CITY OF FLINT
OFFICE OF EMERGENCY MANAGER
MICHAEL K. BROWN

April 15, 2012

Andy Dillon, State Treasurer and Chair
Michigan Department of Treasury
Bureau of Local Government Services
4th Floor Treasury Building
430 West Allegan Street
Lansing, MI 48922

Dear Mr. Dillon:

I am attaching for your consideration the first quarterly report of the Emergency Manager of the City of Flint. The report details activities for the period of January 1, 2012 through March 31, 2012.

Respectfully submitted,

Michael K. Brown

Michael K. Brown
Emergency Manager

Attachments

Cc: Roger S. Fraser, Deputy Treasurer
Fred Headen, Director, Bureau of Local Government Services

CITY OF FLINT
OFFICE OF EMERGENCY MANAGER
MICHAEL K. BROWN

QUARTERLY REPORT TO THE STATE TREASURER REGARDING THE FINANCIAL CONDITION OF THE CITY OF FLINT APRIL 15, 2012

Submitted by: Michael K. Brown
Emergency Manager
City of Flint

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This Quarterly Report is issued on April 15, 2012. It covers the period from January 1, 2012 to March 31, 2012. This Quarterly Report Provides the following information:

A. Summary of Financial Condition of the City of Flint (Attachment 1)

B. Copy of the Deficit Elimination Plan submitted to Treasurer on April 6, 2012 (Attachment 2)

C. Projects in Progress:

---Update of Cash Flow Projections ($8M as of March 31, 2012)

---Update of FY 12 budget (deficit continues to grow as more issues are identified, now projected at $9M, which continues to grow). The combined deficit is approximately $18M for FY's 11 & 12

---Development of FY 13 budget

---Status of Union Contracts: Labor Counsel has been holding meet and confer sessions with the six bargaining units. Tentative Agreements have been reached with four of those bargaining units. A target of 20% wage reductions has been reached with these units. Discussions continue with the two remaining units. If a tentative agreement cannot be reached the Emergency Manager will seek approval to invoke the 19K provision in Public Act 4 from the State Treasurer.

---Fee Analysis: the Finance Director in cooperation with appropriate Department Managers continue to analyze fees and collection of fees in accordance with the increases adopted by City Council in the fall of 2011.

---City Attorney is continuing with efforts to improve litigation management.

---City officials recently settled a major lawsuit with Blue Cross/Blue Shield. The terms of that settlement are still being negotiated by legal counsel. The final result of this settlement will be shared in the next Quarterly Report.

---An evaluation of alternatives regarding reducing costs of retiree health care is in progress and will be reported as part of EVIP May 1, 2012.

D. Infrastructure/Development

---the Department Director continues to meet with the DEQ, DWSD and the Genesee Genesee County Drain Commissioner to determine the most appropriate options for the City of Flint in regard to its water supply, upgrading existing infrastructure, revenue options, as well as adjustments to current water and sewer rates.

---City of Flint continues to utilize a HUD Sustainable Communities grant to implement an updating of its Master Plan. A Chief Planner has been hired along with associate planner staff as part of the HUD grant of $1.5M over the next 3 years.

---City of Flint continues to work collaboratively with local economic development officials lead by the Genesee Regional Chamber of Commerce on Brownfield redevelopment, business retention, downtown redevelopment projects, and a 33 community collaborative in relation to the Next Michigan designation by the MEDC. GRCC and city officials are meeting regularly with the Director of the Governor's Office of Urban Initiatives, Mr. Harvey Hollins, to identify redevelopment opportunities.

---The Director continues to implement a total reorganization of the Infrastructure and Development Department. A complete organization chart is being developed and will be submitted with our report on June 1, 2012.

---Lease contracts have been executed with two non-profit organizations for the Operation of the four city golf courses. Three of those courses are now open.

---Effective April 30, 2012 the Pierce Senior Center will be closed.

E. Public Safety

---The Emergency Manager and the Chief of Police have held regular meetings with the Michigan State Police and the Governor's staff regarding public safety status in Flint. Colonel Etue (MSP) has requested the development of a comprehensive public safety plan. The plan will be submitted to Colonel Etue and the State Treasurer in April, 2012. The plan will also be attached to the June 1, 2012 report to the Governor and appropriate state officials.

---The Governor presented a major policy message on public safety in Flint on March 7, 2012. He has recommended and the Legislature has approved a $3.5M appropriation to support the re-opening of the City Lock-Up and other support for the housing of criminals in Flint and Genesee County.

---An 800 MHz Operating Agreement has been signed with the Genesee County 911 Consortium.

F. Communications with the Public

---Internal – Meetings were held with all employees in January to lay out the budget deficit status and to provide an explanation of anticipated actions. Emergency Manager Brown took questions and provided follow-up as needed.

