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Long-Term Crisis and Systemic Failure: Taking the Fiscal Stress of America's Older Cities Seriously

CASE STUDY:
City of Flint, Michigan

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EXECUTIVE SUMMARY

America's older industrial cities are facing chronic fiscal and service delivery challenges. This paper uses the case of Flint, Michigan to explore what is meant by chronic fiscal stress, identify its symptoms, and to propose some solutions to address long-term solvency. The lessons learned from this case study provide insight into the structural and management challenges that confront all local government leaders. This case also offers additional perspective for policymakers charged with local government sustainability. The precarious financial position of cities in fiscal stress provides a barometer to evaluate proposed legislative actions.

The City of Flint faces severe chronic fiscal stress. The twenty year budget projection is based on curing years of accumulated deficits by issuing additional debt and provides no increase in future fund reserves. Significant governmental revenue losses are unlikely to be recovered. Expenditures, especially those related to labor costs, are at alarming levels. The City's pension system has negative cash flow. The unfunded OPEB liability, primarily owed to those who have already retired, is the second highest in the State of Michigan. Despite cost control efforts resulting in staff reductions of 50% over the past ten years, personnel costs have continued to increase. City services and infrastructure maintenance have suffered. Attracting and retaining taxpayers is dependent on providing reliable service and value for the high rate of taxes paid.

The causes leading to chronic fiscal stress are both internal and external. While the City can do some things to manage its fiscal stress, the revenue structure does not provide a means to solve the fiscal stress. Long-term problems will require long-term solutions at both the state and local level.

This case study contains eight sections. The first four sections provide demographic, financial, debt, and service level background and analysis. Section five provides an in-depth analysis of personnel costs as it is the City's single largest category of expenditures. The remaining three sections consider long term solvency, potential solutions, and a commentary on city fiscal stability.

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I. INTRODUCTION

Facing decades of depopulation, America's older industrial cities are facing chronic fiscal and service delivery challenges. The City of Flint, Michigan is presented as a case study to better understand the causes, impact, and potential solutions for these long-term conditions. The purpose of the case study is three fold. First it outlines the nature of the fiscal stress facing the City of Flint. Second it provides an analysis of the economic and public service issues facing the community. Third it addresses the applicability of potential policy solutions that may be available to address the long term fiscal and service solvency issues.

History

It is important to study the history of a city in chronic fiscal stress. By doing so, we gain a better understanding of its significance in a geographic region and the evolution of chronic fiscal stress.

The City of Flint, Michigan is located in Genesee County about 60 miles northwest of Detroit. The Flint River provided the natural resources to create successful commerce in the 1800's for fur trading, lumber, the manufacture of carriages, and eventually the production of horseless carriages that led to the birth of the automotive industry. The entrepreneurial spirit and wealth in the area contributed to the founding of the Buick Motor Company in 1903 followed by the incorporation of General Motors (GM) in 1908. With the rapid growth of the automotive industry came concerns for employee working conditions. This led to the first automotive sit-down strike in 1936-1937 in Flint. After 44 days, the strike was ended with the first union agreement with GM. This gave rise to the United Auto Workers (UAW). The continued improvements in working conditions and wages enabled Flint to become an ideal place to live and work. The increase in wealth fostered a well-respected educational system. Early automotive industry leaders such as Charles Stewart Mott and William C. Durant provided the vision to create a strong cultural environment.[i]

Flint prospered for most of the years from the 1930's into the early 1970's. Like many industrial cities, however, the economic vibrancy flowed with the dominance of the U.S. automotive industry. In 1978, over 80,000 Flint-area residents were employed by GM. By 1990 the number of employees decreased to 23,000. It was reported to be as low as 8,000 in 2006.

City Government

The City of Flint was incorporated in 1855. The present charter, adopted in 1975, provides for a strong mayor-council form of government. The City Council consists of nine members each representing a ward and serving four year terms. The Mayor is the chief executive officer who is elected to four year terms. The Mayor appoints a city administrator as well as principal officials and department heads.

The City provides a full range of services across 32.8 square miles. Those services include police and fire protection, construction and maintenance of streets and infrastructure, recreational and cultural activities, water and sewer services, and sanitation/garbage pickup services. In addition, the City of Flint is financially accountable for four other entities. This includes the City of Flint Board of Hospital Managers (manages and operates the Hurley Medical Center providing inpatient, outpatient, and emergency care); Flint Downtown Development Authority (promotes rehabilitation of the downtown area); City of Flint Economic Development Corporation (provides financing and development opportunities for businesses located in the City); and the Flint Area Enterprise Community (coordinates the federal enterprise and helps to leverage the resources for the zone).

Flint is the county seat for Genesee County. Like most counties in Michigan, the County provides court, human services, record keeping, and community enrichment for its residents. The County and its elected officials also serve as regional problem solvers.

Demographics

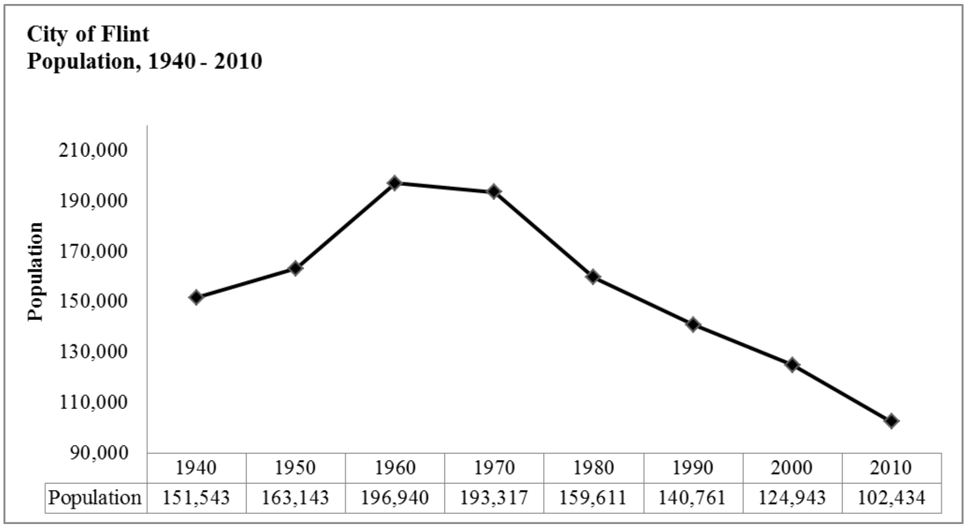
A demographic analysis of cities in fiscal stress may lead to a better understanding of how to respond to their unique long-term challenges. Here we review the demographic history of Flint in order to better understand its current situation.

Population

The U.S. Census Bureau reported the fourth decade of double digit declines in population for the City of Flint in 2010. From 2000 to 2010, the City experienced a decline of 18% in population to 102,434 (Exhibit I-1). This is closely followed by the 1970s which saw a decline in population of 17.4%. In general, this long-term population decline has been associated with restructuring in the domestic auto industry. Specifically, the reduction in employment at General Motors is one of the clear examples of that change over time.

Cities in chronic fiscal stress are believed to not only see depopulation as a result of change in industry, but are the result of decentralization within metropolitan areas. To some extent, this has occurred in Genesee County. Despite the dramatic decline in the City of Flint’s population, the Flint Metropolitan Statistical Area (MSA), defined by Genesee County boundaries, has remained relatively stable (Exhibit I-2).

Exhibit I-1 City Population

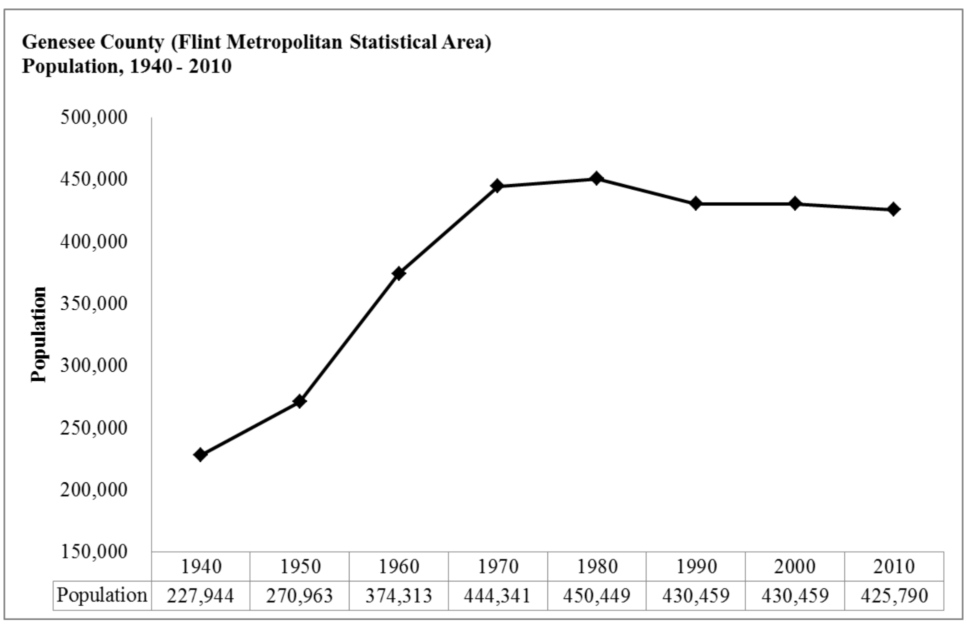


	1940	1950	1960	1970	1980	1990	2000	2010
Population	151,543	163,143	196,940	193,317	159,611	140,761	124,943	102,434

Source: U. S. Census Bureau

By comparing Exhibits I-1 and I-2, it is evident that the City of Flint represented over 50% of the Flint MSA population in 1960. In 2010, that amount decreased to 24.1%.

Exhibit I-2 Genesee County (Flint Metropolitan Statistical Area) Population



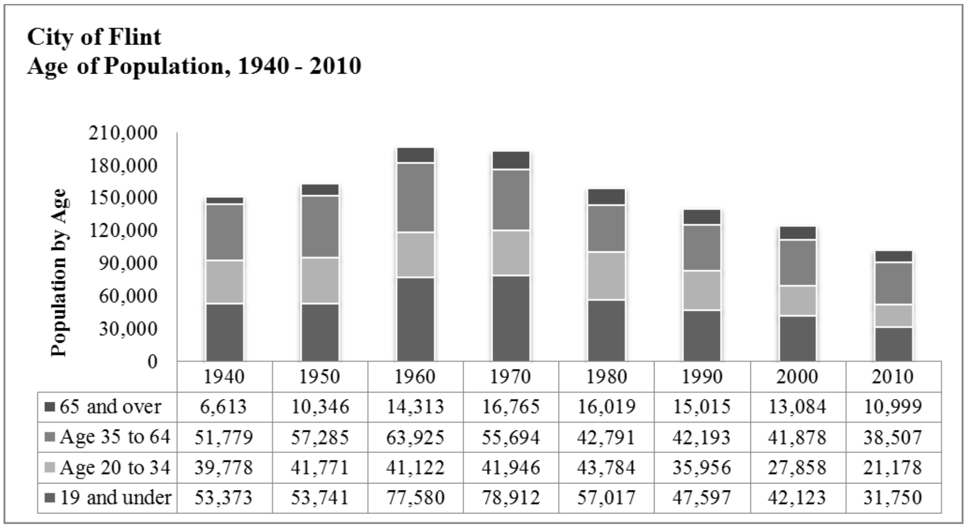
	1940	1950	1960	1970	1980	1990	2000	2010
Population	227,944	270,963	374,313	444,341	450,449	430,459	430,459	425,790

Source: U. S. Census Bureau

Population Characteristics

The age of the population is important to local leaders as it places an emphasis on allocation of resources in serving the community. The 2010 census by age group did not vary significantly from the 2000 census (Exhibit I-3). Population was analyzed among four age categories. The age groups and related population are age 19 and under at 31%, age 20 to 34 at 21%, age 35 to 64 at 38%, and 65 and over at 11%.

Exhibit I-3 Age of Population

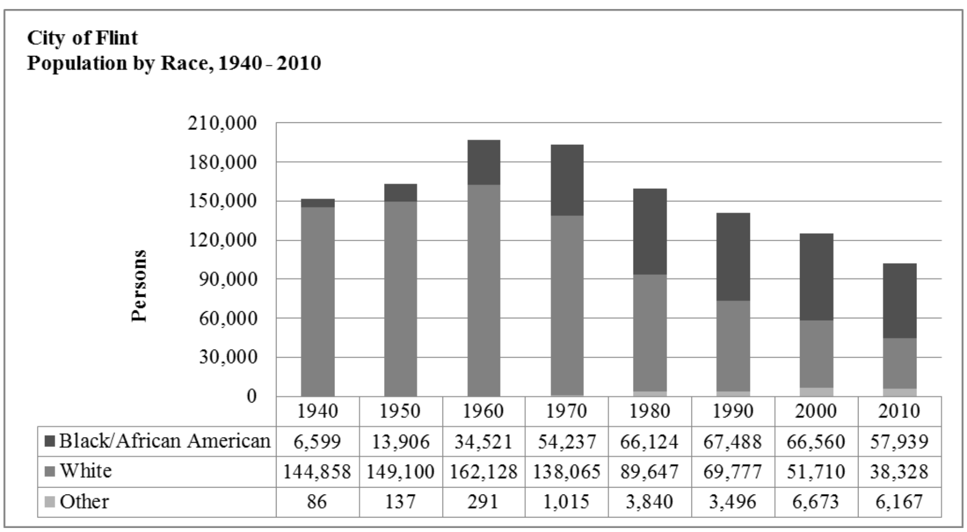


	1940	1950	1960	1970	1980	1990	2000	2010
65 and over	6,613	10,346	14,313	16,765	16,019	15,015	13,084	10,999
Age 35 to 64	51,779	57,285	63,925	55,694	42,791	42,193	41,878	38,507
Age 20 to 34	39,778	41,771	41,122	41,946	43,784	35,956	27,858	21,178
19 and under	53,373	53,741	77,580	78,912	57,017	47,597	42,123	31,750

Source: U. S. Census Bureau

The distribution of population by race is shown in Exhibit I-4. The 2010 census report counts and related change from the 2000 census are Black/African American population at 56.6% (an increase of 3.3%), White is 37.4% (a decrease of 4%), and Other is 6% (an increase of 0.7%).

Exhibit I-4 Population by Race



	1940	1950	1960	1970	1980	1990	2000	2010
Black/African American	6,599	13,906	34,521	54,237	66,124	67,488	66,560	57,939
White	144,858	149,100	162,128	138,065	89,647	69,777	51,710	38,328
Other	86	137	291	1,015	3,840	3,496	6,673	6,167

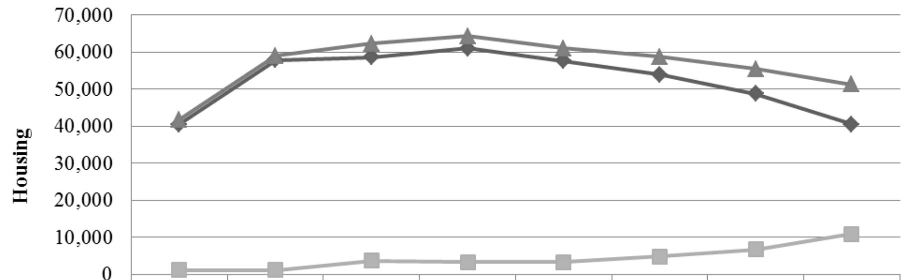
Source: U. S. Census Bureau

Housing Trends

The rate of housing abandonment in the City of Flint presents numerous long-term structural budget issues. Housing vacancy has increased from 8.2% in 1990 to 21.1% in 2010 according the U. S. Census as shown in Exhibit I-5 below.

Exhibit I-5 Housing Vacancy

City of Flint
Housing Vacancy, 1940 - 2010



	1940	1950	1960	1970	1980	1990	2000	2010
Occupied	40,567	57,882	58,592	60,984	57,648	53,894	48,744	40,472
Vacant	1,161	1,101	3,683	3,261	3,328	4,830	6,720	10,849
Total	41,728	58,983	62,275	64,245	60,976	58,724	55,464	51,321

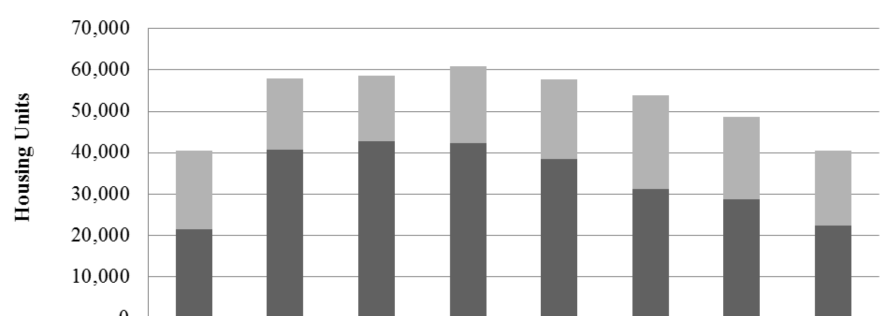
Source: U. S. Census Bureau

A study in 2006 addressed housing abandonment in Flint recognizing it as a problem that affects other older industrial cities in the United States.[ii] Aside from loss of revenue and property values, the authors cite numerous impacts on municipal budgets. These include increased municipal maintenance, police patrol, fire protection, and other costs to preserve health and human safety concerns.

Home ownership is also associated with the strength of the community's property values. According to the 2010 census, owner occupied housing in the City of Flint represents 44.7% of the occupied housing units (Exhibit I-6). Although this percentage has decreased 3.6% since the 2000 census, the long term trend is more dramatic. In 1960, the owner occupied housing represented 73.1% of occupied housing units.

Exhibit I-6 Housing Occupancy

City of Flint
Housing Occupancy, 1940 - 2010



	1940	1950	1960	1970	1980	1990	2000	2010
Renter Occupied	19,219	17,098	15,743	18,773	19,197	22,588	20,065	18,108
Owner Occupied	21,348	40,784	42,849	42,211	38,451	31,306	28,679	22,364

Source: U. S. Census Bureau

Economy

Unemployment and Income

The City of Flint's jobless rate for the 2010 annual reporting period was among the highest in the state at 23.2% (Exhibit I-7). Countywide unemployment was at 13.7%. In early 2011, the County's unemployment rate was at 10.8% ranking it 41 out of 83 counties in the State of Michigan.

Exhibit I-7 Employment Statistics

City of Flint
Employment Statistics

Annual Report	Labor Force	Unemployed Persons	City of Flint Jobless Rate	Genesee County Jobless Rate
2010	50,818	11,789	23.2%	13.7%
2000	53,009	4,293	8.1%	4.4%
1990	56,734	9,141	16.1%	9.5%

Source: Michigan Department of Technology, Management & Budget

The City of Flint's median household income in the 2010 census was $28,385 as shown in Exhibit I-8. That income level is 31.7% less than Genesee County as a whole.

Exhibit I-8 Median Household Income (in nominal dollars)

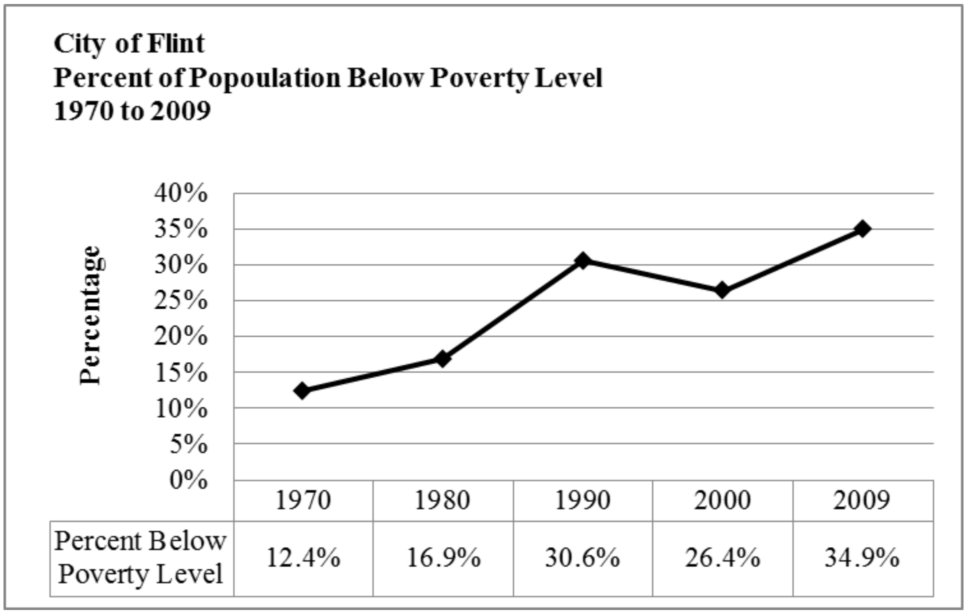
City of Flint
Median Household Income

Year	City of Flint	Genesee County
2009	$ 28,385	$ 41,586
2000	28,015	41,951
1990	20,176	31,030

Source: U. S. Census Bureau

While the current economy has further negatively impacted the City of Flint's employment and income statistics, many decades of above average poverty rates signal long term fiscal stress. As shown in Exhibit I-9, in 1990 the level of poverty was at 30.6%. The American Community Survey performed by the U.S. Census, estimated that amount to be at 34.9% in 2009.

Exhibit I-9 Poverty



Source: U. S. Census Bureau

Jobs

The industries representing the City's ten largest employers have diversified over the past decade. Most notable is the expansion of higher education (Exhibit I-10). According to the City of Flint, it is estimated that a total of 30,000 students attend Kettering University, the University of Michigan –Flint, Mott Community College, and Baker College. Despite those advances, the number of employees working in the City is roughly half of what it was ten years ago.

Exhibit I-10 Ten Largest Employers by Industry

City of Flint
Ten Largest Employers by Industry

Principal Employer Industry	**Fiscal year** 2001	2010
Automotive	28,547	18,434
Healthcare	9,517	5,811
Higher education	-	5,575
Banking	-	763
Federal, state and local government	13,482	7,439
Employees working for ten largest employers	51,546	38,022
Total employees working in City	90,412	49,500

Source: City of Flint 2010 Comprehensive Annual Financial Report

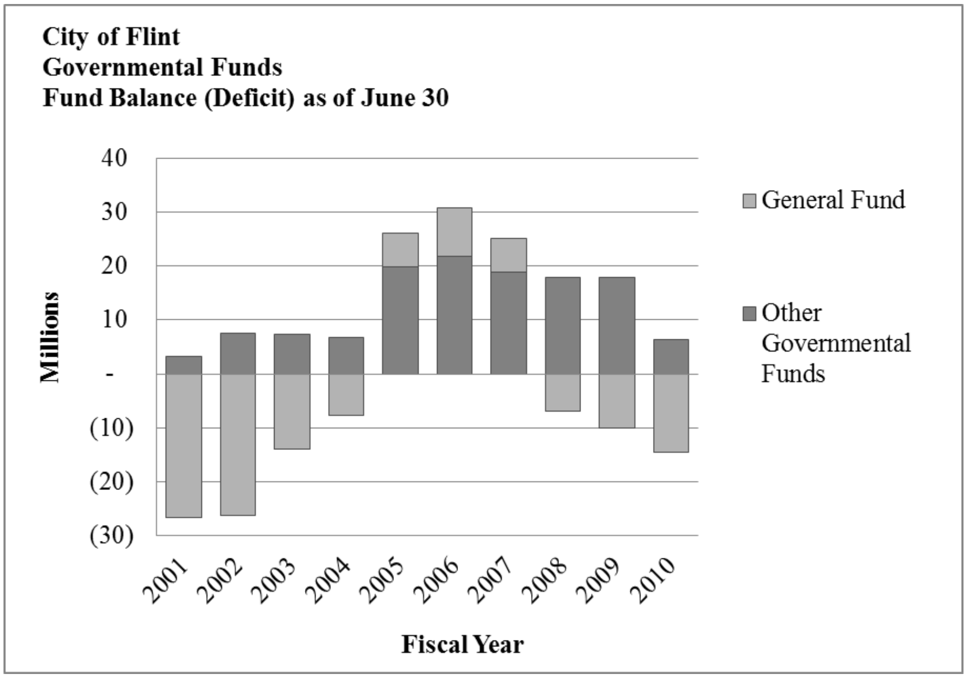
The City has concentrated efforts to encourage new development. Although most new projects include property that is either tax exempt or requires a property tax incentive, they have brought employees to the City which increases the non-resident income tax revenue. Recent redevelopment efforts have focused on marketing the 452 acre vacant "Buick City" property. The Environmental Protection Agency has committed up to $7 million for Phase I clean-up of that property.[iii] The total commitment to Buick City is approximately $30 million. Funding for the remediation is from the Revitalizing Auto Communities Environmental Response (RACER) Trust that was created through the GM bankruptcy. The soil remediation project is expected to begin in 2011.

