

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, 2007. We encourage readers to consider the information presented here. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The City acquired Capital Assets totaling \$ 26.6 million in governmental activities.
- The assets of the City of Flint exceeded its liabilities at the close of the most recent fiscal year by \$395.3 million (net assets).

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 I 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.

Management’s Discussion and Analysis (Continued)

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

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
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 hospital	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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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 a legally separate Downtown Development Authority, Economic Development Corporation, Atwood Stadium Building Authority, and the Flint Area Enterprise Community, 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 and 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 35-83 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 page 84-87 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 88-127 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). Total assets of the City of Flint are \$661.3 million. Total net assets (total assets less total liabilities) are \$395.3 of which the largest portion \$264 million (66.8%), 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.

The remaining portion of the City of Flint's total net assets \$131.3 million (33.2%) represents resources of which \$29.5 million are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$101.8 million (25.8%), may be used to meet the government's ongoing obligations to citizens and creditors. Net assets are divided between governmental activities and business-type activities. Governmental activities show a \$10.1 million deficit in unrestricted net assets. The \$10.1 million deficit results from the conversion of current assets; \$12.5 million in cash and \$3.7 million in receivables and other current assets from the prior year to acquire capital assets and fund increases in public safety operating costs.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 47.6	\$ 53.8	\$ 251.9	\$ 240.3	\$ 299.5	\$ 294.1
Capital assets	143.3	158.6	204.4	199.8	347.7	358.4
Total assets	<u>190.9</u>	<u>212.4</u>	<u>456.3</u>	<u>440.1</u>	<u>647.2</u>	<u>652.5</u>
Long-term liabilities outstanding	22.8	19.9	111.3	97.6	134.1	117.5
Other liabilities	13.0	30.0	96.0	109.7	109.0	139.7
Total liabilities	<u>35.8</u>	<u>49.9</u>	<u>207.3</u>	<u>207.3</u>	<u>243.1</u>	<u>257.2</u>
Net assets:						
Invested in capital assets, net of related debt	131.6	152.1	108.5	111.8	240.1	263.9
Restricted	23.1	20.5	8.8	9.0	31.9	29.5
Unrestricted	0.4	(10.1)	131.6	112.0	132.0	101.9
Total net assets	<u>\$ 155.1</u>	<u>\$ 162.5</u>	<u>\$ 248.9</u>	<u>\$ 232.8</u>	<u>\$ 404.0</u>	<u>\$ 395.3</u>

Management's Discussion and Analysis (Continued)

Business-type activities have \$112 million of total net assets. Business type activities do not encumber at year-end and normally not appropriate net assets as part of the budget process.

Governmental Activities - Changes in Net Assets (Table 3) provide some insight into current year activities as compared to those of the prior year. Total net assets for governmental activities increased by \$7.4 million. Program revenues amount to 56.6% of governmental activities in 2007 as compared to 42.7% in 2006. Increases in revenues and expenses offset each other and are primarily due to \$13.5 million MDOT funded road projects and \$15.7 million transfer from the Sewer Fund to the Self Insurance Fund for potential claims. The \$14 million increase in total liabilities is due to the recognition of the damage claims in the Self-Insurance Fund. The \$10.1 deficit in unrestricted net assets reflects the cost (use of current assets) for the \$26.6 million in capital improvements.

Business-type Activities - Total assets decreased by \$7.4 million and total liabilities increased by \$8.8 million in business-type activities primarily due to the Sewer Fund transfer of \$15.7 million to the self-insurance fund for potential damage claims. The Hurley Medical Center has a \$17.5 million net pension obligation to the City Pension Fund (see Note 4 B).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Revenues						
Program revenues						
Charges for services	\$ 20.7	\$ 38.0	\$ 381.3	\$ 399.9	\$ 402.0	\$ 437.9
Operating grants and contributions	21.7	20.3	0.5	0.6	22.2	20.9
Capital grants and contributions	4.5	18.0	0.6	0.1	5.1	18.1
General revenues						
Income taxes	19.7	18.6	-	-	19.7	18.6
Property taxes	25.5	24.9	-	-	25.5	24.9
State shared revenues	19.5	19.0	-	-	19.5	19.0
Other	4.3	3.6	4.0	6.2	8.3	9.8
Total revenues	<u>115.9</u>	<u>142.4</u>	<u>386.4</u>	<u>406.8</u>	<u>502.3</u>	<u>549.2</u>
Expenses						
Legislative	1.3	1.1	-	-	1.3	1.1
Judicial	5.3	5.8	-	-	5.3	5.8
General government	19.4	21.3	-	-	19.4	21.3
Public safety	49.7	53.6	-	-	49.7	53.6
Public works	19.6	40.3	-	-	19.6	40.3
Parks and Recreation	4.5	5.6	-	-	4.5	5.6
Community development	9.7	6.5	-	-	9.7	6.5
Interest on long term debt	0.4	0.8	-	-	0.4	0.8
Hospital	-	-	343.7	353.6	343.7	353.6
Water	-	-	30.2	31.6	30.2	31.6
Sewer	-	-	20.7	35.8	20.7	35.8
Golf Course	-	-	1.4	1.9	1.4	1.9
Parking facilities	-	-	-	-	-	-
Total Expenses	<u>109.9</u>	<u>135.0</u>	<u>396.0</u>	<u>422.9</u>	<u>505.9</u>	<u>557.9</u>
Changes in net Assets	<u>6.0</u>	<u>7.4</u>	<u>(9.6)</u>	<u>(16.1)</u>	<u>(3.6)</u>	<u>(8.7)</u>
Net assets - beginning	149.1	155.1	258.5	\$ 248.9	407.6	404.0
Net assets - end	<u>\$ 155.1</u>	<u>\$ 162.5</u>	<u>\$ 248.9</u>	<u>\$ 232.8</u>	<u>\$ 404.0</u>	<u>\$ 395.3</u>

