



CITY OF FLINT
OFFICE OF EMERGENCY MANAGER
MICHAEL K. BROWN

October 7, 2013

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

Dear Mr. Dillon:

I am attaching for your consideration the quarterly report of the Emergency Manager of the City of Flint as required by Section 17 *Reports* of the Emergency Manager Services contract. The report details activities for the period of July 1, 2013 through September 30, 2013.

Respectfully submitted,

Michael K. Brown
Emergency Manager

Attachments

cc: Wayne Workman
Ed Koryzno

**QUARTERLY REPORT TO THE STATE TREASURER
REGARDING THE FINANCIAL CONDITION OF THE CITY OF FLINT**

October 7, 2013

This quarterly report covers the period from July 1, 2013 through September 30, 2013 and addresses the financial condition of the City of Flint.

Michael K. Brown Contract For Emergency Manager Services

Section 1.4 Reports. The Emergency Manager shall file quarterly reports with Department of Treasury beginning on October 15, 2013, for the immediately preceding quarter and shall file the first report required by Section 17 of the Act within six months of the Emergency Manager's appointment and every three months thereafter.

**Status of the Financial Condition of the City of Flint
July 1, 2013 – September 30, 2013**

Emergency Manager Michael K. Brown's Closing Memorandum, dated September 10, 2013, details the significant progress which has been made over the past 22 months towards restoring the City of Flint to financial solvency. This memorandum focuses specifically on financial activities occurring during the first quarter of FY14.

FY13

FY13 is now closed, and auditors are on site as of October 7. The results of FY13 are very positive, and reflect the fact that EM Brown's team has more than accomplished what it said it would do. FY13 was the first budget developed and administered by Mr. Brown and his team. Faced with a projected gap of more than \$25 million, the FY13 budget was balanced through a mixture of significant revenue increases, significant expenditure decreases, and steps taken to reduce legacy costs. Previous reports detail the 25% increase in water and sewer rates, passage of a 6 mill property tax increase for police and fire, elimination of 20% of the City's workforce, compensation decreases equivalent to a 20% wage reduction for remaining employees, and the restructuring of health and retirement benefits for current employees and retirees necessary to develop a credibly balanced spending plan.

Preliminary results of FY13 year end show a surplus of revenues over expenses in the General Fund exceeding \$4 million. This surplus will reduce the City's accumulated \$19.1 million deficit as of the end of FY12 to less than \$15 million. Since the goal of the EM team was to assure that FY13 would not end with any additional deficit, this result has significantly exceeded expectations.

Additionally, the City's cash flow has improved significantly. Cash flow projection in December, 2011 was \$13million, in comparison to current cash on hand on June 30, 2013 in excess of \$40 million. Cash on hand as of September 30, 2013 is more than \$48 million.

Most of this positive result has come from concerted efforts to reduce expenditures wherever possible, including healthcare. Actions taken to significantly restructure health care benefits for current and active employees account for much of the surplus. This restructuring had the additional benefit of reducing the City's OPEB liabilities by more than \$500 million.

As spending patterns have been revised to be in accord with available revenues, it has also become possible to focus on additional efforts to reduce and quickly eliminate the accumulated deficit. Previous Deficit Elimination Plans submitted to Treasury for consideration have focused on external borrowing and dedicating a portion of future revenues over the next five years to eliminate the deficit. With the significant reduction resulting from the positive results of FY13, the time for deficit elimination may be

shortened. Further, it may also be possible to eliminate much of the remaining deficit by internally restructuring the cash advances to the General Fund from other funds into loans. Attached for Treasury consideration is a preliminary draft of the FY13 DEP which, if approved, could eliminate the deficit within 2 years.

FY14

The FY14 budget was developed with the same goal as FY13 – to assure a balanced budget in which expenses would not exceed revenues. Additionally, \$1 million in anticipated revenues was earmarked for reducing the accumulated deficit. Achieving this goal again required reducing the workforce; however, with significant efforts from department heads and others involved in developing the budget, and building on ongoing reorganization of city processes, the level of services currently provided should generally continue at current levels. Most importantly, the quest to at least maintain current levels of police and fire staffing was maintained, although one consequence was that the additional reductions in staffing came from non public safety areas. This was equivalent to an additional 10% reduction of staffing in those areas.

As of the end of the first quarter of FY14, the budget continues to be in balance. One set of budget adjustments has been recently implemented, with approval of Treasury. With the exception of income tax revenues, the quarterly review of revenues and expenses to budget does not disclose any significant anomalies.