---External – Meetings with Council were held in January and February. The Emergency Manager held public meetings in each of the 9 wards of the City. The deficit condition was reviewed and the EM took questions and comments from the attendees. Over 700 people participated in these events.

---Advisory Committees – In addition to the Advisory Committee required by P.A. 4, the Emergency Manager established five other committees which provided input on several targeted topics: Infrastructure/Development, Public Safety, Finance, Legacy Costs and Community Development. Over 50 community members were part of these committees.

Conclusion

Significant progress has been made in several areas identified in the Emergency Manager's Business and Operational Plan submitted to the State Treasurer on January 15, 2012. There are several major financial and policy challenges that are on the horizon for the next quarter. They include the Deficit Elimination Plan, the FY13 budget, the finalization of the Collective Bargaining Agreements, and the development of the Public Safety Plan for the city. In addition, the looming challenge of the unfunded pension and health care liabilities must be addressed in order to achieve long-term solvency for the city.

While we are making progress at substantially reducing expenses through the 20% reduction in wages achieved in the new Tentative Agreements with the unions, other expense side reductions must be implemented. Those expense reductions include contacting for services, collaborative agreements with other units of government and public/private partnerships to deliver services more efficiently.

In addition, the city must explore long term revenue enhancement options. Long term financial solvency cannot be achieved by reducing expenses alone. Renewed growth, financial stability and overall quality of life improvement demand innovative solutions and new ways of doing business. Our goals include the continued engagement of local elected officials, citizens and the business community in our recovery process.

ATTACHMENT 1

SUMMARY OF FINANCIAL CONDITION OF THE CITY OF FLINT

Summary of Financial Condition of the City of Flint

In the report to Governor Snyder, dated November 7, 2011, the Flint Financial Review Team summarized the findings of the Preliminary Review conducted by the Treasury Department (August 29 – September 12, 2011) and then reported the existence of, or likely occurrence of, the specific conditions set forth in Section 13(3) of Act 4 which led to the recommendation of the appointment of an Emergency Manager.

Preliminary Review Findings:

- The City has incurred cumulative deficits in many of its funds over several years. The unaudited 2011 cumulative deficit is estimated to be $25.7 million.
- The deficit elimination plan submitted to the Department of Treasury by city officials has not been followed and the general fund deficit has increased and is now estimated to be approximately $11.0 million.
- The general fund expenditures have exceeded revenues since 2007.
- The City relied upon transfers from the water supply and sewage disposal fund for general city operations.
- City officials also borrowed from other funds to compensate for cash shortages including the public improvement fund, the local street fund and the self insurance fund.
- The City continued to experience a cash shortage.
- The City's ability to pay short term obligations was uncertain.
- The pension system was less than 60 percent funded.
- City officials failed to make staff reductions in accordance with the deficit elimination plan.

Flint Financial Review Team Findings:

- The City has a general fund deficit of $14,621,546 as of June 30, 2010 which was not eliminated within the two year preceding period.
- The City previously submitted a five year deficit elimination plan for a cumulative general fund deficit of $7,046,820 as of June 30, 2008. However, by June 30, 2010 the cumulative general fund deficit had grown to $14,621,546. An updated plan submitted for 2010 does not purport to eliminate the cumulative deficit until 2030 and that relies upon the issuance of an additional $12 million of debt in 2013.
- A structural operating deficit existed in the general fund as of June 30, 2007, 2008, 2009, 2010 and the general fund is projected to have a $6,768,864 deficit as of June 30, 2011.

The Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011 was received in December 2011. The City's General Fund, which had a $14.6 million deficit at the beginning of the year, ended it with an $8.9 million deficit. The reduction in the deficit was due solely to an $8 million Fiscal Stabilization Bond issued by the city in March 2011. In total, excluding the impact of the FSB proceeds and the Genesee Towers judgment levy, expenses in the General Fund exceeded revenues.

The City's Water Supply and Sewage Disposal systems also reported losses of $6.6 million and $14.1 million respectively. Increases in water and sewer fees have been implemented since the end of the fiscal year in an effort to forestall additional losses. However, the increases do not appear sufficient to address past deficits.

The City had actuarial accrued liability for post employment benefits other than pension (OPEB) of $862 million at June 30, 2011. Currently, the City is operating on a pay-as-you-go basis. In FY11, $19.6 million was spent on premiums for health care, compared to the recommended amount of $61.4 million.

The Auditors comments continued to note concerns with cash flow and with the timeliness of certain account and bank reconciliations.

