to test the new water plant. The water plant currently has the ability to produce 36 million gallons of water per month, and has storage capacity of another 56 million gallons. The water plant is capable of supplying all of the City Of Flint water demands 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.