Flint's air transportation needs are serviced by nearby Bishop International Airport. In January 2011, the Bishop Airport Board approved the bid process for a $16.8 million dollar expansion.[iv] This project would add 47,000 square feet of terminal space, add four gates and double the width of the corridor linking two sections of the airport. Road transportation needs are met by several highways.

II. CITY FINANCES

One baseline used to identify cities with chronic fiscal stress is repeated periods of governmental fund deficits. The inability to sustain a positive fund balance is symptomatic of structural budgetary constraints. The City of Flint's fund balance/accumulated deficit history is an example of a city that has recurring deficits. Temporary solutions provided some periods of short-term relief in 2005 (Exhibit II -1).

Exhibt II – 1 Governmental Funds – Ten Year History of Fund Balance (Deficit)



Source: City of Flint Comprehensive Annual Financial Reports

One of those temporary solutions was the utilization of an Emergency Financial Manager (EFM) under State of Michigan Public Act 72 of 1990 (PA 72). An EFM was appointed by the Governor in May 2002 and remained in place until January 2006. During that time period, the EFM was able to assist the City in moving from a $26.6 million General Fund deficit to a $6.1 million surplus by June 30, 2005. Within three years, that progress reversed. Subsequent labor settlements, costly litigation, and declining revenues caused the City to return to a significant deficit position. By June 30, 2008 the City closed the fiscal year with a deficit in the General Fund of $6.8 million.

The cycle of returning to a deficit position after an EFM appointment ends is not unique to the City of Flint. Drawing on the experience of Flint and other cities that have been assigned an EFM, state policy makers drafted revisions to PA 72. As a result PA 72 was repealed and replaced by PA 4 of 2011. The new law provides greater incentive and mechanisms for local governments to address budget challenges before an EFM is assigned. Ultimately, however, if cities with chronic fiscal stress are suffering from structural challenges beyond their control, improved management will only be able to cure a limited number of problems.

Also, structural deficits are not always apparent on the surface. While the City's financial statements show a positive fund balance in FY 2005, 2006, and 2007, it is important to note the line labeled "Designated for Subsequent Year Budget" in Exhibit II – 2. This demonstrates the planned erosion of the General Fund surplus for subsequent operating budgets. In some cities, there may be an explanation for a planned use of fund balance. Multiple subsequent years of depleting fund balance, however, is indicative of a structural deficit. Activity in the other governmental funds shows a similar pattern.

Exhibit II – 2 Governmental Funds – Categorized Ten Year History of Fund Balance (Deficit)

City of Flint
Governmental Funds
Fund Balance (Deficit) (in millions)
As of June 30

Fiscal Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
General Fund										
Unreserved	$ (27.7)	$ (26.6)	$ (14.1)	$ (7.9)	$ 1.6	$ 2.5	$ 3.8	$ (7.0)	$ (10.1)	$ (14.6)
Designated for										
Jail	-	-	-	-	-	-	1.2	-	-	-
Subsequent Year Budget	-	-	-	-	4.5	5.2	1.2	-	-	-
Reserved	1.1	0.4	0.1	0.1	0.0	1.2	0.1	0.2	-	-
Total General Fund	(26.6)	(26.3)	(14.0)	(7.8)	6.1	8.9	6.4	(6.9)	(10.1)	(14.6)
Other Governmental Funds										
Reserved	2.7	1.9	1.8	2.0	3.4	6.1	5.2	2.3	2.0	1.7
Designated for										
Subsequent Year Budget	0.3	-	0.7	1.2	8.5	8.5	7.5	3.6	7.2	1.9
Unreserved										
Special Revenue Funds	-	-	2.2	1.5	7.9	6.3	5.4	8.6	8.3	0.9
Debt Service Funds	-	-	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital Projects Funds	-	-	2.6	1.9	0.1	1.0	0.8	3.5	0.3	1.8
Undesignated	0.3	5.7	-	-	-	-	-	-	-	-
Total Other Funds	3.3	7.6	7.4	6.8	20.0	21.9	18.9	18.0	17.8	6.4
Total All Governmental Funds	$ (23.3)	$ (18.6)	$ (6.6)	$ (1.0)	$ 26.1	$ 30.8	$ 25.2	$ 11.1	$ 7.7	$ (8.2)

Source: City of Flint Comprehensive Annual Financial Reports

In 2011, the City is facing severe financial pressure. Projecting that it would run out of cash by March 1, 2011, the City requested authorization from the Michigan Department of Treasury to issue $20 million in 25 year financial stabilization bonds to maintain operations. Ultimately, $8 million was authorized by Treasury to provide the City with a projected level of sufficient cash flow for fiscal year 2012. The City anticipates requesting the remaining $12 million in order to eliminate remaining accumulated operating fund deficits.

General Fund

As of June 30, 2010, the City of Flint's General Fund ended the year with an accumulated deficit of $14.6 million. This is the third consecutive year (see Exhibit II - 3) of being in a deficit position. Revenues have been on a course of steady decline while expenditures, primarily personnel costs, have continued to rise.

Exhibit II – 3 General Fund Five Year Revenues, Expenditures, and Changes in Fund Balance (condensed)

City of Flint
General Fund Five Year Revenues, Expenditures, and Changes in Fund Balance (condensed)
Fiscal Year Ending June 30,

						Five Year Variation	
Fiscal year	**2006**	**2007**	**2008**	**2009**	**2010**	**$**	**%**
Revenues transfers in							
Property taxes	$ 12,540,496	$ 12,841,993	$ 12,861,659	$ 12,406,401	$ 9,474,168	$ (3,066,328)	-24%
Income taxes	19,660,536	18,717,312	16,516,416	14,277,939	13,551,247	(6,109,289)	-31%
State shared revenue	20,040,661	19,409,799	19,407,659	18,872,455	17,446,231	(2,594,430)	-13%
Other	17,386,473	18,282,334	18,073,013	21,378,289	19,762,003	2,375,530	14%
Revenues and transfers in	69,628,166	69,251,438	66,858,747	66,935,084	60,233,649	(9,394,517)	-13%
Expenditures and transfers out							
Public Safety	39,947,309	44,749,326	51,243,010	43,191,961	41,310,312	1,363,003	3%
General Government	18,744,096	19,041,256	20,665,833	17,666,680	17,602,178	(1,141,918)	-6%
Other	8,121,464	8,024,416	8,170,968	9,320,817	5,828,961	(2,292,503)	-28%
Expenditures and transfers out	66,812,869	71,814,998	80,079,811	70,179,458	64,741,451	(2,071,418)	-3%
Net change in fund balance (deficit)	$ 2,815,297	$ (2,563,560)	$ (13,221,064)	$ (3,244,374)	$ (4,507,802)		
Fund balance (deficit) - beginning	6,099,957	8,915,254	6,351,694	(6,869,370)	(10,113,744)		
Fund balance (deficit) - ending	$ 8,915,254	$ 6,351,694	$ (6,869,370)	$ (10,113,744)	$ (14,621,546)		

Source: City of Flint Comprehensive Annual Financial Reports

Revenues

The three primary sources of revenue, and their proportionate share of the General Fund, are property tax (17%), income tax (24%), and state shared revenue (31%).

Property Tax

Property tax in Michigan is assessed on real and personal property. There are two key limitations on the levy of property taxes. First, the Headlee Amendment, ratified in 1978, places limitations on the maximum authorized millage rate to control taxation when growth on existing property value is at a rate greater than inflation. Second, in 1994, Proposal A was approved which introduced the concept of "taxable value" and limitations on future increases in this value. Taxable value on property cannot increase by more than the lesser of inflation or five percent annually until a property is sold or transferred unless improvements are added. The authorized inflation rate multiplier for the 2010 was a decrease of 0.3%. The combined effect of these laws, reductions in property values due to the economy, and tax appeal settlements have resulted in a 24% decrease in property tax revenue over the past five years.

In May 2011 voters were asked to renew a 2 mill levy for providing police services. This was approved by 65% for it and 35% against it. Voters were also asked to authorize a two mill levy for providing a city jail. This was defeated by 55% against it and 45% in favor of it despite national attention on Flint's high crime rate. The City's jail facilities have been closed for the majority of the past two decades due to financial constraints. The reluctance of voters to adopt the additional millage is reflective of concerns expressed by some City Council members. An important consideration to attracting and retaining property owners is the level of taxation. Cities experiencing chronic fiscal stress often have the highest tax rates in their state. Flint is no exception when compared with Michigan's ten largest cities (Exhibit II - 4) with the fifth highest non-homestead rate. This creates further economic development pressure when recruiting and retaining businesses.

Exhibit II – 4 Millage Rates for Michigan's Ten Largest Cities

Michigan's Ten Largest Cities - Millage Rates
2009 Tax Rates (FY 2010 Budget)
(rate per 1,000 in value)

	Total Millage Rate			City Millage Only
Jurisdiction	Rank	Non-Homestead	Principal Residence	(All Properties)
Detroit	1	82.9686	65.1378	31.78
Lansing	2	62.9645	45.0383	20.90
Dearborn	3	61.0309	47.6863	17.81
Ann Arbor	4	58.7369	45.1876	18.56
Flint	5	**58.6750**	**40.6750**	**16.10**
Warren	6	53.9711	41.7525	17.41
Livonia	7	51.5729	34.0229	11.75
Clinton Township	8	49.3598	31.3598	5.25
Sterling Heights	9	47.8145	35.5959	11.69
Grand Rapids	10	47.7817	29.7817	9.10

Notes:
In general, non-homestead is the rate for commercial property.
Rank is based on rates for commercial property.
Principal residence rate applies to owner-occupied residential property.
The total millage rate includes all taxing units for that jurisdiction.

Source: Michigan Department of Treasury

When competing for residents within Genesee County, the City of Flint is further disadvantaged by a high homestead tax rate as shown in Exhibit II - 5. The ten largest local units in the County represent 72% of the population. The City of Flint homeowner will pay, on average, 28% more than County residents in the nine other largest communities. For example, if a residential property has a taxable value of $75,000, the City of Flint homeowner will pay $3,710. Compared to the second most populous community, Grand Blanc Township, that homeowner will pay $2,957 (calculated as millage rate of 39.43 mills multiplied by $75 for each $1,000 of taxable value).

Exhibit II – 5 Millage Rates within Genesee County

City of Flint
Comparison of Homestead Property Tax Rates
For Ten Largest Genesee County Communities
2009 Tax Rates (FY 2010)

Taxing Unit	Type of Unit	Population	County (Tax Rates)	Local (Tax Rates)	School (Tax Rates)	State Education (Tax Rates)	Total (Tax Rates)	Annual Bill Based on Taxable Value of $75,000
Flint	**City**	**102,434**	**7.95**	**19.76**	**15.75**	**6.00**	**49.46**	**$ 3,710**
Mount Morris	Charter Township	21,501	8.18	11.02	17.02	6.00	42.22	$ 3,167
Flint	Charter Township	31,929	8.18	7.93	19.54	6.00	41.65	$ 3,124
Burton	City	29,999	8.17	8.77	17.44	6.00	40.38	$ 3,029
Grand Blanc	Charter Township	37,508	8.18	7.64	17.61	6.00	39.43	$ 2,957
Genesee	Charter Township	21,581	8.18	7.00	16.39	6.00	37.57	$ 2,818
Mundy	Township	15,082	8.18	6.60	15.78	6.00	36.56	$ 2,742
Vienna	Charter Township	13,255	8.18	6.07	13.08	6.00	33.33	$ 2,500
Davison	Charter Township	19,575	8.18	4.28	14.74	6.00	33.20	$ 2,490
Fenton	Charter Township	15,552	8.18	3.12	14.78	6.00	32.08	$ 2,406
Population of Ten Largest Units		**308,416**				**Average Rate**	**38.59**	
As a % of County Total		**72%**					**Average Tax Bill**	**$ 2,894**

Note: Population is based on 2010 U.S. Census

Source: Michigan Department of Treasury

Income Tax

Income tax is authorized to be 1% of income for those who live within the City limits and 0.5% for non-residents who work within the City limits. As would be expected, the loss of employment has significantly impacted this revenue source resulting in a 31% decrease in income tax revenue over the previous five years.

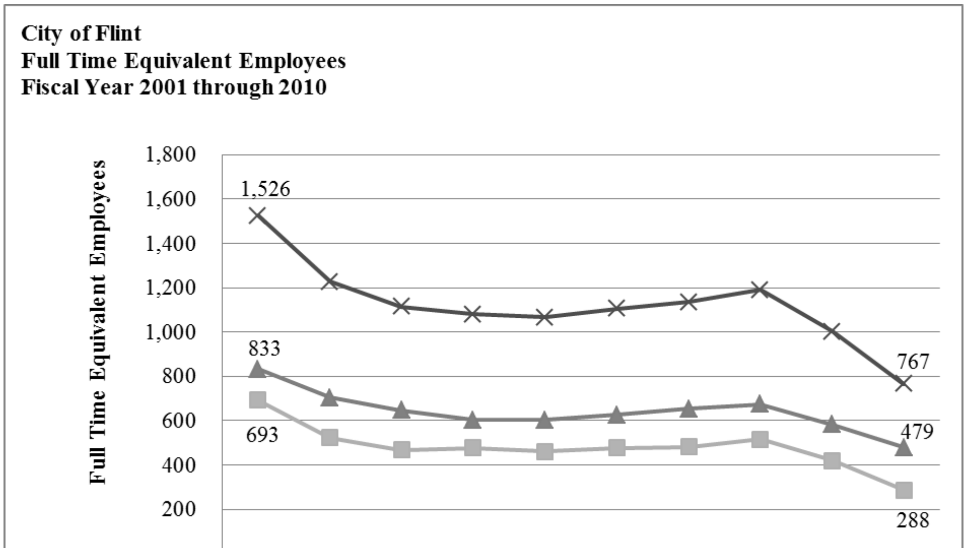
Some cities in Michigan have been allowed, pursuant to state law, to levy an income tax beyond the authorized rate. If the City could convince the state lawmakers to approve an exception for Flint, the City could then ask the voters for an income tax increase. The City Treasurer recently stated that increasing the income tax rate to 1.5 percent for city residents and 0.75 percent for non-residents would generate approximately $6.6 million per year.[v] The other cities in Michigan that have the higher levy are Detroit, Highland Park, Saginaw, and Grand Rapids. Adjusting the income tax rate, however, could also have a negative economic impact. Residents may not see value in additional taxation for the level of services received. The business climate could be hurt by viable locations in nearby communities. To date, expanding the income tax base has not been identified as a priority by the State of Michigan policymakers.

State Shared Revenue

State shared revenue is generated from a statewide sales tax. Revenue sharing to local governments consists of both constitutional and statutory payments. The constitutional portion is distributed on a population basis. The statutory portion of revenue sharing is defined by a formula. The State of Michigan has not fully funded the statutory portion in over a decade because of its own budget challenges. The result is a 13% decrease in state revenue sharing over the past five years.

Expenditures: The City of Flint has implemented numerous cost controls. Most significant is personnel reductions. As shown from Exhibit II - 6, the total workforce has been reduced by 50% over the past ten years.

Exhibit II – 6 Full Time Equivalent Employees

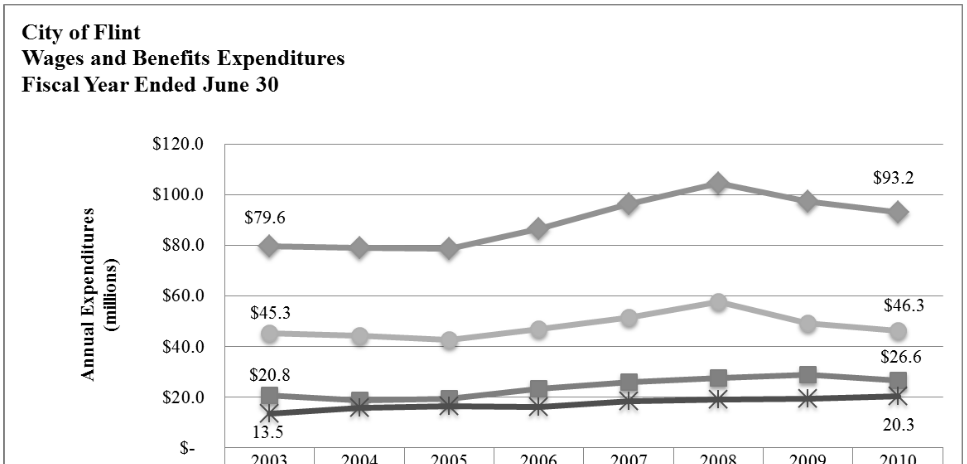


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	1,526	1,227	1,114	1,081	1,066	1,105	1,135	1,190	1,003	767
Public Safety	693	523	468	478	462	478	482	516	421	288
Other	833	704	646	603	604	627	653	674	582	479

Source: City of Flint Comprehensive Annual Financial Report

Despite significant staff reductions, the resulting decrease in personnel does not equate to an equivalent decrease in personnel expenditures. In fact, the dollar amount of wages and benefits have continued to increase. Exhibit II-7 helps to explain the magnitude of this issue. City staff provided wage, active employee benefit, and retiree healthcare premium expenditures for the time period of fiscal years 2003 through 2010 (shown in Exhibit II-6). As shown in the chart above, the number of full time equivalent employees (FTEs) decreased from 1,227 (at the *beginning* of fiscal year 2003) to 767 (at the end of fiscal year 2010). This was a decrease of 460 employees or 37.5%. During that same time period, total wages and benefits went from $79.6 million to $93.2 million for an increase of $13.6 million or 17.1%. If retiree healthcare were excluded, the increase based on what is considered active employee wages and benefits would be 10.2%. A significant portion of active employee expenditures is related to pension and healthcare costs.

Exhibit II – 7 Full Time Equivalent Employees



	2003	2004	2005	2006	2007	2008	2009	2010
Annual wages	$45.3	$44.5	$42.7	$47.1	$51.6	$57.9	$49.1	$46.3
Employee Benefits	20.8	18.8	19.5	23.2	26.2	27.6	28.9	26.6
Retiree Premiums	13.5	15.8	16.4	16.2	18.6	19.2	19.5	20.3
Total Wages and Benefits	$79.6	$79.0	$78.7	$86.5	$96.4	$104.7	$97.5	$93.2

Source: City of Flint Finance Department

Public sector employee benefit costing is complex. As demonstrated above, the percentage decrease (or increase) in personnel does not equate to a similar decrease (or increase) in overall budget. The nuances of employee costing are critical to effective decision making because there are several layers to consider. "Per employee" rates are often used for making hiring or layoff decisions. Other times per employee rates are used for allocating direct and indirect costs of a service. Caution needs to be exercised when referring to "per employee" amounts.

One consideration is whether costing includes employees who receive full benefits (such as healthcare and pension) and those who receive the minimum required by law (such as FICA, unemployment compensation, and workers compensation).

Another consideration is that some costs may be expressed as a percent of payroll when they actually contain both a fixed and variable cost component. This is true of the defined benefit pension contribution. There is a variable portion built into the rate that represents employee service rendered by the employee today (the "normal cost"). The unfunded accrued liability is often expressed as a percent of payroll. Since that liability is for services already rendered, it is in essence a fixed cost. Exhibit II -8 provides the defined benefit contribution rate used for allocating payroll costs. The net employer contribution rate for a member of the "general" employee group is 35.33 % of payroll. If the City were evaluating further reductions in personnel, the City's real cost would not decrease 35.33%. The reduction would be closer to the normal cost or 11.84 %. This is because the 26.81% represents a liability for services already rendered by that employee group as a whole.

Exhibit II – 8 Defined Benefit Contribution Rate

City of Flint
FY 2010 Defined Benefit Pension Contribution Rate

	General	Police	Fire
Normal Cost	11.84%	14.65%	11.84%
Unfunded Accrued Actuarial Liability	26.81%	19.00%	34.34%
Net Contribution Rate	38.65%	33.65%	46.18%
Less Member Financed Portion	3.78%	5.09%	3.78%
Employer Contribution Rate for Retirement Allowances	42.43%	38.74%	49.96%
Administrative Expenses	4.60%	4.60%	4.60%
Total Employer Contribution Rate	47.03%	43.34%	54.56%

Source: City of Flint 2009 Actuarial Report

Instinctively a common question arises: what is the cost per employee? The pension discussion above demonstrates the difficulty in quantifying such an amount. Similar challenges arise when allocating the cost of retiree healthcare. While a costing analysis is not in the scope of this case study, some comparative trends may be identified. Exhibit II-8 was prepared from the City of Flint's financial records. It is not a detailed costing per employee. It does, however, demonstrate the increase in costs relative to the number of employees per year. The wages include regular and temporary employees. The direct cost includes all components of the defined benefit pension system. With comparability from year to year, one gains a better understanding of wage and benefit costs.

As shown in Exhibit II - 9, in FY 2010, the direct personnel cost, on a per employee basis, is $82,355. That is an increase of 39% over seven years. Based on additional analysis, it was noted that in FY 2006 the per employee basis increased 12% and in FY 2010 it increased 16%. The increase in FY 2006 was attributed to contract settlements with multiple year retroactive pay. The primary reason for the per employee increase in FY 2010 is simply the result of a smaller employee number in the denominator. The City had a reduction of 212 employees on the payroll that year. Also in that same year, FY 2010, actual expenditures for direct costs did decrease by almost $2.2 million (from $28.8 million to $26.6 million).

Exhibit II – 9 Wages and Benefits on a Per Employee Basis

City of Flint
Wages and Benefits on a Per Employee Basis
Fiscal Year 2003 through 2010

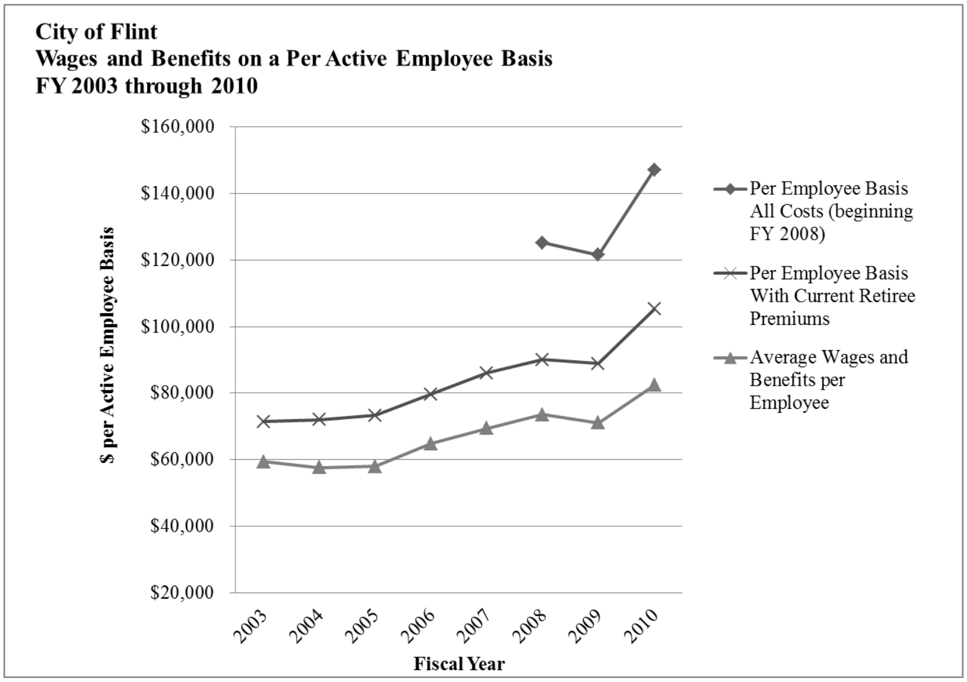
Fiscal Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Annual wages (including overtime) (1)	$ 45,340,138	$ 44,453,772	$ 42,678,205	$ 47,076,812	$ 51,645,231	$ 57,864,358	$ 49,082,561	$ 46,260,373
Direct Cost of Fringe Benefits for Active Employees (2)	20,807,833	18,762,548	19,530,396	23,214,018	26,152,485	27,593,234	28,890,322	26,615,387
Total Wages and Benefits	$ 66,147,971	$ 63,216,320	$ 62,208,601	$ 70,290,830	$ 77,797,716	$ 85,457,593	$ 77,972,884	$ 72,875,760
Average # of Employees During the Fiscal year	1,114	1,097	1,073	1,085	1,120	1,163	1,096	885
Average Wages and Benefits per Employee	**$ 59,379**	**$ 57,608**	**$ 57,966**	**$ 64,778**	**$ 69,468**	**$ 73,502**	**$ 71,117**	**$ 82,355**
Retiree Healthcare - Current premiums	$ 13,476,182	$ 15,778,442	$ 16,447,867	$ 16,159,616	$ 18,573,929	$ 19,192,440	$ 19,532,897	$ 20,325,123
Per Employee Basis With Current Retiree Premiums	**$ 71,476**	**$ 71,987**	**$ 73,292**	**$ 79,670**	**$ 86,054**	**$ 90,010**	**$ 88,933**	**$ 105,324**
OPEB ARC for Unfunded Liability (3)						$ 40,925,931	$ 35,719,695	$ 36,970,114
Per Employee Basis All Costs						**$ 125,210**	**$ 121,512**	**$ 147,102**

Notes
(1) Includes all employees,both those with full benefits and those with miniumum benefits required by law.
(2) Includes contribution for both normal cost and unfunded actuarial accrued liability for the defined benefit pension system.
Also includes other fringe benefits for active employees such as healthcare, worker compensation, FICA, unemployment, and life insurance.
(3) Represents annual required contribution (ARC) for other postemployment benefits (OPEB) (i. e. retiree healthcare). Data available as of FY 2008.