Analysis of Fund Financial Statements

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 2007 fiscal year, the City of Flint's governmental funds reported combined ending fund balances of \$25.2 million, a decrease of \$5.6 million from the prior year. Approximately \$7.4 million constitutes unreserved fund balance, which is available for spending.

The general fund is the chief operating fund of the City of Flint. The \$6.4 million fund balance in the general fund is 9.2% of 2007 total revenues. The general fund has \$1.6 million in pooled cash and investments. The unreserved and undesignated portion of the General Fund is \$1.2 million. The decline of the General Fund cash and fund balance from the prior year is due to the large amount of capital improvement activity in 2007 and the cost of settling all labor contracts. The City settled all union contracts by June 30, 2007 except for the Fire Union contract, which was settled October 2007. All union contracts affected expenditures in fiscal year 2007 including retroactive provisions in the Fire contract. For the most part, the budget had anticipated the over-all increases in labor costs the exception being the increases for the Fire Union contracts. However, the City had planned substantial capital improvements of which some of the cost was paid for with fund balance. The amended budget included a \$3.4 appropriation of fund balance of which \$2.5 million was actually used.

The remaining governmental funds have a fund balance of \$18.8 million, of which \$6.2 million is unreserved and undesignated. The largest fund balances among the governmental funds are the Major and Local Streets, \$10.9 million, Federal Grants, \$.8 million, and Capital Improvements, \$5.2 million. Other special revenue funds are maintained primarily to demonstrate accountability. 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.

Total net assets of the Hurley Medical Center amounted to \$79.9 million, a slight decrease of \$1.7 million. The decrease is primarily a result of an operating loss. Hurley has labor agreements with all 9 of its bargaining units. The Hurley Medical Center did not issue any bonds in 2007.

Total net assets in the Water Fund are \$37.9 million, an increase of \$2.2 million from the previous year attributable mostly to operating income. The Water Fund has a bond reserve account of \$2.8 million and an equipment reserve account of \$2.1 million. Water operating revenues increased by \$1.0 million while cost of water purchased increased by \$1.4 million. Water operating revenues, plus interest income, exceeded total operating costs, less depreciation, by \$5.1 million. The combined interest and principal payments was \$2.8 million, providing a legal debt margin well above the required 125%.

City of Flint

Management's Discussion and Analysis (Continued)

Net assets of the Sewer Fund decreased by \$15.8 million to \$111.7 million, due to a transfer of \$15.7 million to the self-insurance fund. Sewer operating revenues decreased slightly; however, sewer-operating costs (less the \$15.7 million transfer) remained about the same.

Budgetary Highlights

Original to Amended - The general fund amended expenditures budget of \$74.1 million was \$2.5 million (3.4%) greater than the original budget, which reflected the increase in wages. The amended budget anticipated an additional \$0.7 million in Federal Revenue, and the use of \$3.4 million in fund balance. Overall, the 2007 budget was similar to the 2006 budget except for a \$4.9 million increase in Public Safety.

Amended to Actual - General Fund expenditures totaled \$70.9 million, \$3.2 million below the final amended budget. General Fund revenues of \$69.2 million were \$2.3 million below the amended budget. The largest difference between budget and actual expenditures is the \$0.8 over budget amount in the Fire Department, which was a result of a retroactive settlement agreement as part of the new fire contract. Most union contracts were settled in 2007 except for the fire contract. Lower than expected Property Taxes (\$0.6 million) and Income Taxes (\$0.9) million and State Shared Revenue (\$0.8 million) accounted for the total revenues coming in \$2.3 million under budget.