Income tax revenues remain sluggish, tracking right now at the FY13 level. Unfortunately, FY13 actual income tax revenues were \$12.3 million, compared to a budget of \$15.3 million. While the FY14 budget projection of \$14.2 million is less than the FY13 budget, it is possible that there will be a shortfall of \$1.9 million if revenue levels do not improve. We will be monitoring this revenue line item and recommending adjustments as necessary to assure that the budget remains in balance.

FY15 and beyond

The FY14 budget was developed within the context of a five year projection of revenues and expenses. This exercise pointed out the continuing challenge the City of Flint will have in achieving long term financial stability. It is clear that – like many urban centers – Flint’s financial solvency will continue to be challenged with a structural deficit; that is, that status quo revenue growth and status quo expense base growth will always show a negative gap. Given the relatively low level of service that the City can now only barely provide, closing this gap is not possible by continuing to only reduce expenses. However, with an additional source of revenue, such as could be obtained by an increase in the local income tax, coupled with continuing reductions in legacy costs, it is possible to stabilize city finances and begin to address the unsustainably low level of services which currently exist. Such an approach, for example, could turn an annually projected \$2 million to \$4 million deficit between revenues and expenses into a positive \$5 million to \$6 million surplus. Such surplus would enable the City to address the most critical areas on unmet service needs and unmet capital needs.

However, the City has been challenged on many of the decisions made to restore financial solvency. Most critical has been the legal challenge to its decision to change retiree healthcare. Should the City not prevail, it will likely be faced with increased costs of as much as \$5million annually. Those costs are not provided for in the FY14 budget, or in future projections; and their inclusion could be financially disastrous. A loss on this legal challenge would be very significant not just for Flint but for many local governments.

Attachments:

Attachment A Cash Flow Projection

Attachment B September 30, 2013 Budget to Actual Comparison

Attachment C Compliance Monitoring Report

Attachment D Preliminary Draft of FY13 Deficit Elimination Plan

CASH FLOW 2013 - 2014

\$000's	ACTUAL			PROJECTED										Total
	July	August	Sept.	Oct.	Nov.	Dec.	Jan	Feb.	March	April	May	June		
CASH OUTFLOW:														
Payroll	2,146	3,181	1,074	3,500	2,200	2,200	2,200	2,200	2,200	2,200	3,500	2,200	28,801	
Pensions	1,222	1,544	1,733	1,420	1,420	1,420	1,420	1,420	1,420	1,420	1,420	1,420	17,279	
Disbursements	6,837	20,358	4,981	6,500	10,000	9,000	7,000	8,500	12,000	6,000	6,000	6,000	103,176	
Bond and/or Loan Repayments	0	0	1,178	916	0	0	668	177	1,568	1,672	0	1,744	7,923	
Health Care Payments	3,093	1,377	1,204	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550	19,624	
Income Tax Refunds	257	313	349	200	110	100	200	30	250	250	200	150	2,409	
Misc.-Lawsuits	250	0	0	3	3	3	3	3	3	3	3	3	277	
Total Cash Outflow	13,805	26,773	10,519	14,089	15,283	14,273	13,041	13,880	18,991	13,095	12,673	13,067	179,489	
CASH INFLOW:														
Water & Sewer-Lockbox	1,575	680	2,450	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,205	
Property Taxes-Lockbox	5,730	1,550	340	900	800	600	1,800	2,500	300	0	0	0	14,520	
Income Taxes-Lockbox	695	400	1,040	400	400	400	400	400	800	800	800	600	7,135	
Parks & Rec.													0	
Cash Register Receipts *	10,499	19,819	5,764	5,000	8,500	2,500	6,500	5,800	8,500	6,500	5,500	5,500	90,382	
Parking Meter													0	
DCD Reimb.-Urban Renewal	170	410	260	450	450	450	450	450	450	450	450	450	4,890	
Other Misc. (including Rev. Sharing)	691	3,890	874	700	700	3,055	700	3,055	700	2,940	700	2,920	20,925	
Other-Grants/Delq Co Rtn	1,380	1,140	0	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	5,600	16,920	
Total Cash Inflow	20,740	27,889	10,728	10,050	13,450	9,605	12,450	14,805	13,350	13,290	10,050	16,570	172,977	
Net Cash Flow (Inflows less Outflows)	6,935	1,116	209	(4,039)	(1,833)	(4,668)	(591)	925	(5,641)	195	(2,623)	3,503	(6,512)	
Prior Month's Ending Balance	40,597	47,532	48,648	48,857	44,818	42,985	38,317	37,726	38,651	33,010	33,205	30,582		
Unrecorded Revenue														
End of Month Balance-Pooled Cash/Investments	47,532	48,648	48,857	44,818	42,985	38,317	37,726	38,651	33,010	33,205	30,582	34,085		
	July	August	Sept.	Oct.	Nov.	Dec.	Jan	Feb.	March	April	May	June		
Cash increase/(decrease) 7/1/13 - 6/30/14													-6,512	
* Includes Tax Hold (+,-)														
* Grants included in Cash Reg Receipts														
Actuals thru Sept														