Source: City of Flint Finance Department

Using the same caution about costing employee benefits from above, the per employee basis shown in Exhibit II-9 serves to demonstrate the burden of current retiree healthcare and the other postemployment benefit (OPEB) liability. On a per employee basis, the FY 2010 rate was $105,324 with the cost of current retiree healthcare premiums. Adding in the actuarially determined annual contribution, the per employee basis increases to $147,102. While the amounts have increased from 2003, it is important to note that the per employee basis is the net of true cost increases in the numerator (for expenditures) but also a lesser number of employees in the denominator. Exhibit II – 10 depicts the wages and benefits on a per employee basis graphically. The accounting requirement to recognize the amount of the annual required contribution for OPEB was effective with FY 2008. Accordingly that data was not available for prior years.

Exhibit II – 10 Wages and Benefits on a Per Employee Basis Graph



Source: City of Flint Finance Department

The bottom line circles back to the beginning of the discussion of personnel costs associated with Exhibit II - 7. Despite reduced staffing levels, the City of Flint's expenditures have continued to increase. This is symptomatic of a structural budget deficit.

To address the budget challenges, the City administration is asking for concessions from its unions amidst layoffs. Typical of cities in chronic fiscal stress, unions are not necessarily motivated to settle concessionary contracts. In November 2010, the firefighters union rejected a proposal with 10% in concessions to avoid layoffs. If the City did layoff firefighters, however, it would have had to repay funds received for fire department staffing paid with a federal grant. As a result, in January 2011, the City demoted 20 fire officers to reduce wage expenditures while maintaining the staffing commitment under the grant requirements. Similarly, it appears that the City is moving toward arbitration with its police unions as the 10% concession request was not reached.

A promising sign for the City is that it reached a tentative agreement in January 2011 with two of its non-public safety units. The agreements, covering 450 of the City's employees, provide for cuts to compensation equivalent to 9.9 percent. The reductions in compensation were to avoid further layoffs from those units. Unfortunately those concessions will sunset at the end of the contract term placing the City in an unenviable negotiating position.

The City of Flint's OPEB liability is especially burdensome compared to its overall resources. As shown in Exhibit II - 11, the City of Flint has the second highest level of other postemployment benefits (OPEB) liability among the State of Michigan's ten largest cities. The recommended annual required contribution for fiscal year 2010 was $55 million. The actual amount contributed was $20 million which paid current retiree premium costs. To understand the magnitude of the issue, the annual OPEB cost approximates the General Fund revenue for the year ended June 30, 2010.

Exhibit II – 11 OPEB Funding Status for Michigan's Ten Largest Cities

Michigan's Ten Largest Cities
OPEB Funding Status
Sorted by Unfunded Actuarial Accrued Liability (UAAL)

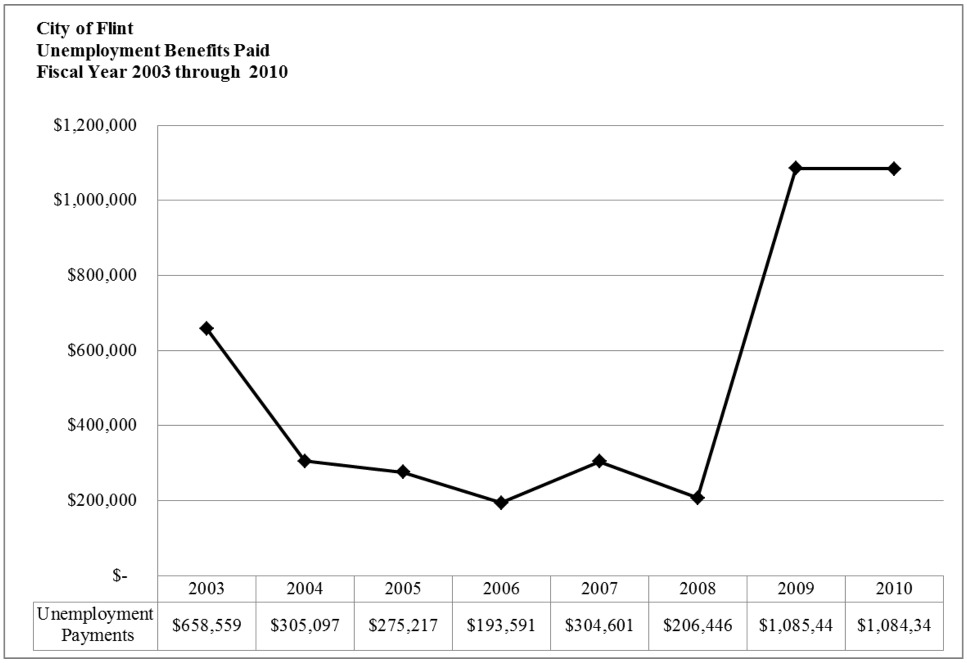
Jurisdiction	Population Rank	Population Census	Liability	Unfunded AAL	Funded Ratio
Detroit	1	713,777	$ 4,971,236,281	$ 4,971,236,281	0.0%
Flint	**7**	**102,434**	**774,606,738**	**774,606,738**	**0.0%**
Lansing	5	114,297	418,298,991	376,457,952	10.0%
Warren	3	134,056	324,801,451	295,473,638	9.0%
Grand Rapids	2	188,040	222,684,549	222,684,549	0.0%
Ann Arbor	6	113,934	243,000,000	170,000,000	30.0%
Dearborn	10	98,153	186,800,723	155,106,164	17.0%
Sterling Heights	4	129,699	160,689,774	143,360,804	10.8%
Livonia	9	96,942	122,117,000	66,756,000	45.3%
Clinton Township	8	96,796	68,564,301	53,802,891	21.5%

Sources:
Population per 2010 U.S. Census.
OPEB data from audited financial report for each entity.

As demonstrated earlier, savings from reductions in workforce may be offset by inflationary increases in fringe benefits. This is accelerated when reductions in workforce are achieved through retirements. From a personnel standpoint, retirements are a preferred approach because it is a softer landing for all involved. The reality, however, is that required funding levels for pension and OPEB costs are shifted from funding benefits for active employees to funding benefits for retirees.

There is also a budget impact, albeit shorter term, when layoffs occur. Unemployment compensation is consuming a larger portion of municipal budgets. The unemployment payments for the City have exceeded $1 million for each of the past two years as shown in Exhibit II - 12. That represents an $800,000 increase in expenditures over the previous year.

Exhibit II – 12 Unemployment Benefits Paid



Source: City of Flint Finance Department

It should be noted that the cost of the unemployment compensation was likely higher than the City anticipated. This was due to an extension of unemployment insurance benefits provided by the American Recovery and Reinvestment Act of 2009. Under that Act, the State of Michigan's Unemployment Trust Fund would be reimbursed by the federal government for costs of "contributing employers" (i.e. typically private sector employers who pay the unemployment insurance tax). Local governments, however, are "reimbursing employers" who are not taxed, but who pay for the unemployment benefits dollar for dollar when eligible employees are laid off.[vi]

Controlling personnel costs is an especially difficult issue for local government leaders. Section V of this paper will further explain those complexities as it relates to collective bargaining agreements and the emphasis of comparability in compensation across the public sector.

Litigation - Another category of expenditures that cities in chronic fiscal stress face is increased litigation. Due to actions of a previous administration, the City is facing a number of reverse discrimination lawsuits in its police department. Reportedly, a related jury award for such allegations was more than $300,000 paid to an existing employee.[vii] Other recent settlements include $625,000 in a police shooting incident,[viii] $800,000 to a man who walked into a guardrail that was sticking out over a sidewalk,[ix] a $125,000 whistleblower lawsuit,[x] and a legal judgment of $9,000,000 related to a real estate transaction.[xi]

The City does have a self-insurance fund. Due to the above settlements, however, the fund balance is zero as of June 30, 2010. The City's financial statements indicate that the City has a policy that covers certain general tort liability. The per claim limit is $1 million with a $500,000 deductible per occurrence and a $3 million dollar aggregate claim annually.

Special Revenue Funds

Other governmental funds are shown in Exhibit II - 13. These include special revenue funds (comprised of major streets fund, local streets fund, building inspection, and dedicated millage funds for neighborhood policing, garbage collection, and parks and recreation), debt service funds, and capital projects funds (including dedicated millages for capital improvements and general obligation debt).

Three of the special revenue funds are in a deficit position as of June 30, 2010: the building department ($576,000), parks and recreation ($163,000), and the garbage collection ($909,000). Since the two latter funds rely on property tax revenues, revenue declines are for the same reason as the General Fund.

Exhibit II – 13 Special Revenue Funds Condensed Statement of Revenues, Expenditures, and Changes in Fund Balance for FY 2006 through FY 2010

City of Flint
Other Governmental Revenue Fund Five Year Revenues, Expenditures, and Changes in Fund Balance (condensed
Fiscal Year Ended June 30

						Five Year Variation	
Fiscal year	**2006**	**2007**	**2008**	**2009**	**2010**	**$**	**%**
Revenues transfers in							
Property taxes	$ 12,783,556	$ 13,072,504	$ 12,899,790	$ 12,484,196	$ 9,695,572	$ (3,087,984)	-24%
Federal revenue	6,202,508	7,840,401	5,421,600	6,695,434	11,971,840	5,769,332	93%
State revenue	13,506,144	10,076,853	10,482,506	10,967,260	10,324,072	(3,182,072)	-24%
Other	12,553,001	5,580,447	23,965,869	9,648,633	5,286,935	(7,266,066)	-58%
Revenues and transfers in	45,045,209	36,570,205	52,769,765	39,795,523	37,278,419	(7,766,790)	-17%
Expenditures and transfers out							
Public Safety	4,120,210	4,528,245	5,952,839	4,070,675	3,513,397	(606,813)	-15%
General Government	19,783,440	13,483,270	13,492,884	16,101,523	25,900,363	6,116,923	31%
Transportation	13,587,045	14,699,611	16,765,047	12,960,822	13,041,676	(545,369)	-4%
Other	5,658,962	6,827,559	17,486,292	6,775,894	6,276,396	617,434	11%
Expenditures and transfers out	43,149,657	39,538,685	53,697,062	39,908,914	48,731,832	5,582,175	13%
Net change in fund balance (deficit)	1,895,552	(2,968,480)	(927,297)	(113,391)	(11,453,413)		
Fund balance - beginning	19,958,046	21,853,598	18,885,118	17,957,821	17,844,430		
Fund balance - ending	$ 21,853,598	$ 18,885,118	$ 17,957,821	$ 17,844,430	$ 6,391,017		

Source: City of Flint Comprehensive Annual Financial Reports

Expenditures for public safety are related to a dedicated millage for police services. Transportation includes major and local street expenditures including street maintenance and snow removal.

Proprietary Funds

The City's four proprietary funds include the Hurley Medical Center, water supply, sewer disposal, and golf course operations as shown in Exhibit II – 14 below.

Hurley Medical Center (Hurley) generates operating income. In addition, the Hurley's Board has continued to reinvest in technology and physical improvements to the Medical Center. In February 2011 Moody's Investors Service affirmed the Center's Ba1rating with a stable outlook. The rating agency cited several strengths. These included adequate operating results, the level of unrestricted liquidity, differentiation of essential high-end tertiary services (e.g., burn unit and Level I trauma) that draws patients from outside the County. Challenges noted were location in a demographically challenged city that leads to weak payor mix with Medicaid representing 38% of gross patient revenues in FY 2010, reliance on state funding, being in a competitive service area, underfunded defined benefit pension plan at June 30, 2010 of 72%, and a heavily unionized workforce represented by nine different unions.[xii]

The remaining three enterprise funds have incurred operating losses. For the fiscal year ended June 30, 2010, the decrease in net assets was $8.4 million for water; $16.3 million for sewer; and, $950,000 for the golf course. Those losses left the sewer fund with no cash at year end, the golf course fund with $2,500, and the water fund with cash equal to three months of operating expenses. In January 2011, the City Administration authorized rate increases of 25% for water and 22% for sewer to address the operating losses.

Exhibit II – 14 Proprietary Funds Condensed Statement of Revenues, Expenditures, and Changes in Fund Balance for FY 2006 through FY 2010

City of Flint
Proprietary Funds Revenues, Expenditures, and Changes in Net Assets
Fiscal Year Ended June 30

	2006	2007	2008	2009	2010	Five Year Variation $	Five Year Variation %
Revenues and transfers in							
Hurley Medical Center	$ 330,941,470	$ 352,846,297	$ 339,785,283	$ 357,654,049	$ 363,075,881	$ 32,134,411	9.7%
Water Supply Division	35,390,862	33,830,616	34,710,752	34,463,278	32,151,494	(3,239,368)	-9.2%
Sewage Disposal Division	19,813,381	20,026,240	19,664,030	19,025,185	16,668,836	(3,144,545)	-15.9%
Golf Course	1,035,958	1,030,999	891,241	3,479,300	590,321	(445,637)	-43.0%
Total revenues	387,181,671	407,734,152	395,051,306	414,621,812	412,486,532	25,304,861	6.5%
Expenses and transfers out							
Hurley Medical Center	344,207,582	354,583,105	335,945,223	351,483,641	358,734,781	14,527,199	4.2%
Water Supply Division	30,225,762	31,646,118	34,030,253	39,762,444	40,517,487	10,291,725	34.0%
Sewage Disposal Division	20,708,029	35,796,882	26,563,078	27,965,770	32,996,245	12,288,216	59.3%
Golf Course	1,606,691	1,861,847	2,203,914	1,750,932	1,539,987	(66,704)	-4.2%
Total expenses	396,748,064	423,887,952	398,742,468	420,962,787	433,788,500	37,040,436	9.3%
Change in net assets	(9,566,393)	(16,153,800)	(3,691,162)	(6,340,975)	(21,301,968)		
Net assets - beginning	258,501,719	248,935,326	232,781,526	229,090,364	222,749,389		
Net assets - ending	$ 248,935,326	$ 232,781,526	$ 229,090,364	$ 222,749,389	$ 201,447,421		

Source: City of Flint Comprehensive Annual Financial Reports

Other Funds

The City utilizes internal service funds for data processing, central maintenance garage, self-insurance, and certain fringe benefits including workers compensation and unemployment claims. While internal service funds should be self-sustaining, that is not always the case. If they are not self-sustaining, then an additional burden is placed on other funds. For example, the "transfers in" for each of the fiscal years shown in Exhibit II - 15 are due to additional funding needs for the central maintenance garage operations. Over the five year time period shown, on average, the additional transfer was 28% of operating costs. This indicates that rates charged to internal services users may not be sufficient.

Exhibit II – 15 Internal Service Funds Condensed Statement of Revenues, Expenditures, and Changes in Fund Balance for FY 2006 through FY 2010

City of Flint
Internal Service Funds Five Year Revenues, Expenditures, and Changes in Fund Balance (condensed)
Fiscal Year Ended June 30

						Five Year Variation	
Fiscal year	**2006**	**2007**	**2008**	**2009**	**2010**	**$**	**%**
Revenues and Transfers In							
Charges for services	$ 32,159,006	$ 47,724,132	$ 41,269,023	$ 39,817,140	$ 35,715,255	$ 3,556,249	11%
Transfers In	-	1,039,312	2,147,029	1,546,205	1,789,061	$ 1,789,061	100%
Investment Income	133,744	280,958	176,516	97,694	110,490	(23,254)	-17%
Revenues and transfers in	32,292,750	49,044,402	43,592,568	41,461,039	37,614,806	5,322,056	16%
Expenditures							
Data Processing	2,103,953	2,148,558	2,359,582	2,867,694	2,032,284	(71,669)	-3%
Central Maintenace Garage	4,012,780	5,178,960	6,439,129	6,019,689	5,370,145	1,357,365	34%
Self Insurance	2,769,617	17,714,801	5,180,154	3,173,152	2,027,959	(741,658)	-27%
Fringe Benefits	23,405,778	24,576,950	29,157,002	29,874,258	27,592,073	4,186,295	18%
Expenditures and transfers out	32,292,128	49,619,269	43,135,867	41,934,793	37,022,461	4,730,333	15%
Net change in fund balance (deficit)	622	(574,867)	456,701	(473,754)	592,345		
Fund balance - beginning	2,855,606	2,856,228	2,281,361	2,738,062	2,264,308		
Fund balance - ending	$ 2,856,228	$ 2,281,361	$ 2,738,062	$ 2,264,308	$ 2,856,653		

Source: City of Flint Comprehensive Annual Financial Reports

III. DEBT

The City's last bond rating was performed by Moody's Investor Service in February 2006. At that time they assigned the City a rating of Ba1 with a stable outlook based on the positive General Fund balance at that time. Based on the current financial condition, a rating at this time is likely to be unfavorable.

Below is an excerpt from the City's fiscal year 2010 financial statement regarding its debt limitation.

> *" … the City Charter limits "net" debt to 7 percent of the assessed value of all real and personal property in the City, but does not define "net" debt. The following computation is based on previous practice and is consistent with the requirements of State of Michigan Public Act 279 of 1909."*

Calculation of Debt Limitation		
Assessed valuation at May 26, 2009		$ 1,505,610,437
Legal debt limit (7% of assessed valuation)		$ 105,392,731
Total bonded debt at June 30, 2010	$ 133,996,259	
Less debt not subject to limitation under City Charter and State Statute:		
Revenue bonds and notes	122,651,259	
Debt subject to limitation		11,345,000
Unused debt limitation		$ 94,047,731

Of the City's outstanding debt at June 30, 2010, 17% is attributable to governmental activities while the remaining 83% is borne by the proprietary funds. The latter is mostly attributable to the medical center facility improvement of expansion bonds over a 12 year time period.

Many cities with chronic fiscal stress have a significantly large debt burden. For the City of Flint, that has not necessarily been the case. The underlying cause is that it has not had the capacity to issue debt or manage a long-term capital improvement program. In FY 2011, the City made its final payment on an $8 million financial recovery bond issued in 2004 when the City was operating under the authority of a State appointed EFM. As noted earlier, the current level of fiscal stress has caused the City to seek fiscal stabilization bonds funded over 25 years. These funds are needed to address the chronic cash shortage and unfunded prior operating expenditures. Recurring cash shortages and the need to finance prior years' operations are often considered additional red flags indicating chronic fiscal stress.

Another symptom of chronic fiscal stress may be increased reliance on internal borrowing. When the City has difficulty obtaining external financing at a reasonable rate, cash from internal funds becomes a default source of borrowing. Exhibit III-1 summarizes "due to" and "due from" activity as of June 30th for fiscal years 2006 through 2010. The nature of this type of activity is generally related to operating transactions among funds. Most governments clear out the interfund balances at year end. For the City of Flint, the nature of this remaining balance is to cure cash shortages at the close of the fiscal year. A concern arises when these balances are significant in dollar amount and present for more than one year. The City of Flint's General Fund has relied on interfund resources for four out of the five fiscal years. The balance of approximately $18 million at June 30, 2010 equates to 30% of General Fund revenues for the fiscal year ended June 30, 2010.

Advances among funds are often formalized in a written note with specific payment terms including an interest rate. The City of Flint has utilized advances to fund capital equipment purchases in its internal services funds. While this may be a financially prudent approach in some situations, excessive reliance on interfund borrowings may restrict the lending fund's financial flexibility and use of resources for the designated purpose.

Exhibit III – 1 Interfund Borrowing for FY 2006 through FY 2010

City of Flint
Interfund Borrowing
Fiscal Year Ended June 30,

Due to/from Other Funds					
Fiscal year	**2006**	**2007**	**2008**	**2009**	**2010**
Due to:					
Sewer Disposal Division Fund	**$ 10,371,382**	**$ 3,677,506**	**$ 20,161,971**	**$ 20,076,951**	**$ 15,532,804**
Self Insurance Fund	-	15,700,000	16,505,386	11,533,250	-
Others	9,344	-	-	263,503	7,849,233
	$ 10,380,726	$ 19,377,506	$ 36,667,357	$ 31,873,704	$ 23,382,037
Due from:					
General Fund	**$ 7,279,154**	**$ -**	**$ 14,653,786**	**$ 17,169,931**	**$ 18,002,907**
Special Revenue Funds	1,987,245	1,977,579	2,915,148	2,470,945	3,024,856
Internal Service Funds	495,116	973,629	216,290	66,535	115,959
Pension Trust Funds	609,867	309,265	1,125,312	-	-
Enterprise Fund	-	413,729	1,251,435	369,540	1,387,115
Fiduciary	-	3,304	-	-	-
Sewer Disposal Division Fund	-	15,700,000	16,505,386	11,533,250	851,200
Others	9,344	-	-	263,503	-
	$ 10,380,726	$ 19,377,506	$ 36,667,357	$ 31,873,704	$ 23,382,037

Advances to/from Other Funds					
Fiscal year	**2006**	**2007**	**2008**	**2009**	**2010**
Advance from:					
Sewer Disposal Division Fund	**$ 5,251,361**	**$ 6,094,131**	**$ 4,940,753**	**$ 9,266,399**	**$ 2,426,749**
	$ 5,251,361	$ 6,094,131	$ 4,940,753	$ 9,266,399	$ 2,426,749
Advance to:					
Internal Service Funds	**$ 4,539,404**	**$ 5,524,565**	**$ 4,513,579**	**$ 7,279,154**	**$ 2,426,749**
Enterprise Fund	711,957	569,566	427,174	1,987,245	-
	$ 5,251,361	$ 6,094,131	$ 4,940,753	$ 9,266,399	$ 2,426,749

Source: City of Flint Comprehensive Annual Financial Reports

IV. SERVICES

The turbulence in leadership over many years has severely impacted the City's attention to providing services. Decades of reactionary management of budgetary challenges has derailed efforts to develop a long-term vision for the City. An example of this lapse was the discovery in 2009 that the City's comprehensive Master Plan had not been updated since 1960.[xiii]

City staff, as the front line service providers, has been confused by the lack of leadership as well. The instability of previous administrations and the placement of the EFM present the need for the current administration to establish a sense of consistency. Adding to that confusion, turnover in key managerial positions presents newcomers with additional challenges. Not only do they need to expeditiously learn the City's systems, but they also are managing in a cutback mode. The demand of daily crises has not allowed for effective reorganization, restructuring, or exploration of intergovernmental collaboration.

Aside from Hurley Medical Center, the City does not have a capital improvement plan program. Understandably, it may seem futile to plan when there is no funding. Considering the age of the infrastructure, this is a significant concern.

Services Provided

The City provides its own police, fire, and public works services. City personnel also provide garbage, compost, and recycling collection paid for through property taxes.

Methods of Service Delivery

Genesee County consists of eleven cities and seventeen townships. As shown in Exhibit IV-1, over half of the county's population is dispersed in townships that cover 87% of the land area. The remaining cities are relatively small. The result is that the City of Flint's municipal service needs do not readily translate into opportunities for consolidation of services with neighboring local governments. In addition, Township levels of services and legacy costs are often lower. This makes any potential partner hesitant.

Exhibit IV – 1 Genesee County Characteristics

Genesee County, MI (Square Miles, Population, and SEV)

Jurisdiction Type	Square Miles		2010 Population		State Equalized Value (2010)	
City of Flint	34.06	5%	102,434	24%	$ 1,393,042,600	13%
Other Cities (10)	49.97	8%	80,721	19%	2,143,527,982	20%
Townships (17)	565.31	87%	242,635	57%	7,262,341,703	67%
Total	649.34	100%	425,790	100%	$ 10,798,912,285	100%

Source: U.S. Census and Michigan Department of Treasury

Genesee County has provided support to Flint is several ways. Most notably is through the establishment of a county land bank. Through this process, the County Treasurer is able to acquire property subject to tax foreclosure. Proceeds from the interest penalties, sale, and/or rental of properties in the land bank may be used to level abandoned homes meeting certain criteria. In 2010, approximately one-third of the parcels in Flint, including 6,000 homes, were abandoned. Approximately ten percent of the tax parcels in Flint are now owned by the land bank.

Alternative Methods of Service Delivery

The Citizens Research Council of Michigan (CRC) recognized the pressure that local officials faced in controlling the cost of providing service. To facilitate the search for alternative methods of service delivery, the CRC distributed a survey to every county, city, township, and village in the State of Michigan. The survey sought responses to a list of 116 possible services within 26 categories.[xiv] Respondents were asked to identify whether they a) do not provide the service, b) directly provide the service, c) provide the service to or with another public entity, or d) have the service provided by another entity (public or private). The survey responses, compiled in 2005, are publicly available and have served as a springboard to foster service delivery discussions throughout the State.