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, 2007 amounts to \$358.5 million (net of accumulated depreciation), a net increase of \$10.8 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 3 D.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Land	\$ 13.4	\$ 13.4	\$ 5.5	\$ 5.5	\$ 18.9	\$ 18.9
Construction in progress	-	-	22.6	25.1	22.6	25.1
Buildings and System	6.3	6.0	55.5	54.1	61.8	60.1
Improvements other than buildings	5.1	5.9	7.3	6.8	12.4	12.7
Machinery and Equipment	11.2	12.5	113.5	108.4	124.7	120.9
Infrastructure	107.3	120.8	-	-	107.3	120.8
Total	<u>\$ 143.3</u>	<u>\$ 158.6</u>	<u>\$ 204.4</u>	<u>\$ 199.9</u>	<u>\$ 347.7</u>	<u>\$ 358.5</u>

The City governmental activities made major capital improvements during 2007:

- Bridges \$ 6.7 million
- Streets \$18.3 million
- Sidewalks/Curbs \$ 0.5 million
- Land Improvements \$ 1.6 million
- Vehicles & Equipment \$ 4.2 million

City of Flint

Management's Discussion and Analysis (Continued)

Total capital improvements, as a result of governmental activities, were \$31.2 million. Depreciation was \$15.9 million.

The City business-type activities also made capital improvements during 2007:

- Building Improvements \$ 5.0 million
- Equipment \$ 7.9 million
- Vehicles \$ 1.4 million

Total capital improvements as a result of business type activities were \$14.3 million with most of the improvements being made at Hurley Hospital. Depreciation was \$18.9 million.

Debt Administration - Debt is administered through three debt service funds and the public improvement fund. In addition, the Water Fund services debt for bonds issued for plant improvements (see Table 5).

Revenue Bonds - The City did not issue any bonds during 2007. However, the City did issue \$10 million in Revenue Sharing Bonds in fiscal year 2008 for construction of a new parking deck and repairs to the existing parking deck.

Long-term Debt - At year-end the City had \$12.3 million in bonds and notes outstanding for governmental activities and \$104.0 million in bonds and notes outstanding for business-type activities. Total long-term debt decreased by \$8.5 million to \$125.6 million at year-end. Additional information on the City of Flint's long-term debt can be found in Note 3 G.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
General Obligation Bonds	\$ 6.8	\$ 5.5	\$ 1.7	\$ 0.4	\$ 8.5	\$ 5.9
Revenue Bonds and Notes	-	-	105.9	101.8	105.9	101.8
Other Notes	7.1	6.8	0.3	0.3	7.4	7.1
Capital Leases	-	-	3.5	1.5	3.5	1.5
Accrued Annual & Sick Pay	8.8	9.3	-	-	8.8	9.3
Total	<u>\$ 22.7</u>	<u>\$ 21.6</u>	<u>\$ 111.4</u>	<u>\$ 104.0</u>	<u>\$ 134.1</u>	<u>\$ 125.6</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 \$145.0 million. The amount of debt available to the City (unused portion of the debt limitation) is \$138.0 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 last rated the City of Flint's general obligation unlimited bonds at Ba1 with a stable outlook in February 2006.

Economic Factors and Next Year's Budget and Rates

Economic Factors - With the completion and startup in 2012 of the recently announced General Motors engine plant, to be built in the former Buick City complex (replacing the present engine plant to be shutdown in 2008), this development provides a reasonable basis to speculate that Flint will probably continue to account for a significant portion of the power plants supplied for the several lines of motor vehicles assembled at GM's North American assembly plant network. 11.6% were built in Flint in the 2006 model year.

The Land Bank, operated by Genesee County, has increased property values by more than \$112 million. Grants and loans are being directed towards community work and developments, using layers of private investment loans, grants, and state tax credits.

The role that Flint's business leadership identified, at the start of the current decade, for Flint to become a major shipping and distribution destination, or intermodal hub, is also taking shape. Bishop Airport was operating at the maximum level of their shipping and receiving capacity during 2006, with most of the traffic generated by the on-site activities of the airport's FedEx facility. Steady growth over the last decade resulted in enplanement of 14.2 million pounds of cargo and 18.5 million pounds of deplaned cargo. Taking the initial steps toward making intermodal a cornerstone of the Flint economy, the airport has raised about \$30 million to pay for the first phase including: 1) a \$6 million ramp renovation; 2) \$2 million for a new entry drive into the intermodal area east of the main terminal and new speed-up/slow-down lanes on Bristol Road and intersectional traffic signals into the main terminal and intermodal center; and 3) a high-tech building with one side dedicated to truck cargo loading and unloading and the other side for plane cargo drop-off and pick-up.