Emergency Manager's Compliance Monitoring Report
City of Flint
Quarter Ended March 31, 2012

a) **Confirm** - That revenues recorded in the most recent quarterly financial statements are fairly stated in all material respects on a modified accrual basis of accounting, except that in the case of the water and sewer fund, revenues recorded in the most recent quarterly financial statements shall be fairly stated in all material respects on a full accrual basis of accounting.

b) **Confirm** - That expenditures recorded in the most recent quarterly financial statements are fairly stated in all material respects on a modified accrual basis of accounting, except that in the case of the water and sewer fund, expenditures recorded in the most recent quarterly financial statements shall be fairly stated in all material respects on a full accrual basis of accounting. Accounts payable, vouchers payable, and accrued payrolls are to be included in the determination of expenditures.

c) **Deny** - That all appropriate inter-fund transactions have been recorded in the financial records of the City.

   All known inter-fund transactions have been reflected in our FY12 projections but not all the transactions have been recorded in the financial records, due to the reason, the actual may be different from the estimates. For example we have included the retiree healthcare cost in FY12 projections based on our best estimate but not recorded in the books; postings in General Ledger still reflects original budgeted amount

d) **Deny** - That the City is in compliance with its budget for the fiscal year on a year-to-date basis and that the budget has been amended as required by law.

   Some of the expenditure line items have exceeded the budget. And, we are regularly monitoring expenses and have proposed FY12 year end results as part of our FY13 budget preparation. However, since the General Fund and other funds have been in a deficit position, we have not taken any official action to amend the budget. The Deficit Elimination plan filed with the state envisions the use of "Fiscal Stabilization Bonds" or other appropriate instruments to eliminate the deficit for FY11 and in the future to also eliminate FY12 deficit. This course of action is predicated on constructing and implementing a credibly balanced budget for FY13, which is our primary focus at this time.

e) **Deny** - That the reconciliation of bank accounts has been completed and appropriate adjusting journal entries have been made to the general ledger of the City.

During the last year FY11 audit, the City was behind in bank reconciliation by 6 months. We have made significant progress, the goal is to get caught up in bank reconciliation by December 2012.

f) **Confirm** - That remittance of payroll taxes, pension payments, 401(k) payments, debt payments, and taxes collected for other governmental units were completed on a timely basis.

g) **Confirm** - That cash flow reported for the most recent preceding month is fairly stated in all material respects.

h) **Confirm** - That overtime is properly disclosed and recorded in the most recent quarterly financial report of the City.

i) **Confirm** - That the original of all source financial documents have been properly retained and preserved and that the City is in compliance with all other legal requirements, except to the extent specified in the report.

ATTACHMENT 2

DEFICIT ELIMINATION PLAN SUBMITTED TO TREASURER APRIL 6, 2012

April 6, 2012

Harlan Goodrich, Manager
Local Audit and Finance Division
Department of Treasury
P.O. Box 30728
Lansing, MI 48909-8228

RE: 25-2-040
City of Flint
Deficit Elimination Plan

Dear Mr. Goodrich,

This letter provides the City of Flint plan to address the deficits for the fiscal year ended June 30, 2011, as noted in your letter of January 27, 2012. Those deficits were as follows:

General Fund -	$ 8,863,134
Water Supply Division -	$12,443,265
Downtown Development Authority -	$ 778,018

As you know, the City of Flint is confronted with a financial emergency, and has been in receivership since November, 2011. My primary focus since being appointed is to see the City return to financial solvency in order that Flint can become the thriving municipality it once was.

In the City's financial condition, it is unrealistic to assume that these deficits, as well as the deficits accumulating this year, can be addressed from any existing financial sources within the City. We have been and continue to propose borrowing the necessary funds to eliminate accumulated deficits, other than deficits arising from inclusion of OPEB liabilities in our enterprise funds i.e., Water and Sewer. It is clearly not possible at this time to fund those deficits, and our approach is to reduce our liability by modifying provisions related to retiree health care.

However, this strategy will work only if we can demonstrate that in future years the City can manage its financial affairs and live within its means. Consequently, our work since being appointed in December, 2011 has been to take the steps necessary to develop and implement a spending plan for FY13 which is credibly balanced and which includes the budgetary allocation necessary to provide for the debt service associated with additional borrowing. I am pleased to report that we are making significant progress in that regards, and that I expect within the next two weeks to publicly announce a budget for FY13 which meets that criteria.

Specific to the FY11 deficits identified in your letter of January 27, 2011,we have determined that the $12.4 million deficit in the Water Supple Division Fund is accounted for entirely by the inclusion of OPEB liabilities. In lieu of funding that deficit, which we do not see as possible, we are in the process of modifying labor contracts to 1) contain the city's costs with regards to current employees, and 2) eliminate retiree healthcare as a benefit for new employees. We are engaging all of our unions on this topic, and have at least one Tentative Agreement with one union which does both.