The City of Flint participated in the survey. Consistent with observations of the City's operations, most services are provided directly by the City. As shown in Exhibit IV - 2, 60% of the services are provided by the City, 27% of those services listed are not provided, and the remaining 13% are provided jointly or by another public entity.

Exhibit IV – 2 City's Response to Service Delivery Survey

City of Flint
Catalog of Local Government Services
Responses to Subcategories (1)
Completed in 2005

Response	Number of Subcategory Answers	Percent
Directly provides	71	60%
Does not provide	32	27%
Service provided by a private provider	7	6%
Service provided by the County	4	3%
Provides jointly with the County	3	3%
Service provided by the State	2	2%
Total (2)	119	100%

Notes
(1) Compiled from the City of Flint's response to the 2005 Catalog of Local Government Services Survey.
(2) Answers are more than the surveys list of 116 services due to multiple responses in one category.

Source: Citizens Research Council of Michigan

To gain an understanding of the potential opportunities, the City of Flint's response to the 26 general service categories is shown in Exhibit IV - 3.

Exhibit IV – 3 City's Response to Service Delivery Survey by Category

City of Flint
Responses to Catalog of Local Government Services Survey
List of Services
Completed in 2005

Service Category	City of Flint Response
1) Document Services	Directly provides
2) Human Resources	Directly provides
3) Fiscal Services	Directly provides
4) Information Technology	Directly provides
5) Elections	Directly provides
6) Buildings and Grounds	Directly provides
7) Fleet Services	Directly provides
8) Refuse Collection	Directly provides solid waster collection. Recycling and landfill/resource recovery is provided by a private provider.
9) Building Regulation	Directly provides
10) Police	Directly provides
11) Corrections	Provided by the County
12) Animal Services	Provided by the State
13) Fire	Directly provides
14) Community and Economic Development	Directly provides
15) Legal/Judicial Services	Directly provides
16) Roads and Bridges	Directly provides
17) Sidewalk and Curb	Directly provides
18) Utilities	Directly provides
19) Parking Services	Directly provides
20) Internet Services	Does not provide
21) Transit Services	Does not provide
22) Airport	Provided by the County
23) Environmental Services	Provides only water quality
24) Health Services	Directly provides
25) Parks and Recreation	Directly provides
26) Cultural Services	Does not provide

Note: Compiled from the City of Flint's response to the 2005 to the Citizens Research Council of Michigan's Catalog of Local Government Services Survey.

Source: Citizens Research Council of Michigan

From the CRC's analysis of the survey responses received throughout the State of Michigan, the following categories were found to be the most frequently indicated as cooperative ventures.

Fire Fighting/Rescue	Library	Water and Sewer
Ambulance/EMS	Public Transit	911/Radio Communications
Water Metering and Billing	Senior Center	Watershed Management
Property Assessing	Building Inspection	Parks
Recycling	Emergency & Disaster Response Planning	

The perception is that the City of Flint’s opportunities for cooperative partnerships is low. Still, Genesee County offices are within the City of Flint which may lead to some economies of scale in administrative functions. In addition, numerous communities in Genesee County are beginning to explore partnerships as a way to address their own budget shortfalls. The question is whether any of the entities have the administrative capacity to explore alternative service delivery options.

V. PERSONNEL COSTS

Cities are service providers. As a result, the majority of operating expenditures are related to personnel costs. Like many cities in chronic fiscal stress, the City of Flint has reduced its workforce to a level that was previously inconceivable. Facing continued revenue losses, are there remaining ways to further reduce personnel costs? Knowing that labor costs are committed through the collective bargaining process, it is helpful to examine the collective bargaining environment and its impact on personnel costs.

This section begins by providing an introduction to public sector labor negotiations in Michigan. Four key topics subject to collective bargaining will be presented along with a brief discussion of ways that employers introduce cost controls. The four topics are wages, healthcare for active employees, other postemployment benefits (retiree healthcare), and pension. Finally, this section will end with a benchmarking discussion to learn from the experience of other cities in their efforts to control personnel costs.

Labor Contracts

The City has five bargaining unions (excluding Hurley Medical Center employees). A driver of bargaining strategy in Michigan is Public Act 312 of 1969 which provides for compulsory arbitration of labor disputes in municipal police and fire departments. This means that, in Michigan, when negotiations and mediation fail to result in a contract between the City and the union, either side may file for arbitration. The arbitrator presides over a hearing and takes testimony. During this process economic issues in dispute are identified. After the hearing, each side presents its last best offer on each economic issue. The arbitrator adopts a last offer of settlement and issues a written opinion. The arbitrator's decision is final and binding upon both parties.

Based on the State statute (MCL 423.239), the arbitrator's findings are based on four key factors.

1. Lawful authority of the employer.
2. Stipulations reached between the parties.
3. Interests and welfare of the public and the financial ability of the unit of government to meet those costs of the issues being arbitrated.
4. Comparison of the wages, hours and conditions of employment of the employees involved in the arbitration with employees performing similar services in comparable communities. Inherent in that comparison is the cost of living, the overall level of compensation received by the employees (including direct wage compensation, vacations, holidays and other excused time, insurance and pensions, medical and hospitalization benefits, the continuity and stability of employment, and all other benefits received).

It should be noted that local government reform efforts in the State of Michigan in 2011 have resulted in several statutes being amended. Effective July 2011, public safety arbitrations will immediately be impacted by Public Act 116 of 2011. It is believed that this will provide relief in controlling personnel costs by expanding the factors that an arbitrator may consider. In addition to the list above, the arbitrator may now consider the wages, hours, and conditions of employment of other employees of the local unit. In addition, the arbitrator is required to give greater weight to the financial ability of the unit of government to pay the contractual wages and benefits. The ability to pay must be supported by competent, material, and substantial evidence. Determining the ability to pay includes 1) the financial impact on the community of the arbitration award, 2) the interests and welfare of the public, and 3) all liabilities of the government (whether or not they appear on the balance sheet). The latter item, of course, includes consideration of any OPEB commitments.

Even with these changes, initiating the Act 312 process is costly and delays implementation of cost controls. Many benefits, such as changes in health care plans, can only be changed prospectively. Although only applicable to police and fire unions, the impact of Act 312 extends to the rest of the workforce. The effect is a ratcheting up of benefit levels across all employee groups. In order to be able to reach a contract settlement with non-Act 312 bargaining units, the employer strategically considers their demands based on comparability with public safety compensation.

The City of Flint and the patrol officers union do not have a history of reaching an agreement on their own. They have gone to Act 312 arbitration in 2002 and 2007 and are currently facing that same process in 2011.

As noted earlier, a pivotal issue under PA 312 is addressing the fourth factor: determining which communities are considered "comparable." While the statute does not define comparability, some have considered taxable value and population to be indicators of evaluating comparability. The arbitrator has final say in the matter and may consider additional factors such as location (and its impact on cost of living) and demographics of the community. In the 2002 arbitration, the City of Flint and the Flint Patrol Officers Association presented a combined total of thirteen communities. In 2007 they argued the merits of comparability among eleven. Since the 2002 arbitration provides a larger population for analysis, those thirteen communities will be utilized for discussion purposes to gain a better understanding of labor negotiations and personnel costs. The amounts and details in the exhibits that follow would show different information in 2002. The charts that follow are based on information available in 2011.

The difference between the parties' stance in identifying comparable communities is demonstrated in Exhibit V - 1. Often, the comparable units proposed by the union have a greater tax base and resources to pay benefits than the city in arbitration. In the 2002 arbitration hearing, the arbitrator recognized the City of Flint as being somewhat unique because of its significant deficits and the then recent assignment of an EFM. That was not a consideration in 2007 because the City's financial situation had appeared to improve.

Exhibit V–1 Determining Comparability: Comparison of Population and Taxable Value

City of Flint
Comparison of Ratios for 2010 Population and Taxable Value within Range of 50% to 150%

Community	Proposed as Comparable by	2010 Population	50% to 150% of Population	2010 Taxable Value	50% to 150% of Taxable Value
Ann Arbor	Union	113,934	X	$4,691,761,673	-
Grand Rapids	Union	188,040	-	4,723,245,546	-
Livonia	Union	96,942	X	4,393,300,210	-
Southfield	Union	71,739	X	3,105,202,030	-
Sterling Heights	Union	129,699	X	4,515,448,280	-
Warren	Union	134,056	X	4,071,119,156	-
Westland	Union	84,094	X	1,983,227,871	-
Lansing	Both	114,297	X	2,345,554,884	-
Battle Creek	City	52,347	X	1,515,770,124	X
Jackson	City	33,534	-	725,204,838	X
Muskegon	City	38,401	-	723,209,538	X
Saginaw	City	51,508	X	1,313,319,228	X
Pontiac	City	59,515	X	1,177,478,710	X
Flint		**102,434**		**1,305,121,403**	

Note: X denotes governmental unit meets criteria.

Source: 2010 Population from U.S. Census Bureau; 2010 Taxable Values obtained from Michigan Department of Treasury

The above exhibit demonstrates the difference in stance between the two parties. The union's proposed communities have a significantly higher tax base. The City selected communities within what is considered a reasonable range of its tax base but some of the proposed comparables are smaller in population. Both parties did present the City of Lansing as comparable.

Significant benefit areas that consume the labor negotiations process are wages, active employee health insurance, pension, and retiree healthcare. Continuing with the proposed comparable communities from the Act 312 process from 2002, a comparison of current key benefit provisions has been assembled.

The City of Flint's agreement with its patrol officers has been expired for over three years. As shown in Exhibit V-2, eight of fourteen contracts were expired at the time of this analysis. Compared to the other cities, the City of Flint's patrol contract has been expired for the longest period of time.

Exhibit V-2 Status of Patrol Officer Contracts

Status of Patrol Officer Labor Contracts - June 2011

Community	County	Contract Term	Status
Ann Arbor	Washtenaw	July 1, 2006 to June 30, 2009	expired
Grand Rapids	Kent	July 1, 2007 to June 30, 2010	expired
Livonia	Wayne	December 1, 2006 to November 30, 2010	expired
Southfield	Oakland	July 1, 2006 to June 30, 2009	expired
Sterling Heights	Macomb	July 1, 2006 to June 30, 2011	current
Warren	Macomb	July 1, 2005 to June 30, 2009	expired
Westland	Wayne	July 1, 2007 to June 30, 2013	current
Lansing	Ingham/Eaton	July 1, 2009 thru July 1, 2014	current
Battle Creek	Calhoun	January 1, 2007 to December 31, 2009	expired
Jackson	Jackson	July 1, 2008 to June 30, 2010	expired
Muskegon	Muskegon	January 1, 2010 to December 31, 2011	current
Saginaw	Saginaw	July 1, 2005 to June 30, 2011	current
Pontiac	Oakland	January 1, 2007 to December 31, 2012	current
Flint	Genessee	July 1, 2006 to June 30, 2008	expired

Source: collective bargaining agreements

Do cities experiencing chronic fiscal stress experience longer delays in settling contracts? Reasons that would support that assertion include decreased administrative capacity to prepare for negotiations, inability to "give" on certain issues due to fiscal constraints, and the dichotomy of providing labor contract benefits agreed to when times were prosperous as opposed to now when the economic outlook for the City is weak. Labor contracts are the evolution of decades of negotiations. For that reason, benefits such as pension and postretirement healthcare are referred to as legacy costs.

The following analyses of comparable communities are in the same order as Exhibit V - 1. This is done to highlight the difference in the two party's positions entering into arbitration.

Wages

Wage rates currently in effect for a patrol officer with ten years of service range from $41,621 to $74,426 (Exhibit V-3). Of the five communities that were presented by the City as comparable in 2002, it is noteworthy that both Benton Harbor and Pontiac currently have EFMs in place. Additionally, in early 2011, Pontiac ceased to have its own police department due to severe fiscal stress. That service is now provided under contract with Oakland County.

Exhibit V-3 Status of Patrol Officer Contracts

Patrol Officer Labor Contracts
Wage Rates in Effect as of June 2011
Based on Ten Years of Service

Community	Effective Date	Base
Ann Arbor	2/24/2009	$ 65,312
Grand Rapids	7/28/2009	63,674
Livonia	12/1/2009	65,874
Southfield	7/1/2008	62,326
Sterling Heights	7/1/2010	74,426
Warren	7/1/2008	67,329
Westland	7/1/2010	61,422
Lansing	7/1/2010	57,192
Battle Creek	1/1/2009	41,621
Jackson	7/1/2009	56,006
Muskegon	1/1/2011	54,448
Saginaw	7/1/2010	51,087
Pontiac	1/1/2011	50,470
Flint	7/1/2007	53,162
	Mean	58,882

Source: collective bargaining agreements

While Flint is below the mean for all of the communities in Exhibit V-3, its current wage rate is above the mean of $51,804 for the six communities that the City identified as comparable (Lansing, Battle Creek, Jackson, Muskegon, Saginaw, and Pontiac).

Healthcare

Active employee health insurance is a complex area to compare. Considerations in negotiating benefits from the City's perspective are balancing cost control with the union membership's priorities. Exhibit V - 4 summarizes three key provisions of healthcare benefits among the proposed comparable communities. Each of those provisions and how they impact costs are discussed below.

Exhibit V-4 Comparison of Active Employee Medical Plans

Patrol Officer Labor Contracts - Medical Plan (Actives)
As of June 2011

Community	Plan	Drug Copay	EE Premium Copay (S/T/F = Single, Two Person/Family)
Ann Arbor	PPO	$10/$25	None
Grand Rapids	Self Insured	$10/$20	10% of actuarially determined premium
Livonia	CB PPO 2	$10/$20/$30	S $30; T $35; F $40/month
	HMO	$10/$20/$30	S $30; T $35; F $40/month
Southfield	Traditional/PPO/HMO	$5/$10	None
Sterling Heights	CB Plan 10 (base plan)	$0/$15	EE may buy up to HAP or COPS Trust
Warren	HMO and Master Medical	$5/$20	Formula/EE pays difference for higher cost plan
Westland			
hired prior to 3/17/04	BC/BS Traditional/BCN/HAP	$10	None
hired after 1/1/10	CB PPO2	$10	None
Lansing	CB PPO1/PHP	$5/$20/$40	S $21; T $46; F $54/month
Battle Creek	BCBS Major Medical	$15/$30	Formula with $55/month maximum
	HMO	$15/$30	Formula with $55/month maximum
Jackson	HMO	$7/$15/$30	none
	COPS Trust PPO		Formula with S $30; T $50; F $72/month maximum
Muskegon	HMO	$20/$40	$20/bi-weekly
Saginaw			
hired prior to 2/9/09	CB PPO 3	$10/$40	$20/pay
hired after to 2/9/09	CB PPO 3	$10/$40	$100/month
Pontiac	Humana #2,# 5, and #11 comparable plans	$0/$15	$100/month
Flint	BC/BS CMM PPO	$10/$20	none
	BC/BS Traditional	$10/$20	$75/pay

Abbreviations: BC/BS (Blue Cross/Blue Shield), BCN (Blue Care Network), CB (Community Blue), CMM (Comprehensive Master Medical), EE (employee), HAP (Health Alliance Plan), and HMO (Health Maintenance Organization)

Source: collective bargaining agreements

Prescription Drug Benefits

One method used to control costs is increased drug card copayment amounts. As the cost and utilization of drugs has increased in the United States, drug card copays have had a significant impact on insurance benefit cost. When a two tier system exists, such as $10/$20, the $10 represents a lower copay for lower cost generic drugs and $20 is the copay for higher cost brand name drugs. A three tier system, such as $10/$20/$30 represents a $10 copay for generic drugs, $20 for formulary (insurance carrier authorized drugs), and $30 for non-formulary drugs which are more costly. The benefit is therefore designed for the employee to select the lower cost alternative thereby lowering the cost of providing the benefit.

Medical Benefit Plans

Another method of cost control is offering different medical benefit plan options. For example, Community Blue Preferred Provider Organization Plan 1 has lower service copays and deductibles than the same carrier's Plan 2. Since the employee's copay for services are higher under Plan 2, the employer's cost is lower. By offering options, employees are able to select a plan that meets their criteria. Providing alternative medical plan choices is only effective when coordinated with a meaningful premium copayment structure.

Premium Copayment

An increasingly used method to control costs is employee participation in premium copayment for the medical plan. Often an effective plan design requires a higher premium copay, or cost sharing, for more expensive plans. This fosters selection of the lower net plan cost but still provides choices for different needs.

Other Post-Employment Benefits (OPEB)

Other post-employment benefits (commonly consisting of retiree healthcare) require additional considerations. Since many employees are eligible to retire at age 50 or 55, it is conceivable that retiree healthcare commitments today will be in place for twenty five or more years. In addition to cost control methods for active employee plans, there are ways to address cost control methods for future retiree healthcare. Exhibit V - 5 summarizes key provisions among the proposed comparable communities.

"Same as Active"

One way to control costs over the long-term is negotiating flexibility into the future. For example, "same as active" in Exhibit 5 indicates that the plan provided to retirees under subsequent labor contracts will be the same as plans offered in future labor contracts. This provides future flexibility to address inflation and changes in the healthcare system. The more costly approach is to commit to the plan "at time of retirement". This fixes the benefit at a date in time. As insurance providers and plans change in the future, employers may not be able to provide the plan. Plan administration becomes a more costly task when managing multiple plans. A more cost effective approach for many employers is moving to a health savings account (HSA) or a health care savings plan (HCSP). An analogy is that HSA's and HCSP's function more like a defined contribution plan. Under these plans, employers set aside an amount currently for medical benefits in retirement. The accumulation of unfunded benefits is therefore avoided.

Premium Copayment

Another approach to cost control is requiring retiree premium copay participation. Many jurisdictions have implemented a healthcare vesting schedule. In this arrangement employees may be credited with the employer paying 4% per year, for example, toward the retiree health insurance premium. An employee with 20 years of service would have 80% of their premium paid by the employer and the employee would be responsible for the remaining 20%. For police and fire personnel this rarely results in cost savings because they typically stay with the same employer for 25 years thereby reaching the 100% level.

Percentage Copayment

There are other ways to build in participation to control future decades of cost increases. One option that is seldom used but which would both ameliorate current problems and help avert recurrence would be percentage copays. Commonly public retiree plans are based on flat dollar copays that become less cost effective due to inflation. This approach is recommended by experts in the field of benefit plan design, but has seldom been implemented due to labor resistance and the lack of comparables to support its award in PA 312 arbitrations.

Exhibit V-5 Comparison of Retiree Plan Provisions

Patrol Officer Labor Contracts - Retiree Benefits Other Than Pension
As of June 2011

Community	Plan	Premium Copay
Ann Arbor	At time of retirement	No
Grand Rapids		
vested before 12/17/2008	Same as actives	Vesting Schedule
vested after 12/17/2008	Same as actives	Same as actives (10%)
hired before 12/17/2008 with < 10 years of service	H S A	n/a
hired after 12/17/2008	H S A	n/a
Livonia	Same as actives	Same as actives
Southfield	Same as actives	None
Sterling Heights		
hired prior to 7/1/06	At time of retirement	No (may buy up to higher cost plan)
hired after to 7/1/06	At time of retirement; Insured/H S A combination with EE and ER contribute $1,250 year	50%
Warren		
hired prior to 7/25/2006	Same as actives	None
hired after 7/25/2006	H S A with 1% ER and min 1% EE contribution	n/a
Westland	At time of retirement	Vesting Schedule
Lansing	Traditional/CB PPO1	None
Battle Creek	Not specified	Retiree pays amount in excess of $200 month for retiree and $120 month for spouse
Jackson		
Pre-Medicare eligible	At time of retirement	Vesting Schedule
Medicare eligible	Medicare Advantage Plan cash incentive payment	Vesting Schedule
Muskegon		
hired prior to 6/1/08	At time of retirement	No
Hired after 6/1/08	At time of retirement; No Rx coverage at Medicare eligibility	No
Saginaw		
hired prior to 2/9/09	At time of retirement	$20/bi-weekly
hired after to 2/9/09	H C S P with ER $125/month and EE min $15/bi-weekly	None
Pontiac	At time of retirement 1% VEBA contribution while EE	None
Flint	At time of retirement	None after 30 cumulative years as employee and retiree

Abbreviations: CB (Community Blue), EE (Employee), ER (Employer), Health Care Savings Plan (HCSP), HMO (Health Maintenance Organization), and H S A (Health Savings Account)

Source: collective bargaining agreements

Pension

Pension benefits in the public sector are most often a defined benefit or defined contribution plan. A defined benefit pension plan provides the retiree with specified monthly benefit payment based on a formula. A defined contribution plan provides the employee with a percentage of compensation deposited into a trust account for their use in retirement. These plans became more prevalent in the 1990s.

For a defined benefit plan, the employer's contribution level is often established based upon an actuarial analysis. The annual required contribution may increase depending on external factors such as market rate of return on plan assets. The required contribution level is also impacted by changes within the workforce and complex benefit provisions. While defined benefit plans are an effective tool for attracting and retaining public employees, it is important for parties at the bargaining table to understand the long-term implications of benefit changes.

Defined benefit plan pensions are determined by a three part formula. Changes in any one those variables alters the retiree's pension benefit and, consequently, the related employer liability. Each has a range of nuances and pitfalls. The formula for calculating the annual pension benefit is shown below.

Annual Pension Benefit	**=**	**Years of Service**	**X**	**Final Average Compensation (FAC)**	**X**	**Pension Multiplier**

Years of Service - Years of service is based on actual employee service, although sometimes the employee or employer may "buy" years of service at an actuarially determined cost. Unless this is fully funded in advance, it increases the long-term liability.

Final average compensation (FAC) – The final average compensation is the average of wages or salary paid to the employee based on a predetermined number of years. An FAC of three, for example, may be stated as the highest compensation for three (typically consecutive) of the final five years of service. Identifying what type of compensation is included in the FAC is important. If it includes overtime, vacation leave payout, longevity, and other pay items, the cost to the employer increases. When the FAC is determined using fewer years, typically the benefit is higher since it is based on highest years. When the FAC period is very short, even small increases in overtime, compensatory time payout, or accrued leave time payout will increase the pension. This is how some retiree’s actual pension benefit is higher than their regular full time pay as an active employee.

Pension Multiplier – The pension multiplier represents a percent of pay for each year of service. Assuming an employee has twenty years of service, and FAC of $50,000 and a pension multiplier of 2.5 their annual pension benefit would be $25,000 (20 years x $50,000 x 2.5%).

Understanding each of these elements is critical to effective labor negotiations and preserving plan solvency and sustainability.

Eligibility to retire is another cost consideration. This is especially true when eligibility to collect a pension also triggers eligibility for retiree healthcare. Eligibility is stated as age and years of service. Eligibility at 55/15 means that an employee will be able to retire when they meet a minimum age of 55 years old and have earned 15 years of service.

A cost of living adjustment (COLA) provides an annual increase in benefit retirement. As shown in Exhibit V- 6, a COLA benefit of E2 provides a 2% annual increase in pension for retirees. A concern for granting automatic pension increases is that it further constrains future administrations. Employers typically have a pension plan design where they may instead grant a one-time COLA adjustment to retirees.

The summary of defined benefit pension provisions in Exhibit V-6 is greatly simplified for purposes of this analysis. As far as defined contribution plans are concerned, only one community, Livonia, has a defined contribution plan for current employees. Two other communities, Muskegon and Saginaw, have recently implemented a defined contribution plan for new hires after a certain date. This is a common way for employers to transition the workforce to defined contribution plans to control long-term costs.

Exhibit V–6 Comparison of Pension Benefit Provisions

Patrol Officer Labor Contracts - Pension
As of June 2011

Community	Type	Defined Contribution	Defined Benefit: Multiplier	EE Contribution	Eligibility	Maximum	FAC	COLA
Ann Arbor	DB	n/a	2.75	5.00%	55/5	none	3	No
Grand Rapids	DB	n/a	2.7	8.66% if funded < 100%		80%	5	1% after 5 years
Livonia	DC	11% ER	n/a	n/a	n/a	n/a	n/a	n/a
Southfield	DB	n/a	2.8	3.75%	any age/25	70%	3	No
Sterling Heights			2.8 up to 25 years; 1%/year thereafter	0.00%	any age/25	75%	3	No
Warren	Annuity	n/a	Annuity at 2.5 (25yrs); 1.0 (after 25 yrs)	5.00%	55/25	Scale up to 85% at 30 years	3	Maintain pension at no less than 40% of top paid officer salary
Westland	DB	n/a	2.8 up to 30 years; 1%/year thereafter	5% (if hired after 7/1/07); otherwise 0%	any age/25	none	3	No
Lansing	DB	n/a	3.2	8.50%	50/25	80%	2	$525/year
Battle Creek	DB	n/a	2.5	7.20%	55/25	none	3	E2
Jackson	DB	n/a	2.9	11.24%		none	3 plus 1%/year for each year > 25	No
Muskegon								
hired prior to 7/28/06	DB	n/a	3.0	6.00%	50/25; 55/10	75%	3	No
hired after 7/28/06	DC	10% ER	n/a	6.00%	n/a	n/a	n/a	n/a
Saginaw								
hired prior to 7/1/02	DB	n/a	2.6 up to 25 years	11.50%	any age/20	65%		One time 2.5%
hired after 1/1/02	DC	10% ER	n/a	5.00%	n/a	n/a	n/a	n/a
Pontiac	Annuity	n/a	Annuity at 3.0 (20yrs); 2.5 (next 5yrs); 1.0 (after 25 yrs)	5.00%	50/20	77.50%	n/a	n/a
Flint	DB	n/a	2.6%	5.00%	50/25	62.5	3	No

Abbreviations: Cost of Living Adjsutement (COLAS), Defined Benefit (DB), Defined Contribution (DC), Employee (EE), Employer (ER), and Final Average Compensation (FAC)

Source: collective bargaining agreements

Exhibit V-6 illustrates the many ways that employers have addressed the demands of the bargaining units. When thinking about the present value of the future wage benefit commitments, each contract settlement represents a major expenditure. For some employers determining affordability versus the contract settlement cost may seem elusive.