ATTACHMENT B - Quarterly Report

10/07/2013

REVENUE AND EXPENDITURE REPORT FOR CITY OF FLINT
PERIOD ENDING 09/30/2013

GL NUMBER	2013-14 AMENDED BUDGET	YTD BALANCE 09/30/2013 ACTUAL	% BDGT USED
Revenues			
General government	41,575,368.95	8,104,317.17	19.49
Judicial	1,600,000.00	417,849.07	26.12
Police	1,840,565.35	448,544.85	24.37
Emergency dispatch	1,334,000.00	0.00	0.00
Fire	220,500.00	73,540.30	33.35
Building inspections	25,000.00	8,251.50	33.01
Parks and recreation	19,000.00	19,000.00	100.00
Transfers in	4,077,998.00	0.00	0.00
TOTAL Revenues	50,692,432.30	9,071,502.89	17.90
Expenditures			
General government	8,253,398.21	1,184,670.19	14.35
Legislative	333,449.00	48,628.43	14.58
Judicial	5,194,306.66	852,063.76	16.40
Police	19,406,139.15	4,020,899.32	20.31
Emergency dispatch	3,745,525.00	755,406.33	20.17
Fire	11,699,795.90	2,395,079.26	20.47
Building inspections	121,875.00	15,977.03	13.11
Transportation	0.00	269.56	100.00
Community development	186,292.34	37,731.73	20.25
Parks and recreation	1,212,481.08	183,315.51	15.12
Transfers out	539,169.96	0.00	0.00
TOTAL Expenditures	50,692,432.30	9,494,041.12	18.59
Fund 101 - General Fund:			
TOTAL REVENUES	50,692,432.30	9,071,502.89	17.90
TOTAL EXPENDITURES	50,692,432.30	9,494,041.12	18.59
NET OF REVENUES & EXPENDITURES	0.00	(422,538.23)	108.57

Revenues			
General government	6,123,591.00	786,094.94	12.84
Transportation	735,667.00	45,780.49	6.22
Unclassified	(744,640.80)	0.00	0.00
TOTAL Revenues	6,114,617.20	831,875.43	13.60

Expenditures			
Transportation	5,991,994.53	756,162.31	12.62
Debt services - interest	9,098.31	9,097.93	100.00
Debt services - principal	109,524.36	109,522.19	100.00
TOTAL Expenditures	6,110,617.20	874,782.43	14.32
Fund 202 - Major Street Fund:			
TOTAL REVENUES	6,114,617.20	831,875.43	13.60
TOTAL EXPENDITURES	6,110,617.20	874,782.43	14.32
NET OF REVENUES & EXPENDITURES	4,000.00	(42,907.00)	1,072.68

Revenues			
General government	1,763,896.00	182,474.88	10.34
Transportation	649,526.00	56,286.33	8.67
Unclassified	17,591.79	0.00	0.00
TOTAL Revenues	2,431,013.79	238,761.21	9.82

Expenditures			
Transportation	2,431,013.79	374,528.07	15.41
TOTAL Expenditures	2,431,013.79	374,528.07	15.41
Fund 203 - Local Street Fund:			
TOTAL REVENUES	2,431,013.79	238,761.21	9.82
TOTAL EXPENDITURES	2,431,013.79	374,528.07	15.41
NET OF REVENUES & EXPENDITURES	0.00	(135,766.86)	100.00

Revenues			
General government	1,845,827.35	4,377,446.35	237.15
TOTAL Revenues	1,845,827.35	4,377,446.35	237.15

Expenditures			
Police	1,845,827.35	146,608.00	7.94

TOTAL Expenditures	1,845,827.35	146,608.00	7.94
Fund 205 - Public Safety:			
TOTAL REVENUES	1,845,827.35	4,377,446.35	237.15
TOTAL EXPENDITURES	1,845,827.35	146,608.00	7.94
NET OF REVENUES & EXPENDITURES	0.00	4,230,838.35	100.00

