



CITY OF FLINT
OFFICE OF THE EMERGENCY MANAGER



Gerald Ambrose
Emergency Manager

April 28, 2015

Honorable Rick Snyder
Governor of Michigan
111 South Capitol Avenue
Lansing, MI 48909

Dear Governor Snyder:

The City of Flint has been in a state of receivership since your declaration of a financial emergency in November 2011. Since that time a number of substantial changes have been implemented and I feel that the financial emergency has been sufficiently addressed. I feel it is appropriate to relinquish my position as Emergency Manager (EM) at this time.

As you are aware, I was appointed Emergency Manager on January 13, 2015, under the authority of PA 436 of 2012. I am the fourth EM to serve the City of Flint; my predecessors were Michael K. Brown (PA 4 and PA 436), Edward Kurtz (PA 72 and PA 436) and Darnell Earley (PA 436). Each EM took major steps toward rectifying the financial emergency. These steps included implementing budgetary and financial best practices, restructuring the City departmental organization, implementing new means and levels of service provision, and preparing the City for long term stability.

Addressing the Financial Emergency:

At the time of placement into state receivership, the City of Flint was a city in financial crisis, characterized by accumulated deficits in the General Fund and Water Fund, marginal cash flow, and unsustainable legacy costs. At the conclusion of FY12, the fiscal year in which an Emergency Manager was appointed, the City's General Fund deficit stood at \$19.1 million; its Water Fund had a deficit of \$8.8 million; and cash flow was \$13 million, or less than one month's expenses. Unfunded OPEB liabilities were more that \$850 million.

Addressing these issues and putting Flint back onto a path to sustain financial solvency has been difficult for taxpayers, employees, retirees, and those utilizing city services. Taxes and fees have been raised, including a voter approved six mill special levy for police and fire; a special assessment for street lighting; waste collection was changed to a fee for service from a millage rate; and increases in utility rates to among the highest in the state. Services have been reduced to marginal levels (including public

safety), as the workforce and employee compensation has shrunk by more than 20%. And, retirees have seen their cost of retiree health care increase.

As a result, much progress has been made:

- The deficits in the General Fund and Water Fund have been addressed. The Water Fund is now solvent, although not at the level indicated as adequate; and the remaining \$7 million General Fund deficit will be eliminated by June 30, 2015, with a loan authorized by the Emergency Loan Board. City wide cash flow is now more than \$67 million.
- New ordinances addressing the achievement and maintenance of financial sustainability have been enacted by the City Council, with support of the Mayor. These ordinances include the requirement for creation and maintenance of a strategic plan; requirement for creation and maintenance of a biennial budget and five year financial projections; establishment of a fund balance reserve, including establishment of a budget stabilization fund; establishment of a requirement to begin funding of OPEB liabilities; and an update of the City's purchasing ordinance.
- Long term liability costs have been reduced significantly. \$850 million in OPEB liabilities have been reduced to \$240 million, and new employees are given a contribution towards future health care costs at retirement instead of the promise of retiree health care. Current retirees now pay a significant amount towards their health care. Multipliers for remaining employees in defined benefit programs have been reduced, and new employees are enrolled in a hybrid pension plan, which has less long term liability for the City. The Flint Employees Retirement System has been dissolved, with pension administration now handled by the Municipal Employees Retirement System.
- The structure of the City organization has been changed significantly. A new City Administrator has been hired, selected on the basis of professional expertise, and with expanded control over daily activities of the City. The workforce has been reduced by more than 20%, and City operations have been reorganized into four program areas. Waste collection and demolition is no longer being done internally, 911 operations will be transferred to the County effective July 1, 2015, and the City-funded 68th District Court is expected to become part of the County- funded 67th District Court in January, 2016. The purchase of water is now planned to come from the Karegondi Water Authority instead of the Detroit Water and Sewerage Department. Collective bargaining contracts have also been revised; increasing flexibility for management and setting the stage for permanent reductions in legacy costs. Partnerships have been established to improve the level of parks maintenance. Senior Centers are now run by independent non-profit organizations, with reduced assistance from the City; and the City golf courses have been leased to private operators.
- The City has put into place a plan for long term stabilization and future development. A new Master Plan (the first since the 1960's) has been adopted, a new Capital Improvement Plan has been completed, and a new framework for a Blight Elimination Plan has been developed. A new zoning ordinance is well on its way to completion. Each of these major planning pieces significantly engaged members of the community and the final products were approved by the Flint City Council, with the support of the Mayor.