Closed defined benefit plans are those where no new employees are entering the benefit program. Mature plans are those where the number of retirees, or those near retirement, exceeds the number of younger plan members. For closed or super mature plans, expressing the annual pension contribution as a percent of pay can be misleading.

The City of Flint's pension actuaries describe its retirement system as a super mature system. The total active employee to retiree ratio is 0.6 according to the June 30, 2009 report.[xv] That means that for each retiree there is the equivalent of 6/10ths of one employee. The consequence is that there is a relatively small workforce for the purposes of allocating the contribution payment. The employer's contribution as a percent of payment is likely to increase significantly.

For the Police Division of the pension system, the contribution increased by 8.59% in one year (going from 14.37% in 2010 to 22.96% in 2011).

When the plan is closed or mature, it is considered to be more appropriate to report the pension contribution as an annual dollar requirement rather than a percentage of pay. In addition, a preferred practice for super mature plans is to shorten the liability amortization period to manage cash flow and to provide enough time for investment earnings to accrue for the purpose of supporting benefits. An example of this is found in the City of Flint's actuarial report. The actuary warns the City that the pension system's net cash flow is negative. Benefit payments of $65.2 million exceeded contributions of $17 million in 2010. These are heavy concerns for a City experiencing chronic fiscal stress.

The evolution of plans with significant legacy costs, amplified by legislation such as Act 312, is a result of labor contract settlements being historically costed out over the contract period, not over the life of the beneficiaries. Once a pension commitment is made, it is relatively impossible to undo. The State of Michigan's Constitution, Article IX, § 24 addresses public pension plans, retirement systems and related obligations. It states that "the accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby." Cities in chronic fiscal stress would be best served to cost benefits out in the future or seek other means to provide benefits that do not impact long term financial viability.

Legacy Cost Affordability

How can a city determine when it reaches a level at which it can no longer fund its legacy costs? There is rarely a defining moment. Instead, reaching chronic fiscal stress happens over time. One way to monitor the level of reasonableness in making commitments is through benchmarking. Exhibit V-7 compares the unfunded liability among the proposed comparable communities on a per capita basis.

Exhibit V–7 Comparison of Unfunded Pension Benefit and OPEB Provisions

External Comparables Funding Status for Citywide Pension and Other Postemployment Benefits (OPEB)
As of June 30, 2010

	Pension		OPEB			
Community	**Unfunded (Overfunded) AAL**	**Funded Ratio**	**Unfunded (Overfunded) AAL**	**Funded Ratio**	**2010 Population**	**Total Unfunded Liability per Capita**
Ann Arbor	$ 45,496,000	90.3%	$ 169,637,000	30.1%	113,934	$ 1,888
Grand Rapids	24,206,135	96.7%	222,684,549	0.0%	188,040	1,313
Livonia	-	100.0%	79,977,000	42.0%	96,942	825
Southfield	-	100.0%	137,378,993	20.4%	71,739	1,915
Sterling Heights	27,247,765	92.0%	143,360,804	10.8%	129,699	1,315
Warren	97,233,172	81.7%	295,473,638	9.0%	134,056	2,929
Westland	41,327,884	77.1%	181,861,454	0.0%	84,094	2,654
Lansing	125,947,000	79.0%	376,458,000	10.0%	114,297	4,396
Battle Creek	51,455,385	79.5%	52,473,521	2.8%	52,347	1,985
Jackson	39,455,000	65.6%	37,673,933	0.9%	33,534	2,300
Muskegon	713,000	99.2%	10,764,000	55.2%	38,401	299
Saginaw	108,309,800	65.1%	214,780,192	0.6%	51,508	6,273
Pontiac	(182,214,419)	136.5%	196,649,058	15.4%	59,515	243
Flint	**170,900,000**	**79.7%**	**774,606,738**	**0.0%**	**102,434**	**9,230**
Mean		**88.7%**		**14.1%**		**2,683**

Source: comprehensive annual financial report for each community

The City of Flint's legacy cost liability, on a per capita basis, is 3.4 times the average of the proposed comparable communities. Translating this demand on resources places greater pressure on the city to fund legacy costs while providing services.

Labor Contract Benchmarking

One reason why management should analyze labor contracts from other communities is to identify practices that have worked well. In reviewing Exhibit V-7, the Cities of Livonia, Muskegon, and Pontiac have the lowest per capital legacy cost burden. Is this due to better economic resources, compensation cost controls, or some combination of both? A brief analysis of each community is presented to see what lessons can be learned from their experiences.

Livonia is a full-service suburban Detroit city with a strong mayor form of government. Its population has decreased by 12% since 1970. This is the long-term result of a large population increase in the 1960's of young families. The parents, who are now grandparents, represent a population that has aged in place. Like other cities in Michigan, it has been under municipal budgetary constraints for many years. It does have a significantly larger tax base than Flint (see Exhibit V-1). In theory the more favorable economic resources for the City of Livonia should have made it more difficult to institute long-term labor cost controls. This has not been the case. Key benefit provisions include the following.

> **Active employee medical plan –** Employees have a choice between two relatively cost controlled plans. These plans feature a triple tier drug co pay and have an employee premium copayment. If Livonia were to address further cost controls, it may consider employee premium copayments as a percent of insurance plan cost.
>
> **Retiree medical plan** – The plans offered to retirees will be the same as those offered in future contracts. This is an effective way for the City to implement cost controls into the future. It also mitigates the administrative and potential legal burden of providing plan in place today for decades into the future. If Livonia were to negotiate further cost controls, it may consider a health savings account like the Grand Rapids model.
>
> **Pension** – A defined contribution plan was implemented in 1998.
>
> **Wages** – Although the wages are 12% above the mean in Exhibit V-3, they are representative of the labor market in the metropolitan Detroit area over time.

The City of Livonia's proactive approach has put it in a more solid financial position. Its closed defined benefit pension system is funded at 100%. In addition, it has made significant progress in its OPEB funding which is at 42% as of June 30, 2010. Despite the cost controls, the fiscal year 2012 budget has a shortfall of $6.2 million (12.6 % of General Fund revenue). This shortfall is almost equally attributable to lost revenues and increased fringe benefit costs. To balance the budget, the City is asking voters to consider a 1.7 mill increase for public safety in August 2011.

Muskegon is a full-service city on the west side of the state with a commission manager form of government. Its population is 37% the size of Flint (at 39,825) and its tax base is 55% of Flint. Muskegon has also faced fiscal challenges for many years. Key benefit provisions include the following.

> **Active employee medical plan** – Employees enroll in an HMO with a $20/$40 drug card. There is also an employee premium copayment at a flat dollar amount. Like Livonia, if it were to address further cost controls, it may consider employee premium copayments as a percent of insurance plan cost.
>
> **Retiree medical plan** – For employees hired after June 1, 2008, there is no drug card benefit at time of Medicare eligibility. This is not a common plan design, but was the outcome of a collectively bargained agreement. If Muskegon were to negotiate further cost controls, it may also want consider a health savings account like the Grand Rapids model.
>
> **Pension** – A defined contribution plan was implemented in 2006.
>
> **Wages** – Wages are at 75% of the mean in Exhibit V-3.

The City of Muskegon's efforts to manage its defined benefit pension has resulted in a closed pension system funded at 99.25%. In addition, its OPEB funding is among the highest in the comparison group at 55.2% as of June 30, 2010. Despite the cost controls, Muskegon is also facing significant budgetary challenges. This situation is explained by the City Manager in the fiscal year 2012 budget document.

> "Overall, the City's general fund revenue picture remains weak and, while there are some signs of improvement, we expect negative factors to outweigh the positives for the next few years. As a result, the City is budgeting for a sizeable operating budget deficit in 2011-12 in order to maintain essential services. This will require the use of available fund balance reserves."

Pontiac is somewhat of an outlier as a comparable for the group of communities as a whole. It has been under severe financial constraint for many years. As a result, an EFM has been managing Pontiac since 2009. This puts it in a unique bargaining position. Despite these known challenges, Pontiac has some of the richer benefit plan provisions in its labor contract. Out of the thirteen communities with a defined benefit pension, only two have an equal or higher pension multiplier. The remaining ten have a lesser benefit level. One mitigating factor for Pontiac, however, is that the pension system's assets exceed its liabilities resulting in an overfunding of 36.5%. None of the other communities are overfunded.

The drug copay is among the lowest at $0/$15. In addition, no cost containment measures have been addressed for OPEB obligations.

Due to severe fiscal stress, the EFM reached an agreement with the Oakland County Sheriff for the County to provide police service in the City. This arrangement was effectuated in March 2011. The Pontiac police officers were then hired by the County.

Lessons Learned

These comparisons highlight two points. First, cost controls from negotiated benefits are long-term in nature. When Livonia, for example, negotiated a defined contribution plan in 1998, it did not experience an immediate financial impact. Looking at it retrospectively, that decision to migrate pension systems has relieved budget pressures thirteen years later in 2011. The City now has a pension system that is fully funded. The retirees have the added financial security of belonging to a well-funded plan.

The second point is that the local government revenue structure is failing communities across the board. The common theme among all of these cities is some level of fiscal stress. Whether the city has been proactively managed or mismanaged, the structural fiscal constraints are real and are long-term. All of the cities have experienced decreased property tax revenue and state shared revenue. Most of the units have used fund balance to continue operations. Many elected bodies are in various stages of requesting the electorate to consider millage increases. This begs the following question. What is the point at which expenditures can no longer be reduced, services no longer maintained, and revenues resources depleted? To better understand this issue, we consider the City of Flint's long-term solvency.

VI. LONG TERM SOLVENCY

As of June 30, 2010, the City of Flint's General Fund had a cash deficit of $19 million. The City's cash position temporarily improved in July 2010 due to the timing of property tax collections. By March 2011, however, the City expected that it would have no unrestricted cash. This meant that employees and vendors would not be paid. To cure the cash flow concerns, the City requested authorization from the State of Michigan Department of Treasury to issue $20 million of financial stabilization bonds in early 2011. These bonds, authorized under the State of Michigan Fiscal Stabilization Act 80 of 1981, allow cities to issue bonds to fund an operating deficit or projected operating deficit subject to certain criteria. After demonstrating their need and a plan for repayment, authorization was granted, but limited to $8 million to be repaid over 25 years.

A financial projection through the life of the outstanding bonds was required for the financing. In addition, pursuant to Public Act 140 of 1971, a local unit of government ending its fiscal year in a deficit condition must also submit a deficit elimination plan with the Department of Treasury. Exhibit VI – 1 is an excerpt from the financial projection submitted for the bond financing which also serves as the City's deficit elimination plan.

While the cash flow need is evident, developing a plan to repay the bonds is challenging for cities in fiscal stress. This is because the nature of fiscal stress is long-term. The result is that financial plans are built on assumptions that are not easily attainable and push the boundaries of realistic expectations. The City of Flint's financial projection reflects those pressures. This predicament is highlighted in three key areas. First, a critical assumption for the City's plan is that employee unions agree to the equivalent of 15 percent in wage and benefit concessions beginning in FY 2012. Based on the history of contentious labor relations, this assumption appears precarious. Second, cash-strapped cities face the additional burden of borrowing costs. The $8 million in borrowing bears an interest cost of $7.1 million over 25 years. While a debt and capital program can be managed successfully, cities that issue financial stabilization bonds are often financing the previous year's operating expenditures. It can be argued that this is not the best use of public resources. For the City of Flint the average annual interest cost for this debt is $283,000. Further, the long-term plan is reliant upon a second fiscal stabilization financing of $12 million in FY 2013. Third, the City's long term plan does not address building fund balance or contingency funds until FY 2033. No contingency places the City in a position of ongoing risk.

The last year that the City experienced General Fund revenues in excess of expenditures was in fiscal year 2006 (Exhibit II – 3). For that reason, fiscal year 2006 will serve as a baseline for analysis in this section. There are two primary long-term solvency questions. First, will revenues return to some prior level such as 2006? Secondly, what is a sufficient level of revenue to provide services?

Exhibit VI – 1 Deficit Elimination Plan

City of Flint
Deficit Elimination Plan (Condensed)
Statement of Revenue, Expenditures, and Changes in Fund Balances - General Fund
Year Ended June 30

	FY 10 Audited	FY 11 Budget	FY 11 Projected	FY 12 Plan	FY 13 Plan	FY 14 Plan	FY 15 Plan	FY 16 Plan	FY 10 Audited to FY 12 Plan
Revenue									
Property Taxes	$ 9,474,168	$ 10,552,496	$ 9,225,283	$ 8,346,602	$ 8,292,170	$ 8,292,170	$ 8,458,013	$ 8,627,174	(12)%
Income taxes	13,551,247	11,410,000	11,410,000	12,000,000	12,000,000	12,240,000	12,597,408	13,091,226	(11)%
State revenue	17,446,231	16,440,095	16,440,287	7,912,465	7,912,465	7,991,590	8,071,506	8,152,221	(55)%
Federal revenue	443,089	3,400,511	3,364,214	3,364,214	-	-	-	-	659%
Charges for services	10,609,716	10,886,835	10,912,459	12,508,584	12,513,584	12,518,584	12,523,584	12,528,584	18%
Other	5,665,003	5,721,575	5,823,925	6,017,288	6,075,570	6,134,696	6,167,780	6,202,274	6%
Total Revenue	**57,189,454**	**58,411,512**	**57,176,168**	**50,149,153**	**46,793,789**	**47,177,040**	**47,818,291**	**48,601,479**	**(12)%**
Expenditures									
Personnel Costs	52,487,978	47,081,368	48,831,547	40,557,059	36,928,425	37,227,197	37,782,414	38,477,983	(23)%
Professional services	4,352,262	5,226,941	5,305,871	4,495,571	4,500,000	4,500,000	4,500,000	4,500,000	3%
Utilities	3,740,875	3,119,976	3,723,407	3,482,875	3,552,533	3,623,583	3,696,055	3,769,976	(7)%
Repairs, Maintenance &Supplies	1,083,282	1,308,273	1,304,961	1,243,095	1,375,000	1,375,000	1,375,000	1,375,000	15%
Equipment operations	636,808	590,056	590,130	582,450	750,000	750,000	750,000	750,000	(9)%
Capital outlay	831,435	1,993,133	1,827,960	795,000	795,000	795,000	795,000	795,000	(4)%
Other Expenditures	1,608,811	1,368,715	1,316,372	1,329,536	1,342,831	1,356,259	1,369,822	1,383,520	(17)%
Total Expenditures	**64,741,451**	**60,688,462**	**62,900,248**	**52,485,586**	**49,243,789**	**49,627,040**	**50,268,291**	**51,051,479**	**(19)%**
Excess of revenue under expenditures	**(7,551,997)**	**(2,276,950)**	**(5,724,080)**	**(2,336,433)**	**(2,450,000)**	**(2,450,000)**	**(2,450,000)**	**(2,450,000)**	(69)%
Other financing sources (uses)									
Bond proceeds	-	-	**8,000,000**	-	**12,000,000**	-	-	-	0%
Proceeds from sale of capital assets	54,195	10,000	10,000	5,550	10,000	10,000	10,000	10,000	(90)%
Interest expense	-	(330,000)	(330,000)	-	-	-	-	-	0%
Transfers in	2,990,000	2,990,000	2,990,000	2,990,000	2,990,000	2,990,000	2,990,000	2,990,000	0%
Transfers out	-	(393,049)	(2,324,375)	(659,117)	(550,000)	(550,000)	(550,000)	(550,000)	100%
Total other financing sources	3,044,195	2,276,951	8,345,625	2,336,433	14,450,000	2,450,000	2,450,000	2,450,000	(23)%
Net change in Fund Balances	**(4,507,802)**	**1**	**2,621,545**	**0**	**12,000,000**	**0**	**(0)**	**(0)**	
Fund Balances - Beginning of year	(10,113,743)	(14,621,545)	(14,621,545)	(12,000,000)	(12,000,000)	1	1	1	
Fund Balances - End of year	**$(14,621,545)**	**$(14,621,544)**	**$ (12,000,000)**	**$ (12,000,000)**	**$ 1**	**$ 1**	**$ 1**	**$ 1**	

Source: City of Flint

Revenues

The City's primary sources of revenue in the General Fund are property taxes, income taxes, and state shared revenue. All three sources have declined significantly. Exhibit VI-2 demonstrates the magnitude of revenue loss since FY 2006.

Exhibit VI – 2 Revenue Losses Since FY 2006

City of Flint
Revenue Lost from Three Primary Sources of General Fund Revenue
FY 2006 to FY 2012

	FY 2006 Actual	FY 12 Plan	Revenue Lost	Percent Decrease
Primary Revenues				
Property Taxes	$ 12,540,496	$ 8,346,602	$ 4,193,894	33%
Income taxes	19,660,536	12,000,000	7,660,536	39%
State revenue	20,040,661	7,912,465	12,128,196	61%
Total	$ 52,241,693	$ 28,259,067	$ 23,982,626	46%

Source: City of Flint

Property Tax

To understand the challenges that lie in regaining property tax revenue, it is necessary to review key concepts related to State of Michigan property tax law. The State's Constitution requires that property be assessed uniformly at a rate not to exceed 50% of true cash value. This results in what is known as the property's state equalized valuation (SEV). With the passage of Proposal A in 1994, however, the annual increase in a property's value for tax purposes, adjusted for all additions or losses, was capped at the rate of inflation or 5%, whichever is less. This new concept, known as taxable value, became the basis for the property tax assessment. Assessors maintain both an SEV and a taxable value for each property. If the property's true cash value rises faster than the rate of inflation or 5%, (whichever is less), then taxable value grows at a rate lower than SEV. Under Proposal A, the taxable value of property may decrease due to losses such as demolition, environmental contamination, or deflation as reflected by the consumer price index. Additions, such as improvements or new construction increase taxable value. At a minimum, the taxable value must increase by the rate of inflation (or decrease by the rate of deflation) regardless of whether or not the SEV remains the same or decreases. A caveat is that if SEV decreases to an amount less than the preceding year's taxable value multiplied by the current year's inflation rate, then taxable value will decrease to the SEV. This latter scenario has been common since the significant real estate market declines that began in 2007.

To what extent would any improvements in the economy and related increases in property values generate a rebound in property tax revenues? Applying the mechanics of Proposal A, Exhibit VI – 3 gives us a historical basis for understanding the changes in the tax base over the past ten years. On a ten-year average, the net change in the taxable value is a decrease of 2.72% per year. For that same time period, the average change in the inflation rate multiplier was an increase of 2.44%. The difference between the two is a decrease of 5.16% (negative 2.72% minus 2.44%).

Exhibit VI – 3 Change in Taxable Value Over Ten Years

City of Flint
Change in Taxable Value Over Ten Years

Tax Year	Fiscal Year	Total Taxable Value	Year to Year Total Taxable Value Change	State Tax Commission Inflation Rate Multiplier	Imputed Change Due to Tax Base Activity *
2001	2002	1,539,111,881			
2002	2003	1,570,116,422	2.01%	3.20%	-1.19%
2003	2004	1,585,636,701	0.99%	1.50%	-0.51%
2004	2005	1,598,254,721	0.80%	2.30%	-1.50%
2005	**2006**	**1,655,656,167**	**3.59%**	**2.30%**	**1.29%**
2006	2007	1,680,872,526	1.52%	3.30%	-1.78%
2007	2008	1,698,766,194	1.06%	3.70%	-2.64%
2008	2009	1,643,424,867	-3.26%	2.30%	-5.56%
2009	2010	1,505,610,437	-8.39%	4.40%	-12.79%
2010	2011	1,305,121,403	-13.32%	-0.30%	-13.02%
2011	2012	1,145,659,213	-12.22%	1.70%	-13.92%
		Ten Year Average	**-2.72%**	**2.44%**	**-5.16%**

* Activity includes losses, additions, and factors other than inflation that would affect valuation.

Source: City of Flint and State of Michigan Tax Commission

In fiscal year 2006, the City saw an overall increase in taxable value of 3.59%. This is due to an inflation rate multiplier of 2.3% plus other activity that garnered a 1.29% increase in taxable value. Indicative of the City of Flint's chronic fiscal stress, fiscal year 2006 is the only year out of the past ten that Flint experienced an increase in taxable value from tax base activity. The most recent values for fiscal year 2012 reflect an overall decrease of 12.22% which is net of a 1.7% inflation rate multiplier and a 13.92% decrease due to tax base activity.

With a basic understanding of aggregate changes in taxable value, the analysis in Exhibit VI - 4 attempts to identify both an optimistic and pessimistic projection of property tax revenues for the City of Flint based on the ten year averages shown above.

Exhibit VI – 4 Estimating Taxable Value in Future Years

City of Flint
Estimating Taxable Value in Future Years

			Estimate A - More Pessimistic		Estimate B - More Optimistic	
Status	Tax Year	Fiscal Year	Ten Year Average for Total Taxable Value Change	Taxable Value	Ten Year Average for Inflation Rate Multiplier	Taxable Value
Actual	2011	2012	Initial Value	1,145,659,213	Initial Value	1,145,659,213
Estimate	2012	2013	-5.16%	1,086,543,198	2.44%	1,173,613,298
Estimate	2013	2014	-5.16%	1,030,477,569	2.44%	1,202,249,462
Estimate	2014	2015	-5.16%	977,304,926	2.44%	1,231,584,349
Estimate	2015	2016	0.00%	977,304,926	2.44%	1,261,635,007
Estimate	2016	2017	0.00%	977,304,926	2.44%	1,292,418,901
Estimate	2017	2018	0.00%	977,304,926	2.44%	1,323,953,923
Estimate	2018	2019	0.00%	977,304,926	2.44%	1,356,258,398
Estimate	2019	2020	0.00%	977,304,926	2.44%	1,389,351,103
Estimate	2020	2021	2.44%	1,001,151,166	2.44%	1,423,251,270
Estimate	2021	2022	2.44%	1,025,579,255	2.44%	1,457,978,601
Estimate	2022	2023	2.44%	1,050,603,389	2.44%	1,493,553,279
Estimate	2023	2024	2.44%	1,076,238,111	2.44%	1,529,995,979
Estimate	2024	2025	2.44%	1,102,498,321	2.44%	1,567,327,881
Estimate	2025	2026	2.44%	1,129,399,280	2.44%	1,605,570,681
Estimate	2026	2027	2.44%	1,156,956,623	**2.44%**	**1,644,746,606**
Estimate	2027	2028	2.44%	1,185,186,364	**2.44%**	**1,684,878,423**
Estimate	2028	2029	2.44%	1,214,104,911	2.44%	1,725,989,457
Estimate	2029	2030	2.44%	1,243,729,071	2.44%	1,768,103,599
Estimate	2030	2031	2.44%	1,274,076,061		
Estimate	2031	2032	2.44%	1,305,163,517		
Estimate	2032	2033	2.44%	1,337,009,506		
Estimate	2033	2034	2.44%	1,369,632,538		
Estimate	2034	2035	2.44%	1,403,051,572		
Estimate	2035	2036	2.44%	1,437,286,031		
Estimate	2036	2037	2.44%	1,472,355,810		
Estimate	2037	2038	2.44%	1,508,281,292		
Estimate	2038	2039	2.44%	1,545,083,355		
Estimate	2039	2040	2.44%	1,582,783,389		
Estimate	2040	2041	2.44%	1,621,403,304		
Estimate	**2041**	**2042**	**2.44%**	**1,660,965,544**		
Estimate	2042	2043	2.44%	1,701,493,103		
Estimate	2043	2044	2.44%	1,743,009,535		
Estimate	2044	2045	2.44%	1,785,538,968		

The pessimistic "Estimate A" applies the historical ten year average rate of change from IV - 3 to the fiscal year 2012 taxable value. That rate is a negative 5.16%. Since it is presumed that the tax base will not continue to decline indefinitely, that rate is applied for three years followed by a leveling off for five years using 0%. After that time period, the historical average increase in value of 2.44% is applied. Using those assumptions, the pessimistic date that property values will return to 2006 levels is in thirty years (fiscal year 2041). The pessimistic point of view would cite continued concern for property value decline based on factors associated with cities in chronic fiscal stress. This would include housing abandonment, resident exodus due to frustration with taxation and service levels, increase in tax exempt property, and further changes to tax laws that harm local government sustainability.