Revenues			
General government	1,196,000.00	1,311,985.12	109.70
Police	354,180.00	307,635.76	86.86
TOTAL Revenues	1,550,180.00	1,619,620.88	104.48

Expenditures			
Police	1,550,179.86	291,313.42	18.79
TOTAL Expenditures	1,550,179.86	291,313.42	18.79
Fund 207 - Police Fund:			
TOTAL REVENUES	1,550,180.00	1,619,620.88	104.48
TOTAL EXPENDITURES	1,550,179.86	291,313.42	18.79
NET OF REVENUES & EXPENDITURES	0.14	1,328,307.46	

Revenues			
General government	373,089.00	327,990.85	87.91
Parks and recreation	0.00	3,615.00	100.00
Transfers in	235,975.38	0.00	0.00
TOTAL Revenues	609,064.38	331,605.85	54.45

Expenditures			
Parks and recreation	609,064.38	127,897.17	21.00
TOTAL Expenditures	609,064.38	127,897.17	21.00
Fund 208 - Park/Recreation Fund:			
TOTAL REVENUES	609,064.38	331,605.85	54.45
TOTAL EXPENDITURES	609,064.38	127,897.17	21.00
NET OF REVENUES & EXPENDITURES	0.00	203,708.68	100.00

Revenues			
Parks and recreation	0.00	15,982.97	100.00
TOTAL Revenues	0.00	15,982.97	100.00

Expenditures			
Parks and recreation	0.00	33,031.80	100.00
TOTAL Expenditures	0.00	33,031.80	100.00
Fund 213 - Park & Recreation Senior Citizen Centers:			
TOTAL REVENUES	0.00	15,982.97	100.00
TOTAL EXPENDITURES	0.00	33,031.80	100.00
NET OF REVENUES & EXPENDITURES	0.00	(17,048.83)	100.00

Revenues			
General government	2,982,960.20	2,998,476.54	100.52
TOTAL Revenues	2,982,960.20	2,998,476.54	100.52

Expenditures			
General government	105,884.00	26,471.01	25.00
Transportation	2,877,076.00	426,436.72	14.82
TOTAL Expenditures	2,982,960.00	452,907.73	15.18
Fund 219 - Street Light:			
TOTAL REVENUES	2,982,960.20	2,998,476.54	100.52
TOTAL EXPENDITURES	2,982,960.00	452,907.73	15.18
NET OF REVENUES & EXPENDITURES	0.20	2,545,568.81	

Revenues			
General government	5,131,490.00	4,823,834.07	94.00
Public works	1,000.00	240.00	24.00
TOTAL Revenues	5,132,490.00	4,824,074.07	93.99

Expenditures			
Transportation	150,000.00	0.00	0.00
Public works	4,982,490.00	819,904.22	16.46
TOTAL Expenditures	5,132,490.00	819,904.22	15.97
Fund 226 - Rubbish Collection Fund:			
TOTAL REVENUES	5,132,490.00	4,824,074.07	93.99
TOTAL EXPENDITURES	5,132,490.00	819,904.22	15.97
NET OF REVENUES & EXPENDITURES	0.00	4,004,169.85	100.00

Revenues			
General government	284,041.99	0.00	0.00

Police	151,000.00	49,755.34	32.95
TOTAL Revenues	435,041.99	49,755.34	11.44

Expenditures			
Police	435,041.99	28,537.27	6.56
TOTAL Expenditures	435,041.99	28,537.27	6.56

Fund 265 - Drug Law Enforcement Fund:			
TOTAL REVENUES	435,041.99	49,755.34	11.44
TOTAL EXPENDITURES	435,041.99	28,537.27	6.56
NET OF REVENUES & EXPENDITURES	0.00	21,218.07	100.00

Revenues			
General government	0.00	0.00	0.00
Building inspections	0.00	0.00	0.00
Transportation	0.00	0.00	0.00
Community development	0.00	0.00	0.00
TOTAL Revenues	0.00	0.00	0.00

Expenditures			
General government	0.00	0.00	0.00
Building inspections	0.00	0.00	0.00
Transportation	0.00	0.00	0.00
Community development	0.00	827.34	100.00
TOTAL Expenditures	0.00	827.34	100.00

Fund 272 - Hud Grant - 2012:			
TOTAL REVENUES	0.00	0.00	0.00
TOTAL EXPENDITURES	0.00	827.34	100.00
NET OF REVENUES & EXPENDITURES	0.00	(827.34)	100.00