Efforts to ready Flint for the future, namely, strengthening our technology base, have had positive results. The Mott College Regional Technology Center trains students to develop high tech skills that should help to retain businesses and perk up the economy. However, the current state of the automotive industry has dampened business activity in the Flint area, as well as statewide. Despite the fact that the sluggishness of the economy has suppressed the need for the services of the Regional Technology Center, it is worthy to note the Center had an enrollment of nearly 4,600 students enrolled in credit classes and about 1,200 in non-credit classes in 2007's fall semester.

The City's other major technology building block, Kettering University, offers a very fertile setting for innovation and entrepreneurship. The University is planning to set up a one-stop shopping center for entrepreneurs in Spring 2008 by constructing an incubator, building housing offices and laboratories for start-up companies.

In the City of Flint, factory operations still account for the largest share of the business receipts flowing into the City's private business sector. The principal source of revenue remains the Van Slyke Road Truck Assembly Plant, the only source of the heavy-duty four-door models of General Motors' highest volume vehicle, 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, GM's primary domestic product offering in the market for medium-duty trucks. Vehicle production reports issued by General Motors show 194,800 trucks were built during the City's July, 2006 to July, 2007 fiscal year, down from 214,500 units assembled during the 2005-06 fiscal year. Production declines of all models was a result of the surge in gasoline prices, the credit crunch and lower levels of business activity in the construction industry and other business select sectors.

Flint's engine plants built about 488,000 engines during the 2006 model year, 14.4% of all engines required by GM's North American vehicle assembly operations during that model year. In Flint, the Flint Pressed Metals Plant, GM's third highest volume stamping facility, fabricated 11.6%, or 40.2 million of all the major metal stampings needed in the body and chassis of the domestic models of cars and trucks assembled during the 2006 model production run. Overall manufacturing activity in the Flint area, as tracked by the City of Flint's Factory Activity Index, fell to a level of 63.3 in the 2006-07 fiscal year (fiscal 1999-2000=100), down from 77.5 in 2005-06 and 88.3 in 2004-05. The Index is based on the level of factory operations in 2001, which is assigned a value of 100. A reading of 63.3 on the Index means that activity is 36.7% below the 1999-2000 level.

One of the indicators of the status of the City's household sector is participation of their membership in the labor force. About 85.5% of City residents were in the labor force at the close of 2006, down slightly from about 86.2% in 2005. The remaining 14.5% of the labor force during 2006 was unemployed. By comparison, unemployment in the Flint metropolitan area (comprising Genesee County) averaged 8.3% in 2006.

Another measure of the household sector is its buying power. Household buying power is estimated to have amounted to \$2.30 billion in calendar year 2007 in the ZIP codes (48501 to 48507) that most closely comprise Flint's municipal boundaries. That compares with \$2.29 billion in 2006. That buying power, plus the purchasing power of Flint's suburban households, is estimated to have resulted in retail expenditures of \$2.43 billion in those ZIP codes during calendar year 2007, down from \$2.49 billion in 2006.

Private sector investment in the City's industrial and commercial real property sectors had an estimated true cash value of \$1.024 billion at the close of the fiscal year 2006-07, up from \$1.014 billion one year earlier, according to data calculated by the City's Assessor's Office. Investment in residential real property had an estimated true cash value of \$2.09 billion at the close of 2006-07, up from \$1.99 billion at the close of the prior fiscal year.

Construction activity in Flint dropped to work value at \$26.7 million in the 1,412 building permits issued by the City's Building Inspection Department during fiscal 2006-07, down from the \$82.6 million worth of work authorized in the 1,593 permits issued in 2005-06. Residential real estate activity in Flint, as tabulated by the City's Assessor's Office, also weakened. During fiscal year 2007, sales of existing homes in the City dropped 35% to 1,156 units from 1,765 in fiscal year 2006. The average selling price also declined to \$61,870 from \$66,364.

Budgets - The legality of whether or not the budget for fiscal year 2008 was properly adopted was disputed by City Council. An attorney employed by the City Council determined that the City did adopt a legal budget but identified issues with some of the budget amendments that have not yet been resolved to the satisfaction of City Council. The 2008 amended General Fund budget includes an appropriation of \$3.9 million from fund balance leaving a projected fund balance of \$2.5 million at June 30, 2008. Of the \$6.4 million fund balance, \$3.8 million is reserved for contracts issued but not completed at year-end, \$1.2 million is designated for the City Jail, and \$1.2 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. However the City of Detroit has announced a 15.2% increase in water rates for 2008 and the Sewer Fund was required to transfer \$15.7 million to the Self Insurance Fund to fund the possibility of judgments and or settlements on a number of lawsuits, the City of Flint will adjust water and sewer rates in 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 then 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.