With respect to the $778,018 deficit in the Downtown Development Authority, we have determined that the DDA's commitment to funding the debt service for the Parking Ramps is unrealistic, as declining property values have decreased their revenues, and as net revenues from parking debt operations have not realized its expectations. As a result, the City, as guarantor of the bonds, has made the necessary debt service payments, and has also recorded the nonpayment as a liability to the DDA and as a receivable to the City. Going forward, the City is working with the DDA to reduce its operational expenses in order to increase the amount they will pay for the debt service. However, the City will recognize in its budget that it will be paying a portion of debt service, and it will no longer record that amount as a liability of the DDA or as a receivable to the City.

With respect to the $8,863,134 accumulated deficit in the General Fund, we are proposing that the state authorize borrowing that amount in the form of Fiscal Stabilization Bonds or other appropriate instruments, with the City budgeting debt service from within the 2.5 mills required by City Charter to be set aside for capital improvements and/or debt service. The fund is projected have a balance of approximately $900,000 by June 30, 2012. The 2.5 mill levy and DDA payment is projected to generate $2.3 million in FY13, with projected expenses of $1.9 million. For FY14, while the levy and DDA payment may generate only $2.1 million, projected expenses will drop to approximately $1.4 million, as existing debt for equipment purchases drops off. The unallocated revenue stream to be realized in FY13, and its projected continuation into FY14 and beyond, will be sufficient for the debt service on $8.9 million. Existing fund balance and the commitment to budget any additional necessary debt service in the General Fund, will assure that the City is positioned to meet its obligations associated with this issuance. Additionally, we have confirmed with our financial consultant that sufficient unpledged revenue sharing funds exist to secure the payments if necessary.

Finally, as you are aware, we are anticipating an additional deficit in the General Fund for FY12, currently projected to be as large as the FY11 deficit. Again, we are working aggressively to implement a balanced budget for FY13, based on credible revenue and expense estimates. We will be factoring the reality of this additional deficit into our future financial planning, including the integration of additional debt service obligations.

If you have any questions, please feel free to contact me at 810-237-2027 or City Finance Director Jerry Ambrose at 517-230-9793.

Sincerely,

Michael K. Brown

Michael K. Brown, Emergency Manager
City of Flint

Capital Improvements Fund Projections

	FY11	FY12	FY13	FY14	FY15	FY16	FY17
REVENUES							
Property Tax	$ 2,822,945	$ 2,413,000	$ 1,930,400	$ 1,737,360	$1,650,492	$1,567,967	$ 1,567,967
DDA payment	$ 676,066	$ 432,200	$ 388,980	$ 369,531	$ 351,054	$ 333,502	$ 333,502
Interest							
Other							
TOTAL REVENUES	$ 3,499,011	$ 2,845,200	$ 2,319,380	$ 2,106,891	$2,001,546	$1,901,469	$ 1,901,469
EXPENSES							
FY04 Financial Recovery Bond	$ 1,458,319	$ -	$ -	$ -	$ -	$ -	$ -
Honeywell Contract	$ 58,709	$ -	$ -	$ -	$ -	$ -	$ -
FY11 Fiscal Stabilization Bond	$ -	$ 440,755	$ 600,142	$ 602,104	$ 600,192	$ 602,754	$ 604,417
Parking Deck Bond	$ 668,778	$ 726,598	$ 726,953	$ 726,163	$ 724,213	$ 726,213	$ 727,013
Notes Payable to Sewer Fund	$ 1,205,536	$ 400,000	$ 466,953	$ -	$ -	$ -	$ -
Capital Outlays	$ 714,623	$ 1,184,359	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Due from DDA Parking Deck - Write-off		$ 1,171,848					
Expenses w/o FY12 Fiscal Stabilzation Bond	**$ 4,105,965**	**$ 3,923,560**	**$ 1,894,048**	**$ 1,428,267**	**$1,424,405**	**$1,428,967**	**$ 1,431,430**
Proposed $9.0 FY12 Fiscal Stabilzation Bond Bond - Estimate	$ -	$ -	$ 495,849	$ 675,160	$ 677,367	$ 675,216	$ 678,098
TOTAL EXPENSES with FSB	$ 4,105,965	$ 3,923,560	$ 2,389,897	$ 2,103,427	$2,101,772	$2,104,183	$ 2,109,528
Net Revenues	$ (606,954)	$ (1,078,360)	$ (70,517)	$ 3,464	$ (100,226)	$ (202,714)	$ (208,059)
Beginning Fund Balance	$ 3,759,555	$ 1,980,753	$ 902,393	$ 831,876	$ 835,340	$ 735,114	$ 532,400
Ending Nonspendable Fund Balance	$ 1,171,848	$ -	$ -	$ -	$ -	$ -	$ -
Ending Unassigned Fund Balance	$ 1,980,753	$ 902,393	$ 831,876	$ 835,340	$ 735,114	$ 532,400	$ 324,342