The optimistic "Estimate B" applies the ten year average for the State Tax Commission's inflation rate multiplier from Exhibit VI - 3 to the fiscal year 2012 taxable value. Presuming that there are not significant additions or losses to the tax base, it will take at least fifteen years to return to the property tax revenue level last seen in FY 2006. This remains true even if there was substantial improvement in the overall economy and property values. The City of Flint's ability to recoup the $4.2 million or 33% loss in property taxes appears unattainable for the next fifteen years.

Understanding the challenges of Proposal A, the next reasonable question is how much in new development would the City of Flint need to have in order to restore the property tax revenue loss of $4.2 million?

Exhibit VI – 5 Estimated Value of New Development to Recover Property Tax Revenue

City of Flint
Estimated Value of New Development Required to
Recover Property Tax Revenue to FY 2006 Level

True Cash Value	Assessed Value	Taxable Value*	FY 2010 Millage Rate per $1,000	Property Tax Revenue
$ 50,000,000	$ 25,000,000	$ 25,000,000	16.1	$ 402,500
100,000,000	50,000,000	50,000,000	16.1	805,000
200,000,000	100,000,000	100,000,000	16.1	1,610,000
300,000,000	150,000,000	150,000,000	16.1	2,415,000
400,000,000	200,000,000	200,000,000	16.1	3,220,000
500,000,000	250,000,000	250,000,000	16.1	4,025,000
525,000,000	**262,500,000**	**262,500,000**	**16.1**	**4,226,250**
550,000,000	275,000,000	275,000,000	16.1	4,427,500

Benchmarks

Largest taxpayer's (General Motors) assessed value for FY 2010
$ 49,728,000
Total assessed value for top ten taxpayers
$140,599,600

* Taxable value is presumed to equal assessed value in year one. Subsequent years will be subject calculations under Proposal A.

Source: City of Flint

As shown in Exhibit VI - 5 new investments in taxable property of $525 million with an assessed value of $262.5 million would be needed in order to generate $4.2 million in revenue. In other words, the additional taxable value needed equates to almost eleven times the current assessed value of the City's single largest taxpayer, General Motors. Similarly, new projects equal to almost four times the assessed value for all of the ten largest taxpayers would be needed to return revenues to the fiscal year 2006 level.

Beyond Proposal A, there are additional regulations that restrain future property tax revenue growth. In July 2011, General Motors announced a $328 million investment in the Flint Assembly Plant to retool the facility. While the investment in Flint is good news, it cannot be assumed that this will have an immediate or turnaround impact on the City's property tax revenue. Retooling is considered personal property under the State's tax structure. In 2009, the State Tax Commission adopted new automotive manufacturing equipment personal property tables for "qualified automotive manufacturers." Those taxpayers are defined as those who are "a company whose primary business is the design, development, manufacture and wholesale of automobiles and or light duty trucks." The result of the new tax tables is an accelerated depreciation of the assets beginning in the first year.

Michigan local governments are advised to anticipate continued reductions in personal property as a revenue source. Each year, numerous bills are introduced to carve out exceptions to the personal property statutes. In early 2011, a bill was introduced to exempt all personal property from taxation. While the bill did not return from Committee, this is not the first legislature to propose this amendment to the General Property Tax Act. Given the current economic climate and tax reform agenda, it would not be surprising to see a similar bill proposed in the future.

Income Tax

Like the decline in property tax revenue, the loss of income tax revenue will require significant effort to return to the 2006 level of $19.66 million. There are obvious reasons for the decline in income tax revenue such as job loss and population decline. There are, however, other underlying concerns for the income tax base.

How many jobs does the City need to attract to recover income tax revenue to the fiscal year 2006 level? There are three components to that calculation. First, the City of Flint's income tax rate is 1% for residents and 0.5% for nonresidents. Income excludes social security and pension income. Second, the calculation assumes that the base of taxpayers is one-third residents and two-thirds non-residents who reside in Genesee County. Third, median earnings from the 2009 U.S. Census Bureau's American Community Survey were used for City residents and Genesee County residents.

Based on the assumptions above, as shown in Exhibit VI - 6, the City would receive $183 per taxpayer each year. At that rate, 40,000 new taxpayers would be needed to return income tax revenue to the FY 2006 level.

Exhibit VI - 6 Estimated Number of Taxpayers Required to Recover Income Tax Revenue to FY 2006 Level

City of Flint
Estimated Number of Employees Required
to Recover Income Tax Revenue to FY 2006 Level

Category	Median Earnings	Income Tax Rate	Allocation (3)	Income Tax Revenue
Residents (1)	$ 24,019	1.0%	33.0%	$ 79
Nonresidents (2)	30,892	0.5%	67.0%	103
Weighted income tax revenue per taxpayer (3)				183

Number of Taxpayers	Revenue Generated
5,000	$ 913,755
10,000	1,827,509
20,000	3,655,018
30,000	5,482,527
40,000	**7,310,036**
50,000	9,137,545

Benchmarks (4)	Number of Employees
Largest employer (General Motors)	18,434
Total employees for ten largest employers	38,022

(1) City of Flint median earnings in 2009 dollars, U.S. Census Bureau
(2) Genesee County median earnings in 2009 dollars, U.S. Census Bureau
(3) Assumes one-third of taxpayers are city residents and two-thirds are county residents
(4) FY 2010 City of Flint Comprehensive Annual Financial Report

To put the estimate of 40,000 into perspective, that amount exceeds the total number of employees at the City's ten largest employers combined.

An underlying concern is that the number of wage earners compared to the total population is low. Exhibit VI - 7 compares the percentage of the population in the workforce at the city, county and state levels. The data is from the U. S. Census Bureau's 2005-2009 American Community Survey using five year estimates. The "employed" population represents those with work and "unemployed" are those actively looking for work and who are available to work. "Not in labor force" consists mainly of retirees, students, and others who are not looking for work.

The significance of this demographic information is the impact that it has on projecting income tax revenue. Based on the data, the burden for resident income tax falls on 44.2% of the population over the age of 16. While this level of data for the 2010 census has not been released yet, it is expected that the eligible income tax base will be stretched further. For comparison, the county and state are shown which reflect a labor force population that is less concentrated. For example, “not in labor force” is 46.8% for Flint compared to 40% for Genesee County and 36.6% statewide.

Exhibit VI – 7 Percent of Population in Workforce

City of Flint
Percent of Population in Workforce

U. S. Census Bureau Employment Status*	**City of Flint**		**Genesee County**		**State of Michigan**	
Population, Age 16 years or older	85,851	100.0%	334,539	100.0%	7,901,716	100.0%
In labor force	**45,669**	**53.2%**	**200,757**	**60.0%**	**5,007,456**	**63.4%**
Civilian labor force	45,630	53.2%	200,608	60.0%	5,001,503	63.3%
Employed	37,970	44.2%	177,144	53.0%	4,479,502	56.7%
Unemployed	7,660	8.9%	23,464	7.0%	522,001	6.6%
Armed forces	39	0.0%	149	0.0%	5,953	0.1%
Not in labor force	**40,182**	**46.8%**	**133,782**	**40.0%**	**2,894,260**	**36.6%**

* Based on 2005-2009 American Community Survey 5-Year Estimates

Source: U.S. Census Bureau

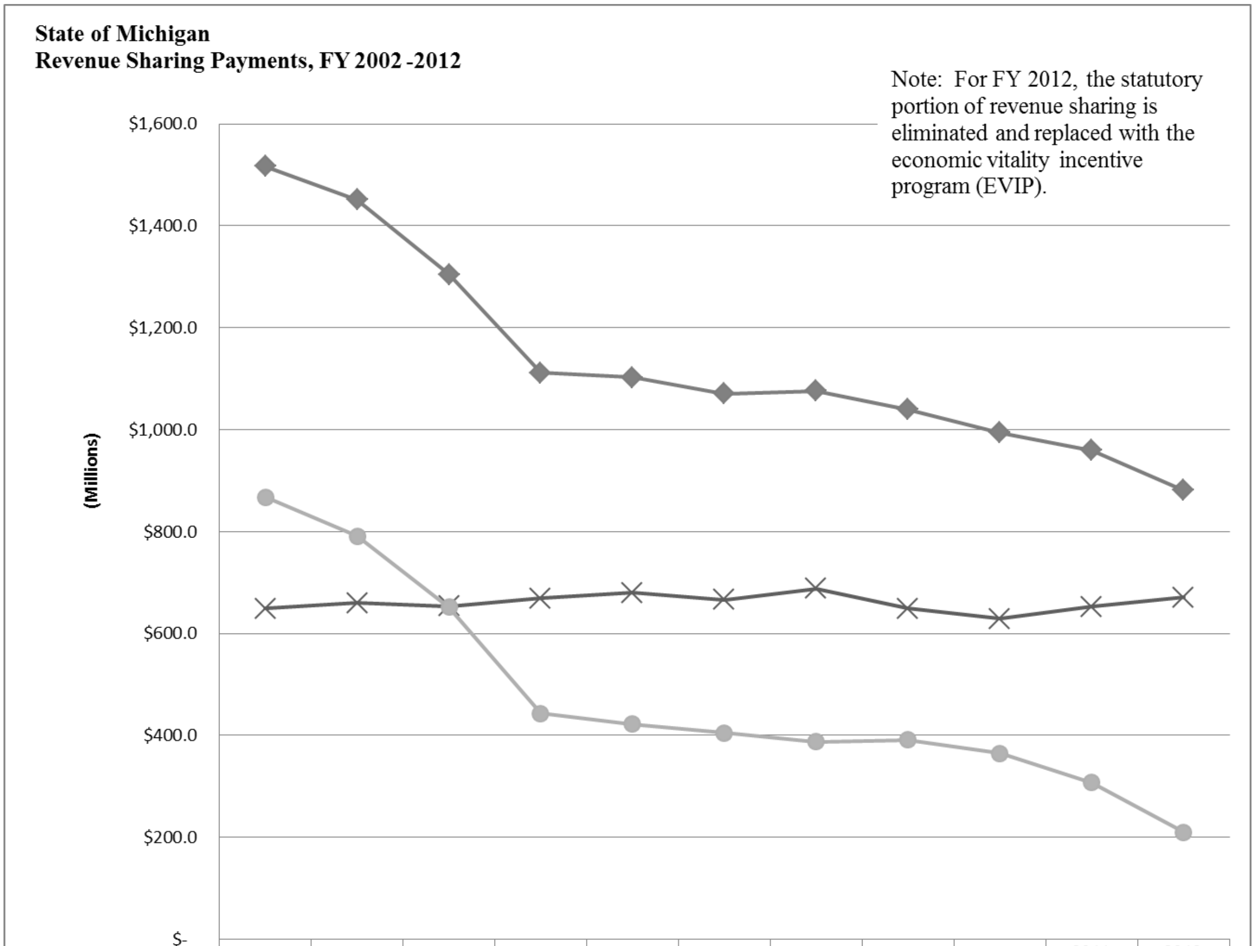
A final observation about the personal income tax is the effort needed to monitor and collect the taxes owed. Since the decline in revenue coincides with a reduction in administrative staff, a general concern is the loss of personnel that are able to preserve the revenue stream. Losing staff dedicated to timely collection of debts owed to the city, such as delinquent income taxes, could negatively impact the City’s cash flow and revenues.   While it is not known whether this is the scenario in Flint, this is an example of how cities in fiscal stress lose administrative capacity when they need it the most. In addition, finding an alternative method of providing that service, such as tax collection, often gets lost on the list of priorities.

State Shared Revenue

State shared revenue is funded from the statewide 6% sales tax. Allocation of revenue sharing is authorized by both the State's constitution and by statute. The Constitution requires 15% of the 4% gross collections of the state sales tax to be distributed to local units of governments. In addition, State statute provides for 21.3% of the 4% gross collections of the state sales to be distributed subject to the State's budget approval process. The statutory allocation for local government has consistently declined since the 1990's due to the State of Michigan's budgetary needs.

Budget reform efforts in 2011 have eroded this revenue source even further as shown in Exhibit VI - 8. With the passage the State's FY 2012, an "economic vitality incentive program" (EVIP) replaces the statutory portion of revenue effective October 1, 2011. To be eligible to receive the payment, municipalities must demonstrate accountability and transparency, develop plans to consolidate services that will result in savings, and meet key cost controls on employee compensation criteria.[xvi]

Exhibit VI – 8 Revenue Sharing Payments, FY 2002 - 2012



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Est.	2012 Est.
Total	$1,517.3	$1,451.4	$1,304.7	$1,112.0	$1,102.5	$1,070.9	$1,076.2	$1,040.1	$994.2	$959.3	$880.8
Constitutional	649.3	660.3	653.1	668.7	680.1	666.0	688.2	649.1	629.2	652.2	670.8
Statutory/EVIP	868.0	791.1	651.6	443.3	422.4	404.9	388.0	391.0	365.0	307.1	210.0

Source: State of Michigan House Fiscal Agency

Under the FY 2012 budget reform efforts, the City of Flint could lose up to $8.1 million of revenue in a one year time span as shown in Exhibit VI - 9. This equates to 14% of the FY 2011 General Fund revenue.

Exhibit VI – 9 City of Flint Revenue Sharing Estimate

City of Flint
Revenue Sharing for State Fiscal Year 2012

Type	FY 2011 Estimate	FY 2012 Budget	Net Revenue Loss
Constitutional	$ 8,100,871	$ 8,292,554	$ 191,683
Statutory*	8,323,217	-	(8,323,217)
EVIP**	not applicable	unknown	-
Total	$ 16,424,088	$ 8,292,554	$ (8,131,534)

* Statutory revenue sharing is eliminated as of October 1, 2011.
** EVIP is the economic vitality incentive program effective October 1, 2011.

Source: State of Michigan House Fiscal Agency

The City administration is earnestly concerned about meeting the three EVIP requirements to recover the maximum amount of state shared revenue. First, the City began design of the required accountability and transparency tool. Second, the City commenced exploring additional opportunities to plan for consolidating services to achieve budget savings. Third, the City has incorporated key cost controls on employee compensation outlined in the EVIP criteria into current labor negotiations. Provided those three criteria are met, the City will receive its maximum share of revenue, albeit from a statewide budget allocation that is 31% less than the prior year.

Thus far the discussion has centered on the City's ability to bring its revenues back to a 2006 level when the City ended the fiscal year with a surplus. Since that time, the City has experienced a 46% cumulative loss in its three largest sources of revenues: property tax, income tax, and state shared revenue. Without historic economic investment and or state policy intervention, restoring those revenues is not likely. If it were possible to restore those revenues, would the 2006 levels be sufficient to effectively deliver service to the City of Flint's residents and property owners? To explore that question, the next task is to identify the costs and scope of service delivery for a city with a population of 100,000 covering 34 square miles.

Expenditures

The City of Flint's financial picture has been tumultuous at best over the past decade. If one were to do an expenditure budget forecast, a natural starting place is the existing budget. Such a methodology presumes a certain level of stability in the operating environment, consistency in leadership, a presumed level of services, and some degree of reasonableness in expenditure levels. This is not the situation for the City of Flint. The rapid decline in revenues, numerous changes in leadership, assignment of an emergency financial manager, double digit decline in population, significant reductions in workforce without meaningful reorganization, uncontrolled personnel costs, and the inability to develop a long-term vision throughout this process leads to developing an alternative method to evaluate the expenditure side of the budget equation.

What should be the appropriate per capita expenditure level for the City of Flint? There are two steps in examining this question. The first is to gain an understanding of what similarly sized cities with similar revenue constraints spend on a per capita basis. Taking that benchmark data into account, the second step is to consider additional factors that are unique to Flint.

Benchmark Selection

Cases selected for benchmark comparisons were chosen from cities in Michigan because they are subject to the same statutes that impact their budget, labor environment, and economic climate. In addition, city forms of government were selected for comparison although Michigan does have some townships that are close to Flint in size of population. At a minimum, however, townships have different statutes related to taxes and debt that do not make them good candidates for comparison. A population range of plus or minus 20% of Flint's population appears to be a reasonable basis for benchmarking expenditure levels.

As shown in Exhibit VI – 10, the set of cities selected for comparison would be different based on the 2000 and 2010 decennial census data. The City of Flint's loss of 18% of its population over the past decade alters the candidates for benchmarking. The cases utilizing the 2000 census were selected because historically Flint would have been grouped with larger cities for analysis. That history is important because of the Act 312 comparability implications and the related impact on benefit costs. For purposes of per capita calculations, however, the 2010 census figures will be used since the purpose of this analysis to develop a framework for evaluating future budget needs.

It should be noted that a conscious decision was made to not utilize a benchmark selection process that used only cities that appear to be in chronic fiscal stress. While that is an important question that should be explored with other research, it would not help to identify a preferred budget scenario. The last section of this paper will instead identify avenues that cities in chronic fiscal stress have pursued to address their long-term budgetary challenges.

Exhibit VI – 10 Cases Selected for Benchmarking

City of Flint
Cases Selected for Expense Benchmarking

Place	2000 Census Population	2000 Census Rank	2000 Census Within +/- 20%	2010 Census Population	2010 Census Rank	2010 Census Within +/- 20%	10 Year Population Change
Detroit	951,270	1		713,777	1		-25.0%
Grand Rapids	197,800	2		188,040	2		-4.9%
Warren	138,247	3	X	134,056	3		-3.0%
Sterling Heights	124,471	5	X	129,699	4		4.2%
Ann Arbor	114,024	6	X	113,934	5	X	-0.1%
Lansing	119,128	7	X	114,297	6	X	-4.1%
Flint	**124,943**	**4**	**X**	**102,434**	**7**	**X**	**-18.0%**
Dearborn	97,775	9		98,153	8	X	0.4%
Livonia	100,545	8	X	96,942	9	X	-3.6%
Clinton Charter Township	95,648	10		96,796	10	X	1.2%
Canton Charter Township	76,366	16		90,173	11	X	18.1%
Westland	86,602	11		84,094	12	X	-2.9%
Troy	80,959	13		80,980	13		0.0%
Farmington Hills	82,111	12		79,740	14		-2.9%
Macomb Township	50,478	30		79,580	15		57.7%
Range for Analysis							
20% more in popultaion	149,932			122,921			
20% less in population	99,954			81,947			

Source: U. S. Census Bureau

The selected benchmark cities are Warren, Sterling Heights, Ann Arbor, Lansing, and Livonia. Background information is presented in Exhibit VI – 11 to better understand their similarities and differences.

Like Flint, some do have automotive manuacturer presence, large parcels of land dedicated for tax-exempt higher education purposes, and a strong mayor form of government. For budgeting purposes the automotive presence is important because of the possibility for loss of personal property tax revenue. The presence of higher education also places unique service demands on the community, although there is often a payment in lieu of taxes arrangement or shared service opportunties. The form of government may be a factor if either strong political leadership or administrative ability are lacking.

Compared to the other cities, Flint's tax base is low. This may result in a higher tax rate and strained financial resources. The poverty level in Flint is also the highest among the benchmark commuinities. This is an added consideration when providing services to meet constituent needs.

Exhibit VI – 11 Background Information for Benchmark Cities

City of Flint
Background Information for Benchmark Cities

Description	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren
County Location	**Genesee**	Wayne	Washtenaw	Ingham	Macomb	Macomb
County seat	**X**		X			
Form of Government	**Strong Mayor**	Strong Mayor	Council Manager	Strong Mayor	Council Manager	Strong Mayor
Description	**Core city**	Suburb of Detroit	Core city	Core city	Suburb of Detroit	Inner ring suburb of Detroit
2010 Population (A)	**102,434**	96,942	113,934	114,297	129,669	134,056
Population as a % of Flint	**100%**	95%	111%	112%	127%	131%
Square Miles (A)	**33**	35	27	35	36	34
Tax Base						
Taxable value (billion), 2010 (C)	**$1.31**	$4.39	$4.69	$2.35	$4.52	$4.07
Tax base commonalities						
Auto manufacturer presence	**X**	X			X	X
Tax exempt property						
- higher education	**X**		X			
City income tax	**X**			X		
Demographic Information						
Race (white/black/other) (A)	**37 / 57 / 6**	92 / 3 / 5	73 / 8 /19	61 / 24 / 15	85 / 5 /20	78 / 14 / 8
Owner occupied housing (A)	**55.3%**	86.3%	44.8%	53.7%	76.2%	74.3%
Mean earnings in 2009 Dollars (B)	**$38,841**	$61,153	$67,843	$40,381	$55,306	$46,196
Families below poverty level (B)	**29.9%**	2.1%	6.2%	18.3%	6.4%	9.4%
Individuals below poverty level (B)	**34.9%**	3.9%	22.7%	24.5%	7.9%	11.9%

A - 2010 U. S. Census
B - U. S. Census Bureau, 2005-2009 American Community Survey 5-Year Estimates
C - State of Michigan Department of Treasury

Expense Analysis

Expenses were obtained from the statement of activities in the audited financial statements for each of the benchmark cities. The statement of activities is used because it brings the financial activity together in one place, provides greater comparability by using the accrual method of accounting, and the classification of expenses is more consistent across different cities than fund basis statements. These considerations facilitate effective benchmarking. As it relates to terminology, the statement of activities refers to expenses whereas the fund basis statements refers to expenditures (except for the enterprise fund because it uses the accrual basis of accounting).

The statement of activities is one of the government-wide statements under Governmental Accounting Standards Board Statement (GASB) No. 34. Those statements present governmental activities and business-type activities into one report format. Together, those activities represent the total primary government. It should be noted that fiduciary funds (such as pension trusts and agency funds) are not included in the government-wide statements because those are not resources that belong to the government. Component units (legally separate entities for which the primary government is financially accountable such as downtown development authorities) are shown separately on the statement of activities.[xvii] They are therefore excluded from the primary government totals and are not included in the scope of this benchmarking analysis.

The analysis begins by comparing the FY 2010 expenses on a per capita basis among the benchmark communities. This is shown in Exhibit VI – 12. There are several noteworthy observations.

Exhibit VI – 12 Analysis of FY 2010 Per Capita Expenses for Selected Michigan Cities

City of Flint
Analysis of FY 2010 Per Capita Expenses for Selected Michigan Cities
(based on population size plus/minus 20% of City of Flint)

	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren	Average
Population	102,434	96,942	113,934	114,297	129,699	134,056	
Statement of Activities							
General government	$ 60,004,313	$ 11,768,300	$ 21,330,112	$ 40,041,758	$ 12,274,562	$ 33,044,014	
Public safety	57,784,496	37,094,584	43,010,458	84,566,215	52,695,852	62,875,335	
Public works	27,224,651	25,405,085	27,758,362	29,252,516	25,269,096	20,503,197	
Recreation and culture	5,431,010	14,333,768	7,945,806	7,312,480	5,695,827	13,255,263	
Interest on long term debt	806,637	1,623,747	3,297,914	2,229,288	1,086,571	4,814,715	
Total governmental activities	151,251,107	90,225,484	103,342,652	163,402,257	97,021,908	134,492,524	
Business-type activities	72,063,719	30,020,064	51,258,141	39,019,863	30,901,624	35,598,599	
Total primary government	$ 223,314,826	$ 120,245,548	$ 154,600,793	$ 202,422,120	$ 127,923,532	$ 170,091,123	
Per Capita Expenses							
General government	$ 586	$ 121	$ 187	$ 350	$ 95	$ 246	$ 258
Public safety	564	383	378	740	406	469	489
Public works	266	262	244	256	195	153	225
Recreation and culture	53	148	70	64	44	99	78
Interest on long term debt	8	17	29	20	8	36	20
Total governmental activities	1,477	931	907	1,430	748	1,003	1,070
Business-type activities	704	310	450	341	238	266	374
Total primary government	$ 2,180	$ 1,240	$ 1,357	$ 1,771	$ 986	$ 1,269	$ 1,444
Total as a Percent of Average	151%	86%	94%	123%	68%	88%	100%

Note: City of Flint excludes hospital expenses to improve comparability.

Source: comprehensive annual financial report for each community

In fiscal years 2010, total primary government per capita expenses for Flint were $2,180 or 51% percent higher than the average of $1,444. This begs the question of why and whether there are some categories that account for this more than others. To address those questions, the per capita amounts are further analyzed as a percent of average as shown in Exhibit VI – 13.

The City of Flint's per capita expenses in fiscal year 2010 (Exhibit VI - 13) stands out as being the highest in general government and in business-type activities. Flint's public works expense is also high, but it falls in a range closer to the benchmark communities. Conversely, Flint is lowest per capita in interest expense and near the low end for recreation and culture. Public safety is the second highest after the City of Lansing.