- A Blue Ribbon Committee on Governance was established by EM Earley in 2014. The committee recommended a number of Charter revisions and recommended the election of a Charter Review Committee. In November 2014 the voters in Flint approved several revisions to the current Charter and also approved establishing a Charter Review Commission, the members of which will be elected in May 2015. The Commission will consider whether to maintain the current Strong Mayor form of governance or to propose a new Council-Manager format.
- A formal assessment of the values of both Hurley Hospital and the City's utility system have been completed; and concluded that no change in ownership status would be beneficial at this time.

Continuing Challenges:

Significant work has been accomplished to resolve the conditions which put the City of Flint into State receivership. However, there also still exist several major challenges which will require continued work on the part of the City leaders:

- Retiree health care continues to be a significant concern as the City still faces a federal lawsuit over its decision to change (but not eliminate) health care for current retirees. While the City is currently operating under a judge's order which allows modification of the City's historical level of health care for retirees, a loss could have an impact of more than \$5 million annually.
- The five year revenue projections still identify a structural deficit. Annual costs for wages and fringes will continue to rise at an approximate 2.4% rate. There is not a comparable increase in projected revenue, which is closer to 1%. While it may be possible to continue the low level of services that Flint now provides for a short while, even that level will be in jeopardy without a long term sustainable new source of revenue. The low level of services that Flint currently provides is not at the level which will help the City to become an attractive place to live, work, study, and play.
- Aging water and sewer systems designed to serve twice as many customers as the number now using the systems have resulted in water and sewer rates that are among the highest in the state. This is another factor impeding the City's ability to attract and retain businesses and residents. There needs to be a concerted effort to reduce rates by as much as 50%, but that cannot even be contemplated without the commitment of financial assistance from the state and federal governments. While the decision to join with Genesee County in the creation of the KWA will result in costs for purchasing water increasing at a rate less than historically paid to the previous supplier, it will not be sufficient to lower costs.
- Continuing voter support for special millages financing public safety is a concern. In 2012 voters approved a 6 mill property tax levy for police and fire, bringing Flint's total level to within 1 mill of its maximum 20 mill limit. This millage, plus one for 2 mills approved some time ago, are expiring in 2017, and without renewal, the resulting level of public safety services, even with the current level of greatly appreciated State Police support, would be unworkable. This was recently confirmed by an evaluation of the organization and staffing for both the Police and Fire departments. The evaluations found both departments are understaffed, but the understaffing situation is significantly more acute in the Police Department, where it was noted that comparable cities have on average 100 more officers on the street than Flint does.

- Equally important to providing State support in the form of Michigan State Police has been the financial commitment by the State to fund the City's lock up at a cost of more than \$2.5 million annually – without which there would be no lock-up. Both FPD and MSP have noted that the opening of the City's 72-hour lock-up has been a key component in the reduction in crime.

Emergency Manager's Recommendation:

Section 22(1) of P.A. 436 of 2012, the Local Financial Stability and Choice Act, provides that if the Emergency Manager determines that the financial emergency has been rectified, he or she is required to inform you and the State Treasurer. Based on the examples presented above, I am prepared to say that I have determined the financial emergency in the City of Flint has been rectified. In addition, as required by Section 21(1) of the Act, a two-year budget has been implemented and all bargaining unit contracts have been settled.

Although the financial emergency has been resolved, I recommend the appointment of a Receivership Transition Advisory Board (RTAB) as allowed by Section 23 of the Act. I believe it is critical that the RTAB oversee and provide guidance to the City as they address the continuing challenges facing the City of Flint and complete transition back to full local control.

The path to sustainable financial solvency for the City of Flint will be very difficult, but doable. The new financial policies and practices, and the new organizational structure, are designed to assist City leaders in achieving this goal. Achieving the goal will allow City leaders to become a positive force in leading the City to become an attractive place to live, work, study, and play. I applaud the efforts of the Mayor and Council members who have worked actively and positively to effectuate these changes and are committed to carrying them into the future.

If, however, the new policies, practices, and organizational changes are ignored in favor of returning to the historic ways of doing business, it is not likely the City will succeed over the long term. The focus of City leaders will then likely once again return to confronting financial insolvency.

I have greatly appreciated the opportunity to have been of service to the City of Flint and to the State of Michigan.

Sincerely,



Gerald Ambrose
Emergency Manager
City of Flint

Cc: Nick A. Khouri, State Treasurer