Exhibit VI – 13 Analysis of FY 2010 Per Capita Expenses as a Percent of Average

City of Flint
Analysis of FY 2010 Per Capita Expenses as a Percent of Average for Selected Michigan Cities
(based on population size plus/minus 20% of City of Flint)

	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren	Average
Governmental activities							
General government	**227%**	47%	73%	136%	37%	95%	100%
Public safety	115%	78%	77%	**151%**	83%	96%	100%
Public works	**118%**	117%	108%	114%	87%	68%	100%
Recreation and culture	68%	**189%**	89%	82%	56%	127%	100%
Interest on long term debt	39%	84%	144%	97%	42%	**179%**	100%
Total governmental activities	**138%**	87%	85%	134%	70%	94%	100%
Business-type activities	**188%**	83%	120%	91%	64%	71%	100%
Government-wide	**151%**	86%	94%	123%	68%	88%	100%

To rule out any unusual trends for one year, the same analysis as above was performed for fiscal year 2006. That year was selected for consistency with the earlier analysis that focused on 2006 revenue levels.

Exhibit VI – 14 Analysis of FY 2006 Per Capita Expenses as a Percent of Average

City of Flint
Analysis of FY 2006 Per Capita Spending for Selected Michigan Cities
(based on 2010 population size plus/minus 20% of City of Flint)

	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren	Average
Governmental activities							
General government	**169%**	48%	72%	157%	39%	118%	100%
Public safety	108%	90%	95%	**129%**	78%	102%	100%
Public works	90%	123%	105%	**131%**	88%	72%	100%
Recreation and culture	61%	**195%**	83%	96%	64%	114%	100%
Interest on long term debt	23%	56%	72%	56%	102%	**250%**	100%
Total governmental activitie	114%	95%	90%	**132%**	70%	103%	100%
Business-type activities	**148%**	81%	121%	125%	63%	74%	100%
Government-wide	**123%**	91%	99%	130%	68%	95%	100%

In comparing the two years, the City of Flint is consistently higher in the categories of general government and business type activities. If the City were using benchmarking as a management tool, this analysis highlights two areas that would be worthy of further review.

As shown below in Exhibit VI – 15, the total primary government fiscal year 2006 per capita expense for Flint is $1,583. This is 23% percent higher than the average of $1,287.

Exhibit VI – 15 Analysis of FY 2006 Per Capita Expenses for Selected Michigan Cities

City of Flint
Analysis of FY 2006 Per Capita Spending for Selected Michigan Cities
(based on 2010 population size plus/minus 20% of City of Flint)

	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren	Average
Population	102,434	96,942	113,934	114,297	129,699	134,056	
Statement of Activities							
General government	$ 40,158,496	$ 10,855,642	$ 19,079,351	$ 41,500,253	$ 11,625,392	$ 36,720,509	
Public safety	45,291,068	35,713,096	44,026,682	60,047,271	41,327,439	55,968,750	
Public works	19,488,952	25,249,352	25,414,138	31,790,944	24,181,418	20,408,851	
Recreation and culture	4,506,042	13,623,245	6,810,978	7,881,212	5,989,344	11,001,914	
Interest on long term debt	436,774	1,013,620	1,539,263	1,197,851	2,463,042	6,254,880	
Total governmental activities	109,881,332	86,454,955	96,870,412	142,417,531	85,586,635	130,354,904	
Business-type activities	52,305,693	27,032,659	47,651,771	49,374,923	28,106,435	34,060,920	
Total primary government	$ 162,187,025	$ 113,487,614	$ 144,522,183	$ 191,792,454	$ 113,693,070	$ 164,415,824	
Per Capita Expenses							
General government	$ 392	$ 112	$ 167	$ 363	$ 90	$ 274	$ 231
Public safety	442	368	386	525	319	418	408
Public works	190	260	223	278	186	152	212
Recreation and culture	44	141	60	69	46	82	72
Interest on long term debt	4	10	14	10	19	47	19
Total governmental activities	1,073	892	850	1,246	660	972	942
Business-type activities	511	279	418	432	217	254	345
Total primary government	$ 1,583	$ 1,171	$ 1,268	$ 1,678	$ 877	$ 1,226	$ 1,287

Note: City of Flint excludes hospital expenses to improve comparability.

In comparing 2006 with 2010 (Exhibit VI – 12), an unexpected relationship was observed. The total primary government per capita expenses was higher in 2010 at $2,180 by 69%. Although inflation is part of the explanation, this also occurred at a time when there were staff reductions and budgetary shortfalls. That scenario, however, was playing out through almost all local governments in Michigan. Did the benchmark communities also see an increase in expenses during that time period? If so, to what extent? To answer that question, an analysis was prepared (Exhibit VI – 16) to examine the relationship between the two years.

Exhibit VI – 16 Comparison of FY 2010 to 2006 Expenses for Selected Michigan Cities

City of Flint
Comparison of FY 2010 to 2006 Expenses for Selected Michigan Cities
(based on population size plus/minus 20% of City of Flint)

	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren	Average
Population	102,434	96,942	113,934	114,297	129,699	134,056	
Total primary government expenses from Statement of Activities							
FY 2010	$ 223,314,826	$ 120,245,548	$ 154,600,793	$ 202,422,120	$ 127,923,532	$ 170,091,123	
FY 2006	162,187,025	113,487,614	144,522,183	191,792,454	113,693,070	164,415,824	
Net Increase - FY 2006 to 2010	$ 61,127,801	$ 6,757,934	$ 10,078,610	$ 10,629,666	$ 14,230,462	$ 5,675,299	
Net increased as a %	37.7%	6.0%	7.0%	5.5%	12.5%	3.5%	12.0%
Net increase per capita	$ 597	$ 70	$ 88	$ 93	$ 110	$ 42	$ 167

Note: City of Flint excludes hospital expenses to improve comparability.

The increase in per capita expenses for the City of Flint was 37.7% while the average increase of the benchmark communities was 12%. In 2010, the City of Flint had the highest overall level of expenses of the benchmark communities but the lowest tax base (as noted in Exhibit VI-11). From fiscal year 2006 to 2010, there was a major accounting change related to postemployment benefits. Perhaps that could explain the difference.

Beginning with the fiscal year 2008, the City of Flint implemented Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pension*. That year, the City's government-wide financial statements began to recognize the cost of providing retiree health care over the working life of the employee, rather than at the time the health care premiums are paid. To determine if this accounting rule explained the increase in the above average increase in expenses, the following analysis was performed as shown in Exhibit VI - 17.

For each city, the expense under the prior accounting rule in 2006 was subtracted from OPEB expense under the new accounting rule in 2010. That difference was converted to a per capita amount and compared with the overall increase as previously shown in Exhibit VI – 16. The result is the increase or decrease in expense for reasons other than OPEB. For the City of Flint, OPEB explains $402 of the $597 per capita increase in expenses from 2006 to 2010. The remaining increase in expense of $195 per capita is still four times higher than the average cost increase of the average benchmark of $47 per capita.

Exhibit VI – 17 Comparison of FY 2010 to 2006 OPEB Expenses and Total Expenses

City of Flint
Comparison of FY 2010 to 2006 OPEB Expenses for Selected Michigan Cities
(based on population size plus/minus 20% of City of Flint)

	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren	Average
Population	102,434	96,942	113,934	114,297	129,699	134,056	
Annual OPEB expense reflected in Statement of Activities							
FY 2010	$ 57,295,237	$ 6,169,497	$ 14,355,000	$ 27,171,758	$ 11,604,200	$ 16,872,870	
FY 2006	16,159,616	7,755,379	7,292,343	11,223,519	4,583,990	6,570,757	
Net Increase/(Decrease) FY 2006 to 2010	$ 41,135,621	$ (1,585,882)	$ 7,062,657	$ 15,948,239	$ 7,020,210	$ 10,302,113	
Per capita increase in expense from 2006 to 2010							
Overall increase in per capita Expenses from 2006 to 2010	$ 597	$ 70	$ 88	$ 93	$ 110	$ 42	$ 167
Net increase/(decrease) due to OPEB expense	402	(16)	62	140	54	77	120
Increase (Decrease) for reasons other than OPEB	$ 195	$ 86	$ 26	$ (47)	$ 56	$ (35)	$ 47

Note: City of Flint excludes hospital expenses to improve comparability.

The goal of the benchmarking analysis was to gain an idea of what similarly sized cities spend on a per capita basis. Flint was found to have the highest per capita spending in several categories. In preparing a forecast for the City of Flint, its current spending level cannot be ignored. The benchmarking has illuminated some areas for potential efficiencies. There are some areas, however, that may be underfunded. Those are public safety and public works.

Public Safety

The City of Flint's crime statistics exceed the benchmark communities as shown below in Exhibit VI – 18.

Exhibit VI – 18 City of Flint Crime Statistics, 2008

City of Flint
Offenses Known to Law Enforcement
Based on Calendar Year 2008 for Selected Michigan Cities

	Violent Crime					**Property Crime**				
City	**Total Violent Crime**	Murder and nonnegligent manslaughter	Forcible rape	Robbery	Aggravated assault	**Total Property crime**	Burglary	Larceny-theft	Motor vehicle theft	Arson
Flint	**2,297**	**32**	**103**	**686**	**1,476**	**6,889**	**3,273**	**2,707**	**909**	**145**
Lansing	1,181	11	95	269	806	4,261	1,462	2,484	315	54
Warren[1]	661	4	60	181	416	n/a	769	1,786	n/a	32
Ann Arbor	295	0	32	66	197	3,121	622	2,353	146	13
Sterling Heights	228	2	26	49	151	2,834	467	2,166	201	8
Livonia	132	0	13	43	76	2,103	318	1,526	259	26

[1] Some data not available - the FBI determined that the agency's data was overreported. Consequently, that data is not included.

Source: United States Department of Justice, Federal Bureau of Investigation

In addition, the City of Flint's number of law enforcement personnel is less than two of the cities that have lower crime rates. A reasonable budget forecast should address the law enforcement needs of the community.

Exhibit VI – 19 City of Flint Full-time Law Enforcement Employees, 2008

City of Flint
Full-time Law Enforcement Employees
Based on Calendar Year 2008 for Selected Michigan Cities

City	**Total law Enforcement Employees**	**Total Officers**	**Total Civilians**
Lansing	322	240	82
Warren	271	230	41
Flint	**233**	**201**	**32**
Sterling Heights	221	166	55
Ann Arbor	203	149	54
Livonia	183	148	35

Source: United States Department of Justice, Federal Bureau of Investigation

Public Works

The City of Flint has the highest total number of street miles to maintain compared to the benchmark communities. Properly maintaining streets, including snow removal, is personnel and capital intensive. This should be considered when forecasting budget needs.

Exhibit VI – 20 City of Flint Benchmark Cities, Street Miles

City of Flint
Benchmark Cities - Street Miles

Catergory	Flint	Livonia	Ann Arbor	Lansing	Sterling Heights	Warren
Major	**152**	61	99	107	63	97
Local	**356**	311	198	303	286	316
State trunkline	**46**	32	37	65	21	34
Total	**554**	404	333	475	370	447

Source: Michigan Department of Transportation

Most of the governmental capital activities are related to public works. Exhibit VI – 21 shows governmental capital asset activity over the past five years. Capital grants and contributions have funded approximately one-half of asset additions from fiscal years 2006 through 2010. Asset additions do exceed depreciation, although that relationship can be misleading. This is because depreciation is a historical cost number. In addition, infrastructure assets are depreciated over 10 to 50 years.

Exhibit VI – 21 City of Flint Capital Asset Activity, 2006 through 2010

City of Flint
Governmental Activities
Capital Asset Activity from Fiscal Years 2006 through 2010

	2006	2007	2008	2009	2010	Cumulative
Statement of Activities						
Capital Grants and Contributions Revenue	$ 4,523,574	$18,063,785	$ 8,850,442	$10,162,836	$ 4,436,527	$ 46,037,164
Asset Additions Compared to Annual Depreciation						
Asset Additions	$ 17,241,646	$ 31,314,627	$ 19,974,127	$ 12,723,258	$ 11,709,521	$ 92,963,179
Depreciation	13,708,007	16,041,306	15,918,510	17,314,763	17,065,231	80,047,817
Net Additions in Excess/(Under) Depreciation	$ 3,533,639	$ 15,273,321	$ 4,055,617	$ (4,591,505)	$ (5,355,710)	$ 12,915,362

Legacy Costs

It is plausible that the negative cash flow in the pension system and stock market concerns will necessitate increases in pension contributions in the near future. The maturity of the workforce and the absence of a long-term resolution of OPEB costs suggest that this expense will continue to consume a greater share of available resources. For those reasons, it is important to build legacy cost funding into budgetary forecasts utilizing different assumptions.

The analysis in Exhibit VI-22 demonstrates the projected increase of the funding gap in the annual OPEB costs at five year intervals. The projection shows three assumption levels of future healthcare cost increases (at 3%, 5%, or 7% per year). The analysis also provides effect of OPEB funding beyond the cost of current retiree healthcare premiums based upon the 2007 actuarial report.[xviii] Contribution policy #1 represents the existing policy of pay-as-you-go which results in an annual funding gap of 64%. Contribution policy #2 is funding the pay-as-you-go amount plus 25% of the gap between fully funded and no pre-funding. This results in a total annual funding gap of 50%. Contribution policy #3 is based on funding pay-as-you-go plus 100% of fully funded annual required contribution resulting in no funding gap.

Estimating future cost increases in healthcare is inherently challenging. By looking at a range of 3% to 7%, it becomes clearer how even a minor fluctuation in cost increases has a pronounced long-term impact. Under contribution policy #1, for example, the projected funding gap could range from $44.9 to $54.4 million in fiscal year 2012. Looking ten years beyond, in 2022, that gap varies from $60.4 to $107 million.

The financial impact of prefunding even a portion of the OPEB liability can have a material impact on future budgets. Comparing the more optimistic assumption of 3% annual healthcare cost increase among the three different contribution policies illustrates this concept. For fiscal year 2012 the effect of no prefunding results in an annual OPEB cost of $69.7 million whereas prefund 25% of the gap lowers that amount to $63.9 million. Fully funding the annual cost lowers the contribution to $51.6 million.

The magnitude in dollar amount based on the varying assumptions further highlights the critical need for long-term planning. By analyzing future costs, decision makers are able to make informed decisions in the present to minimize consequences in the future. The ability to align current budget resources with affordability of long-term commitments is paramount to achieving long-term sustainability.

Exhibit VI – 22 Projection of Funding Gap in Annual OPEB Costs

City of Flint
Projection of Funding Gap in Annual OPEB Costs
(using assumptions of 3%, 5%, or 7% annual cost increases in healthcare)
Based on Actuarial Dated December 7, 2007
At Five Year Intervals

	2007	2012	2017	2022
Contribution Policy #1: No Pre-Funding (pay-as-you-go)				
Assuming a 3% Annual Cost increase				
Annual OPEB Cost	$ 60,188,371	$ 69,774,818	$ 80,888,138	$ 93,771,521
Contributions based on funding policy	21,382,366	24,788,023	28,736,112	33,313,030
Funding Gap	38,806,005	44,986,796	52,152,026	60,458,491
Assuming a 5% Annual Cost increase				
Annual OPEB Cost	$ 60,188,371	$ 76,817,308	$ 98,040,514	$ 125,127,301
Contributions based on funding policy	21,382,366	27,289,919	34,829,621	44,452,403
Funding Gap	38,806,005	49,527,389	63,210,893	80,674,897
Assuming a 7 %Annual Cost increase				
Annual OPEB Cost	$ 60,188,371	$ 84,417,304	$ 118,399,636	$ 166,061,614
Contributions based on funding policy	21,382,366	29,989,874	42,062,350	58,994,622
Funding Gap	38,806,005	54,427,429	76,337,285	107,066,992
Contribution Policy #2: Funding pay-as-you-go plus 25% of gap between fully funded and no pre-funding				
Assuming a 3% Annual Cost increase				
Annual OPEB Cost	$ 55,204,917	$ 63,997,629	$ 74,190,792	$ 86,007,462
Contributions based on funding policy	27,610,955	32,008,664	37,106,815	43,016,968
Funding Gap	27,593,962	31,988,965	37,083,978	42,990,494
Assuming a 5% Annual Cost increase				
Annual OPEB Cost	55,204,917	$ 70,457,018	$ 89,922,993	$ 114,767,058
Contributions based on funding policy	27,610,955	35,239,353	44,975,336	57,401,192
Funding Gap	27,593,962	35,217,665	44,947,656	57,365,865
Assuming a 7% Annual Cost increase				
Annual OPEB Cost	$ 55,204,917	$ 77,427,752	$ 108,596,427	$ 152,312,107
Contributions based on funding policy	27,610,955	38,725,793	54,314,928	76,179,496
Funding Gap	27,593,962	38,701,959	54,281,500	76,132,611
Contribution Policy #3: Funding pay-as-you-go plus 100% of fully funded annual required contribution				
Assuming a 3% Annual Cost increase				
Annual OPEB Cost	$ 44,512,470	$ 51,602,152	$ 59,821,038	$ 69,348,978
Contributions based on funding policy	44,512,470	51,602,152	59,821,038	69,348,978
Funding Gap	-	-	-	-
Assuming a 5% Annual Cost increase				
Annual OPEB Cost	$ 44,512,470	$ 56,810,445	$ 72,506,123	$ 92,538,228
Contributions based on funding policy	44,512,470	56,810,445	72,506,123	92,538,228
Funding Gap	-	-	-	-
Assuming a 7% Annual Cost increase				
Annual OPEB Cost	$ 44,512,470	$ 62,431,042	$ 87,562,766	$ 122,811,309
Contributions based on funding policy	44,512,470	62,431,042	87,562,766	122,811,309
Funding Gap	-	-	-	-

Long Term Solvency Scenarios

Two long-term solvency scenarios have been compiled. The scenarios use the statement of activities for fiscal year 2010 as a starting point. The advantage of the full accrual basis is that it already takes into account the full contribution for OPEB, employee leave payouts, and depreciation (as a measure of replacement cost, albeit with the limitations as noted above). The scenarios are presented in Appendix A (pessimistic) and Appendix B (optimistic). Key differences are highlighted in the table below.

Category	Scenario A - Pessimistic	Scenario B - Optimistic
Income Taxes	Based on the analysis at Exhibit VI – 2, a decrease of 5% for two more years is shown	Same
Property taxes	Based on analysis at Exhibit IV - 4	Same
State shared revenue	Based on deficit elimination plan for FY 2012	Same
Business type revenues	Annual rate adjustment of 8% to 20% to maintain solvency for those operations	Annual rate adjustment of 5% to maintain solvency for those operations
Public Safety	Increased 25% in FY 2012 for strategic use of personnel, technology, or other measures to address crime rate	Same
All other operational expense categories	Increase 8% based on City's history of annual increases (Exhibit VI – 16)	Increase 5%

Both scenarios begin with the audited statement of activities as of June 30, 2010. The full accrual nature of that statement gives insight into the level of structural deficit. With hospital activity being excluded, the structural deficit is $73.7 million. Of that amount, $48.1 million is attributable to governmental activities and $25.6 million is related to business type activities. To the extent that the City can control its expenses, business type activities should be self-sustaining. Governmental activities do not provide the City with much opportunity to increase revenues. Projecting ten years forward to fiscal year 2021, the City could have an annual structural deficit of $186.2 million under the optimistic scenario and $286.6 million under the pessimistic scenario.

Long-term forecasting could be altered by numerous situations going forward. Those include the following.

1. The possibility that taxable value and SEV will drop further before market stabilization occurs. The extent of market price declines, foreclosures and distress sales that may suppress prices and erode valuations. The tax rolls will also be lowered by the removal of abandoned and dangerous houses and other buildings.

2. The extent to which the City will be faced with "charge backs" from the county for delinquent real parcels that did not sell or sold for less than the taxes due.

3. The City's ability to obtain additional long term stabilization if needed.

Managing Cash Flow

Cities in chronic fiscal stress must closely monitor cash balances. In their series "Fiscal First Aid Quick Reference," the Government Finance Officers Association presents guidance to develop cash flow reporting. In that document they state the following:

> "Cash flow forecasting should be done throughout the organization. This allows the jurisdiction to coordinate spending patterns and balance the flow of funds. In a financial crisis, cash flow reporting takes on renewed importance. Cash is critical for short term operations. It pays the salaries and rents, and buys the equipment, supplies, and tools. Governments in a financial crisis should develop monthly and perhaps even weekly cash flow forecasts."[xix]

The reality is that cities in chronic fiscal stress often do not have the administrative capacity or systems to manage the cash flow. Managing fiscal stress requires a unique skill set that is not readily available within the organization. This is either because those skills were not as critical previously, staff reductions eliminated skilled individuals, or remaining staff is spread too thin to address the increased level of financial analysis needed to manage the fiscal stress.

VII. SOLUTIONS

Viable communities are dependent on adequate police and fire protection and decent roads, water and sewer systems. How do cities address the true costs of the providing services? The growing imbalance between revenues and expenses is not just due to management and labor issues but to a fundamental disconnect between costs and benefits. No business could survive if it could not, over the long term, raise rates to cover costs. Neither can government. Government, to a large extent, is an internal service fund of the larger community. It reflects costs that must be incurred to provide sustainability in the region. While there is no question that many costs have not been managed well, it is also true that the communities have been told for decades that the imbalances were structural and growing. The solutions to these problems are not short term fixes; they will require policy, legislative and attitudinal changes if they are to work in the longer term.

Revenue

Few businesses would survive the revenue losses that cities like Flint have sustained. Yet "going out of business" is not an option for the City. The core purpose of a city is to provide for the safety, health, and welfare of the community. Restructuring the revenue side of the municipal budget equation can happen overnight by legislative action. Adjusting service expectations and costs is not readily correctable. At what point is a minimal level of service acceptable? Is that concept contradictory to being viable or sustainable?

This case study has addressed the revenue challenges for Flint and has also encompassed other cities that are in a better financial position, but are still struggling with similar issues. At what point do public services continue to bend to budget challenges before they are broken? While the scope of this analysis does not examine revenue policy options, it does highlight the need for thoughtful, long-term restructuring of funding for local government services.

Restructuring the Budget Equation

The benchmark analysis highlighted areas where the City of Flint may have opportunities to address cost-effectiveness. It is possible that ongoing periods of retrenchment have not left the City with an organizational structure that is allocating resources optimally. One way that reallocation of funds can be addressed is through the use of zero based budgeting. The concept is that a base level is established that is committed or unquestioned. Oakland, California adopted a method of zero base budgeting (ZBB) in the advent of Proposition 13. ZBB was used as a tool to view the budget as a base and add back those items determined to be the highest priorities. Transparency is an important element in the decision making process for ZBB.[xx]

A current application of ZBB may provide a greater understanding of the process and its outcomes. Forecasting a structural budget deficit that could reach $25 million by the year 2015, the City of Newton, Massachusetts began implementing zero based budgeting in 2010. Newton serves a population of 82,000 and has an FY 2012 budget approaching $300 million.

Recognizing the significant effort in instituting a change in the budget process, Newton began with a few departments. This current example of budget restructuring could be insightful for cities facing fiscal stress. In order for ZBB to be successful, it requires training and commitment throughout the organization.[xxi]

Multi-year Budgeting

Especially in an uncertain economic climate, prudent financial planning dictates a multi-year perspective. Based on well-defined assumptions, a multi-year budget involves projecting revenues and expenditures over the next two to five years. This effort enables the City's leadership and administration to get ahead of budget crises rather than being in a reactive posture. Based on the City of Flint's financial challenges, a five year budget plan would allow the City to develop a financial blueprint over a time period that goes beyond labor contract terms, construction commitments, and political cycles. Thinking long-term encourages management, including department directors, to lengthen and broaden their perspective. Cities in fiscal stress rarely have time to think about the future. The multi-year budget enables staff, policymakers and the electorate to devise more effective strategies for the City's future.[xxii] Like ZBB, support for implementing a multi-year budget requires commitment from all levels of the organization. Once established, the plan does build efficiencies into future budget cycles.

Thinking Long-term

While it may seem futile for cities in fiscal stress to implement capital improvement planning, such a process does quantify unmet needs. Unless those needs are quantified, they will not be addressed until a crisis occurs. Planning brings everyone to the table so that resources may be allocated or contingency plans developed. A documented plan also spans turnover in key players so that successive leaders and managers are not "recreating the wheel."

Development of a long-term strategy applies to personnel as well. Succession planning, especially in an environment with a mature workforce, is essential to passing along institutional knowledge and smooth transitions when turnover occurs. A long-term plan would also be appropriate for the overall compensation package that attracts and retains employees while balancing cost.

Strategic Planning

The change in the City of Flint's population, tax base, and economy has significantly altered its environment. Strategic planning may help the City's leadership to channel their resources for the City's future. The purpose of strategic planning is to "maintain a favorable balance between an organization and its environment over the long run."[xxiii] A strategic plan gathers information about the big picture of the City's environment and uses it to establish a long-term direction that translates into specific goals, objectives, and actions.[xxiv] Strategic planning is linked to implementation and is also dependent on commitment from the top level of the organization to carry out the implementation. Some goals may not be cost intensive. Instead the strategic planning process may identify latent opportunities or strengths within the community that have not been leveraged. Likewise, stakeholders are able to acknowledge weaknesses within and threats to the organization to be able to adapt accordingly.

OPEB – Case Study from Peralta Community College District in Alameda County, CA

With so many other crises to address, the unwieldy OPEB liability is a low priority for cities in fiscal stress. Addressing a strategy to fund this commitment is urgent, however, as it will continue to grow. The City of Flint's unfunded OPEB liability is $787 million. Of that amount, $558 million (71%) is attributable to those who have already retired. Changes to existing labor contracts will therefore not impact that portion of the City's commitment.

Is there a way to address this commitment? To help answer that question, the City's actuaries provided a sensitivity analysis for the OPEB liability in the report dated December 7, 2007.[xxv] The purpose of this analysis is to determine the effect of contributions beyond the cost of current retiree healthcare premiums. Three scenarios are presented in Exhibit VII - 1. The first scenario represents the existing contribution policy which is no pre-funding (pay-as-you-go). The second scenario is funding the pay-as-you-go amount plus 25% of the gap between fully funded and no pre-funding. The third scenario is funding pay-as-you-go plus 100% of fully funded annual required contribution.

This analysis demonstrates the financial impact of funding the OPEB liability. Next year's report will show an $813 million unfunded liability, which could have been reduced to $701million if 25% of the annual contribution gap was funded. Similarly, the liability would be reduced to $477 million if the annual required contribution was fully funded.

To address the long-term funding of OPEB, some public employers have turned to issuing OPEB Bonds. The underlying premise is that investing the bond proceeds in appropriate investments will generate a higher rate of return than the interest cost of the bonds. A similar funding mechanism has been utilized for pensions. The Government Finance Officers Association noted a need for caution in utilizing this mechanism for OPEB. The primary concern is volatility of the liability. With defined benefit pensions, the amount of future payments is reasonably estimable. Predicting the cost of healthcare is "inherently and significantly" more volatile.[xxvi]

A more comprehensive approach was taken by the Peralta Community College District in Alameda County, CA. In 2005, the District's unfunded liability posed serious financial challenges. The approach was based on three key tasks. First, the District and the unions agreed to cap the OPEB liability and negotiated a two-tiered benefit system. Current employees who were promised lifetime health care coverage would still receive those benefits. New employees hired after July 1, 2004 would not be entitled to those same benefits. Second, the District financed the OPEB liabilities through the issuance of OPEB bonds. As a result, annual OPEB payments were projected to remain level at 7% of general fund revenues. Third, the District established a revocable trust, which was utilized to pay for debt liability. While some may suggest the use of an irrevocable trust, District preferred a revocable trust in the event the healthcare plan was impacted by a national healthcare program.[xxvii]

Exhibit VII – 1 OPEB Pre-Funding Sensitivity Analysis

City of Flint
OPEB Pre-Funding Sensitivity Analysis
Based on Actuarial Dated December 7, 2007

	2006	2007
Contribution Policy #1: No Pre-Funding (pay-as-you-go)		
Net OPEB Obligation (NOO) as of July 1	$ -	$ 39,967,262
Annual OPEB Cost	59,153,044	60,188,371
Contributions based on funding policy	(19,185,782)	(21,382,366)
Change in NOO	39,967,262	38,806,005
NOO as of June 30	$ 39,967,262	$ 78,773,267
Discount rate used for liabilities	4.25%	4.25%
Actuarial accrued liabilities at beginning of year	**$ 787,765,883**	**$ 813,791,470**
Assets at end of year	$ -	$ -
Contribution Policy #2: Funding pay-as-you-go plus 25% of gap between fully funded and no pre-funding		
Net OPEB Obligation (NOO) as of July 1	$ -	$ 28,661,192
Annual OPEB Cost	54,289,789	55,204,917
Contributions based on funding policy	(25,628,597)	(27,610,955)
Change in NOO	28,661,192	27,593,962
NOO as of June 30	$ 28,661,192	$ 56,255,154
Discount rate used for liabilities	5.19%	5.19%
Actuarial accrued liabilities at beginning of year	**$ 676,522,961**	**$ 701,280,419**
Assets at end of year	$ 6,695,570	$ 13,704,155
Contribution Policy #3: Funding pay-as-you-go plus 100% of fully funded annual required contribution		
Net OPEB Obligation (NOO) as of July 1	$ -	$ -
Annual OPEB Cost	44,957,040	44,512,470
Contributions based on funding policy	(44,957,040)	(44,512,470)
Change in NOO	-	-
NOO as of June 30	$ -	$ -
Discount rate used for liabilities	8.00%	8.00%
Actuarial accrued liabilities at beginning of year	**$ 456,593,415**	**$ 477,581,461**
Assets at end of year	$ 26,782,277	$ 52,962,368

Regional and Collaborative Efforts

Increasingly, regional perspectives on governance are becoming essential to achieving effectiveness and efficiency in local government. These efforts are achieved through both informal agreements to collaborate in daily operations as well as formalized agreements among two or more entities. Changes in technology, need for capital investment, reductions in force, and varying levels of fiscal stress are fostering collaborative efforts in areas previously considered unthinkable.

Collaborative efforts can move beyond contiguous geographic boundaries. Beyond emphasis on common problems, identifying excess capacity of personnel, technology or equipment creates opportunities for collaboration. Oakland County, Michigan provides many examples of such collaborative efforts. These include tax billing, assessing, geographic information systems, and policing. Wayne County provides temporary satellite County Clerk locations across the county to bring its services closer to the residents. The pool of benchmark communities presented earlier likely have similar needs in providing services that could foster additional collaboration to reduce costs while stabilizing the level of services provided. Local government leaders are required to be entrepreneurs in serving their constituents.

Individual collaboration and consolidation, however, will not be able to solve all of the local government revenue losses or economic decline in the State of Michigan. To restore equilibrium in regions with a core city in chronic fiscal stress, the need for advanced solutions is essential. Ignoring the shift in population and tax base, along with a concentration of poverty, is not an effective strategy to stabilize or advance a region economically. Much like the emphasis on downtown economic strategies within a city, the core city is an economic center for the region. At a minimum, the base of educational institutions, medical providers, and commerce centered in the City of Flint serve as the foundation to begin dialog to ensure the long term viability of the region. Borrowing from other states, one advanced solution is regional taxation or revenue sharing. Examples are found in Minneapolis/St. Paul and the Allegheny Regional Asset District. Those regions have developed an equitable method of tax revenue distribution while recognizing the critical role that cities play in a region's economic health.[xxviii] Facilitating that discussion requires participation among key stakeholders in the region in an open process.

VIII. CONCLUSION

The overriding theme of this paper is that structural and perhaps controversial policy options need to be explored in order to address the structural deficits and sustainability of cities. Growth during the 1970s through the 1990s was fueled by strength in the financial markets, demographic changes made cities the center for a region while the cities themselves lost population, and advances in technology altered the nature and costs of services. These trends had a deleterious effect on a city's ability to fund services over the long term. Increasingly, those services were provided to a population different than the one paying the local taxes and fees. Income tax cities such as Flint saw more non-resident workers come in to the city and leave after work. Technology changes subjected the old manufacturing communities to increased capacity with fewer tax paying workers needed. Housing values grew much slower, or even dropped, as workers moved into surrounding areas. Aging work forces became more expensive in the cities as cost containment reduced work forces which left the most senior in place. Not surprisingly, the older work forces negotiated pension and health care improvements, which were hard to resist given the negotiating environment.

Each of these trends contributed to the decline of city fiscal stability. When combined with unwillingness to either raise taxes and fees or cut services, real adjustments to align with long term ability to pay were not made. Short term patches allowed the problems to be glossed over and pushed further out in time, guaranteeing that the ability to solve them would require more drastic measures. The last ten years created a "perfect storm" of fiscal stress for mature industrial cities. High energy costs and foreign competition hurt the domestic auto industry, costing jobs and tax base particularly in Michigan. Taxpayer resistance to taxes prompted political leaders to continue to provide expected services without establishing a real way to pay for them. Financial market disruptions adversely impacted the funding levels of pension funds, and some pension fund boards adopted assumptions that hid the real funding issues in order to justify higher benefits. Further, the actions of federal and state government to pass mandates and shift costs to the local level added to local imbalances. Each of these factors was contributory; none was unaddressable. But the national tone that has encouraged a belief that services can be provided without recognizing and funding them has created a political climate that has made it virtually a political death sentence for any politician or candidate to say we would have to pay more and get less. To really implement long term solutions and stabilize Flint and other such communities, realistic changes must be made.

Appendix A
Analysis of Long Term Solvency

(Pessimistic)

City of Flint

Long-term solvency Scenario A

Full Accrual Forecast

Pessimistic Assumption

(DEP = Per deficit elimination plan)

	FY 2010	Adjustment	FY 2011	Adjustment	FY 2012	Adjustment	FY 2013	Adjustment	FY 2014	Adjustment	FY 2015	Adjustment	FY 2016
Governmental Activities													
Revenues													
Income taxes	$ 13,551,247	-5.00%	$ 12,873,685	-5.00%	$ 12,230,000	-5.00%	$ 11,618,500		$ 11,618,500		$ 11,618,500		$ 11,618,500
Property taxes	19,224,393	-13.32%	16,663,704	-12.22%	14,627,399	-5.16%	13,872,625	-5.16%	13,156,798	-5.16%	12,477,907		12,477,907
State shared revenue	16,424,091	DEP	16,440,287	DEP	7,912,465		8,000,000		8,000,000		8,000,000		8,000,000
Franchise taxes	1,139,147		1,139,147		1,139		1,139		1,139		1,139		1,139
Unrestricted investment earnings	624,699		624,699		600		600		600		600		600
Loss on sale of capital assets	(327,551)		-		-		-		-		-		-
Miscellaneous revenue	54,549		54,549		55,000		55,000		55,000		55,000		55,000
Transfer from business-type	2,983,177	DEP	2,990,000		2,990,000		2,990,000		2,990,000		2,990,000		2,990,000
Charges for services	23,060,189		23,060,189		23,060,189		23,060,189		23,060,189		23,060,189		23,060,189
Operating grants and contributions	21,984,894		21,984,894		21,984,894		21,984,894		21,984,894		21,984,894		21,984,894
Capital grants and contributions	4,436,527		4,436,527		4,436,527		4,436,527		4,436,527		4,436,527		4,436,527
	103,155,362		100,267,681		87,298,214		86,019,475		85,303,647		84,624,757		84,624,757
Expenses													
General government	60,004,313	8.00%	64,804,658	8.00%	69,989,031	8.00%	75,588,153	8.00%	81,635,205	8.00%	88,166,022	8.00%	95,219,304
Public safety	57,784,496	8.00%	62,407,256	25.00%	78,009,070	8.00%	84,249,795	8.00%	90,989,779	8.00%	98,268,961	8.00%	106,130,478
Public works	27,224,651	8.00%	29,402,623	8.00%	31,754,833	8.00%	34,295,220	8.00%	37,038,837	8.00%	40,001,944	8.00%	43,202,100
Recreation and culture	5,431,010	8.00%	5,865,491	5.00%	6,158,765	8.00%	6,651,467	8.00%	7,183,584	8.00%	7,758,271	8.00%	8,378,932
Interest on long term debt	806,637		850,000		850,000		850,000		850,000		850,000		850,000
	151,251,107		163,330,028		186,761,699		201,634,634		217,697,405		235,045,198		253,780,813
Net governmental deficiency	**(48,095,745)**		**(63,062,347)**		**(99,463,485)**		**(115,615,160)**		**(132,393,758)**		**(150,420,441)**		**(169,156,057)**
Business-type activities													
Revenues													
Charges for services	48,488,464	12.55%	54,573,766	20.00%	65,488,519	20.00%	78,586,223	20.00%	94,303,468	17.00%	110,335,058	8.00%	119,161,862
Capital grants and contributions	128,855		128,000		128,000		128,000		128,000		128,000		128,000
Unrestricted investment earnings	756,611		700,000		700,000		700,000		700,000		700,000		700,000
Miscellaneous	29,898		30,000		30,000		30,000		30,000		30,000		30,000
	49,403,828		55,431,766		66,346,519		79,444,223		95,161,468		111,193,058		120,019,862
Expenses													
Business-type activities	72,063,719	8.00%	77,828,817	8.00%	84,055,122	8.00%	90,779,532	8.00%	98,041,894	8.00%	105,885,246	8.00%	114,356,065
Transfer to governmental activities	2,983,177	8.00%	3,221,831	8.00%	3,479,578	8.00%	3,757,944	8.00%	4,058,579	8.00%	4,383,266	8.00%	4,733,927
	75,046,896		81,050,648		87,534,699		94,537,475		102,100,473		110,268,511		119,089,992
Net business-type deficiency excess (deficiency)	**(25,643,068)**		**(25,618,881)**		**(21,188,180)**		**(15,093,252)**		**(6,939,005)**		**924,546**		**929,870**
Total primary government (deficiency)	**$ (73,738,813)**		**$ (88,681,229)**		**$ (120,651,665)**		**$ (130,708,412)**		**$ (139,332,763)**		**$ (149,495,895)**		**$ (168,226,187)**

City of Flint
Long-term solvency Scenario A
Full Accrual Forecast
Pessimistic Assumption
(DEP = Per deficit elimination plan)

	Adjustment	FY 2017	Adjustment	FY 2018	Adjustment	FY 2019	Adjustment	FY 2020	Adjustment	FY 2021
Governmental Activities										
Revenues										
Income taxes		$ 11,618,500		$ 11,618,500		$ 11,618,500		$ 11,618,500		$ 11,618,500
Property taxes		12,477,907		12,477,907		12,477,907		12,477,907	2.44%	12,782,368
State shared revenue		8,000,000		8,000,000		8,000,000		8,000,000		8,000,000
Franchise taxes		1,139		1,139		1,139		1,139		1,139
Unrestricted investment earnings		600		600		600		600		600
Loss on sale of capital assets		-		-		-		-		-
Miscellaneous revenue		55,000		55,000		55,000		55,000		55,000
Transfer from business-type		2,990,000		2,990,000		2,990,000		2,990,000		2,990,000
Charges for services		23,060,189		23,060,189		23,060,189		23,060,189		23,060,189
Operating grants and contributions		21,984,894		21,984,894		21,984,894		21,984,894		21,984,894
Capital grants and contributions		4,436,527		4,436,527		4,436,527		4,436,527		4,436,527
		84,624,757		84,624,757		84,624,757		84,624,757		84,929,218
Expenses										
General government	8.00%	102,836,848	8.00%	111,063,796	8.00%	119,948,899	8.00%	129,544,811	8.00%	139,908,396
Public safety	8.00%	114,620,916	8.00%	123,790,590	8.00%	133,693,837	8.00%	144,389,344	8.00%	155,940,491
Public works	8.00%	46,658,268	8.00%	50,390,929	8.00%	54,422,203	8.00%	58,775,980	8.00%	63,478,058
Recreation and culture	8.00%	9,049,247	8.00%	9,773,187	8.00%	10,555,042	8.00%	11,399,445	8.00%	12,311,400
Interest on long term debt		850,000		850,000		850,000		850,000		850,000
		274,015,278		295,868,501		319,469,981		344,959,579		372,488,346
Net governmental deficiency		**(189,390,522)**		**(211,243,744)**		**(234,845,224)**		**(260,334,823)**		**(287,559,128)**
Business-type activities										
Revenues										
Charges for services	8.00%	128,694,811	8.00%	138,990,396	8.00%	150,109,628	8.00%	162,118,398	8.00%	175,087,870
Capital grants and contributions		128,000		128,000		128,000		128,000		128,000
Unrestricted investment earnings		700,000		700,000		700,000		700,000		700,000
Miscellaneous		30,000		30,000		30,000		30,000		30,000
		129,552,811		139,848,396		150,967,628		162,976,398		175,945,870
Expenses										
Business-type activities	8.00%	123,504,551	8.00%	133,384,915	8.00%	144,055,708	8.00%	155,580,164	8.00%	168,026,577
Transfer to governmental activities	8.00%	5,112,641	8.00%	5,521,652	8.00%	5,963,385	8.00%	6,440,455	8.00%	6,955,692
		128,617,192		138,906,567		150,019,092		162,020,620		174,982,269
Net business-type deficiency										
excess (deficiency)		**935,620**		**941,829**		**948,535**		**955,778**		**963,601**
Total primary government (deficiency)		**$ (188,454,902)**		**$ (210,301,915)**		**$ (233,896,689)**		**$ (259,379,044)**		**$ (286,595,528)**

Appendix B

Analysis of Long Term Solvency

(Optimistic)

City of Flint

Long-term solvency Scenario B

Full Accrual Forecast

Optimistic Assumption

(DEP = Per deficit elimination plan)

	FY 2010		FY 2011		FY 2012		FY 2013		FY 2014		FY 2015		FY 2016
Governmental Activities		Adjustment		Adjustment		Adjustment		Adjustment		Adjustment		Adjustment	
Revenues													
Income taxes	$ 13,551,247	-5.00%	$ 12,873,685	-5.00%	$ 12,230,000	-5.00%	$ 11,618,500		$ 11,618,500		$ 11,618,500		$ 11,618,500
Property taxes	19,224,393	-13.32%	16,663,704	-12.22%	14,627,399	2.44%	14,984,308	2.44%	15,349,925	2.44%	15,724,463	2.44%	16,108,140
State shared revenue	16,424,091	DEP	16,440,287	DEP	7,912,465		8,000,000		8,000,000		8,000,000		8,000,000
Franchise taxes	1,139,147		1,139,147		1,139		1,139		1,139		1,139		1,139
Unrestricted investment earnings	624,699		624,699		600		600		600		600		600
Loss on sale of capital assets	(327,551)		-		-		-		-		-		-
Miscellaneous revenue	54,549		54,549		55,000		55,000		55,000		55,000		55,000
Transfer from business-type	2,983,177	DEP	2,990,000		2,990,000		2,990,000		2,990,000		2,990,000		2,990,000
Charges for services	23,060,189		23,060,189		23,060,189		23,060,189		23,060,189		23,060,189		23,060,189
Operating grants and contributions	21,984,894		21,984,894		21,984,894		21,984,894		21,984,894		21,984,894		21,984,894
Capital grants and contributions	4,436,527		4,436,527		4,436,527		4,436,527		4,436,527		4,436,527		4,436,527
	103,155,362		100,267,681		87,298,214		87,131,157		87,496,774		87,871,312		88,254,989
Expenses													
General government	60,004,313	5.00%	63,004,529	5.00%	66,154,755	5.00%	69,462,493	5.00%	72,935,617	5.00%	76,582,398	5.00%	80,411,518
Public safety	57,784,496	5.00%	60,673,721	25.00%	75,842,151	5.00%	79,634,259	5.00%	83,615,971	5.00%	87,796,770	5.00%	92,186,609
Public works	27,224,651	5.00%	28,585,884	5.00%	30,015,178	5.00%	31,515,937	5.00%	33,091,733	5.00%	34,746,320	5.00%	36,483,636
Recreation and culture	5,431,010	5.00%	5,702,561	5.00%	5,987,689	5.00%	6,287,073	5.00%	6,601,427	5.00%	6,931,498	5.00%	7,278,073
Interest on long term debt	806,637		850,000		850,000		850,000		850,000		850,000		850,000
	151,251,107		158,816,694		178,849,772		187,749,761		197,094,749		206,906,986		217,209,836
Net governmental deficiency	**(48,095,745)**		**(58,549,013)**		**(91,551,559)**		**(100,618,604)**		**(109,597,975)**		**(119,035,674)**		**(128,954,846)**
Business-type activities													
Revenues													
Charges for services	48,488,464	12.55%	54,573,766	20.00%	65,488,519	15.00%	75,311,797	15.00%	86,608,567	15.00%	99,599,852	5.00%	104,579,845
Capital grants and contributions	128,855		128,000		128,000		128,000		128,000		128,000		128,000
Unrestricted investment earnings	756,611		700,000		700,000		700,000		700,000		700,000		700,000
Miscellaneous	29,898		30,000		30,000		30,000		30,000		30,000		30,000
	49,403,828		55,431,766		66,346,519		76,169,797		87,466,567		100,457,852		105,437,845
Expenses													
Business-type activities	72,063,719	7.00%	77,108,179	5.00%	80,963,588	5.00%	85,011,768	5.00%	89,262,356	5.00%	93,725,474	5.00%	98,411,748
Transfer to governmental activities	2,983,177	7.00%	3,191,999	5.00%	3,351,599	5.00%	3,519,179	5.00%	3,695,138	5.00%	3,879,895	5.00%	4,073,890
	75,046,896		80,300,179		84,315,188		88,530,947		92,957,494		97,605,369		102,485,638
Net business-type deficiency													
excess (deficiency)	**(25,643,068)**		**(24,868,412)**		**(17,968,668)**		**(12,361,150)**		**(5,490,927)**		**2,852,483**		**2,952,207**
Total primary government (deficiency)	**$ (73,738,813)**		**$ (83,417,425)**		**$ (109,520,227)**		**$ (112,979,753)**		**$ (115,088,902)**		**$ (116,183,191)**		**$ (126,002,639)**

City of Flint
Long-term solvency Scenario B
Full Accrual Forecast
Optimistic Assumption
(DEP = Per deficit elimination plan)

	Adjustment	FY 2017	Adjustment	FY 2018	Adjustment	FY 2019	Adjustment	FY 2020	Adjustment	FY 2021
Governmental Activities										
Revenues										
Income taxes		$ 11,618,500		$ 11,618,500		$ 11,618,500		$ 11,618,500		$ 11,618,500
Property taxes	2.44%	16,501,179	2.44%	16,903,807	2.44%	17,316,260	2.44%	17,738,777	2.44%	18,171,603
State shared revenue		8,000,000		8,000,000		8,000,000		8,000,000		8,000,000
Franchise taxes		1,139		1,139		1,139		1,139		1,139
Unrestricted investment earnings		600		600		600		600		600
Loss on sale of capital assets		-		-		-		-		-
Miscellaneous revenue		55,000		55,000		55,000		55,000		55,000
Transfer from business-type		2,990,000		2,990,000		2,990,000		2,990,000		2,990,000
Charges for services		23,060,189		23,060,189		23,060,189		23,060,189		23,060,189
Operating grants and contributions		21,984,894		21,984,894		21,984,894		21,984,894		21,984,894
Capital grants and contributions		4,436,527		4,436,527		4,436,527		4,436,527		4,436,527
		88,648,028		89,050,657		89,463,110		89,885,626		90,318,453
Expenses										
General government	5.00%	84,432,094	5.00%	88,653,699	5.00%	93,086,384	5.00%	97,740,703	5.00%	102,627,738
Public safety	5.00%	96,795,939	5.00%	101,635,736	5.00%	106,717,523	5.00%	112,053,399	5.00%	117,656,069
Public works	5.00%	38,307,818	5.00%	40,223,209	5.00%	42,234,369	5.00%	44,346,088	5.00%	46,563,392
Recreation and culture	5.00%	7,641,976	5.00%	8,024,075	5.00%	8,425,279	5.00%	8,846,543	5.00%	9,288,870
Interest on long term debt		850,000		850,000		850,000		850,000		850,000
		228,027,828		239,386,719		251,313,555		263,836,733		276,986,069
Net governmental deficiency		**(139,379,800)**		**(150,336,062)**		**(161,850,445)**		**(173,951,106)**		**(186,667,617)**
Business-type activities										
Revenues										
Charges for services	4.50%	109,285,938	4.50%	114,203,805	4.50%	119,342,976	4.50%	124,713,410	4.50%	130,325,513
Capital grants and contributions		128,000		128,000		128,000		128,000		128,000
Unrestricted investment earnings		700,000		700,000		700,000		700,000		700,000
Miscellaneous		30,000		30,000		30,000		30,000		30,000
		110,143,938		115,061,805		120,200,976		125,571,410		131,183,513
Expenses										
Business-type activities	5.00%	103,332,335	5.00%	108,498,952	5.00%	113,923,899	5.00%	119,620,094	5.00%	125,601,099
Transfer to governmental activities	5.00%	4,277,584	5.00%	4,491,464	5.00%	4,716,037	5.00%	4,951,839	5.00%	5,199,431
		107,609,919		112,990,415		118,639,936		124,571,933		130,800,530
Net business-type deficiency excess (deficiency)		**2,534,018**		**2,071,389**		**1,561,040**		**999,477**		**382,984**
Total primary government (deficiency)		**$ (136,845,781)**		**$ (148,264,673)**		**$ (160,289,405)**		**$ (172,951,629)**		**$ (186,284,633)**

List of Exhibits

List of Exhibits - continued

Endnotes

[i] The City of Flint's history is chronicled by many organizations. In assembling this paper information about Flint's history was obtained from the flowing websites: City of Flint (http://www.cityofflint.com/About_Flint/quickFACTS.asp), the State of Michigan State Housing Development Authority's Cities of Promise (www.citiesofpromise.org/Flint/History.aspx),and MotorCities National Heritage Area (http://www.motorcities.org/Story/The+Flint+SitDown+Strike+of+193637-188.html)

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