Revenues			
General government	0.00	0.00	0.00
Building inspections	0.00	0.00	0.00
Transportation	0.00	0.00	0.00
Community development	0.00	(80,149.21)	100.00
Unclassified	0.00	0.00	0.00
TOTAL Revenues	0.00	(80,149.21)	

Expenditures			
General government	0.00	0.00	0.00
Building inspections	0.00	0.00	0.00
Transportation	0.00	0.00	0.00
Community development	0.00	264,715.59	100.00
Unclassified	0.00	10.00	100.00
TOTAL Expenditures	0.00	264,725.59	
Fund 273 - Hud Grant - 2013:			
TOTAL REVENUES	0.00	(80,149.21)	100.00
TOTAL EXPENDITURES	0.00	264,725.59	100.00
NET OF REVENUES & EXPENDITURES	0.00	(344,874.80)	100.00

Revenues			
General government	47,215.50	0.00	0.00
Fire	482,524.00	0.00	0.00
Building inspections	302,206.26	0.00	0.00
Transportation	168,700.04	0.00	0.00
Community development	5,462,857.17	264,714.32	4.85
Unclassified	4,043.88	2,045.32	50.58
TOTAL Revenues	6,467,546.85	266,759.64	4.12

Expenditures			
General government	47,215.50	0.00	0.00
Fire	482,524.00	0.00	0.00
Building inspections	302,206.26	8,013.74	2.65
Transportation	168,700.04	0.00	0.00
Community development	5,462,857.17	307,231.66	5.62
Unclassified	4,043.88	2,045.32	50.58
TOTAL Expenditures	6,467,546.85	317,290.72	4.91
Fund 274 - HUD CDBG, ESG, & HOME GRANTS - 2014:			
TOTAL REVENUES	6,467,546.85	266,759.64	4.12
TOTAL EXPENDITURES	6,467,546.85	317,290.72	4.91
NET OF REVENUES & EXPENDITURES	0.00	(50,531.08)	100.00

Revenues			
Police	3,188,209.16	128,427.64	4.03
Community development	1,961,887.95	1,070,150.10	54.55

Parks and recreation	260,000.00	10,000.00	3.85
TOTAL Revenues	5,410,097.11	1,208,577.74	22.34
Expenditures			
Police	3,188,209.16	24,185.64	0.76
Community development	1,956,129.75	964,001.56	49.28
Parks and recreation	260,000.00	0.00	0.00
TOTAL Expenditures	5,404,338.91	988,187.20	18.29
Fund 296 - Other Grants Fund:			
TOTAL REVENUES	5,410,097.11	1,208,577.74	22.34
TOTAL EXPENDITURES	5,404,338.91	988,187.20	18.29
NET OF REVENUES & EXPENDITURES	5,758.20	220,390.54	3,827.42
Revenues			
Fire	3,252,213.38	140.44	0.00
Building inspections	315,784.26	0.00	0.00
Community development	892,122.32	0.00	0.00
TOTAL Revenues	4,460,119.96	140.44	0.00
Expenditures			
Fire	3,252,213.38	513,087.54	15.78
Building inspections	315,784.26	16,334.76	5.17
Community development	892,122.32	342,266.71	38.37
TOTAL Expenditures	4,460,119.96	871,689.01	19.54
Fund 297 - Federal Stimulus Fund:			
TOTAL REVENUES	4,460,119.96	140.44	0.00
TOTAL EXPENDITURES	4,460,119.96	871,689.01	19.54
NET OF REVENUES & EXPENDITURES	0.00	(871,548.57)	100.00
Revenues			
Transfers in	726,953.00	0.00	0.00
TOTAL Revenues	726,953.00	0.00	0.00
Expenditures			
Debt services - interest	260,000.00	0.00	0.00
Debt services - principal	466,953.00	0.00	0.00
TOTAL Expenditures	726,953.00	0.00	0.00

Fund 301 - General Debt Serv(Voted Bonds):

TOTAL REVENUES	726,953.00	0.00	0.00
TOTAL EXPENDITURES	726,953.00	0.00	0.00
NET OF REVENUES & EXPENDITURES	0.00	0.00	0.00

Revenues

General government	1,875,000.00	1,739,985.44	92.80
TOTAL Revenues	1,875,000.00	1,739,985.44	92.80

Expenditures

Parks and recreation	545,943.24	33,517.00	6.14
Transfers out	726,953.00	0.00	0.00
Debt services - interest	407,103.76	0.00	0.00
Debt services - principal	195,000.00	0.00	0.00
TOTAL Expenditures	1,875,000.00	33,517.00	1.79

Fund 402 - Public Improvement Fund:

TOTAL REVENUES	1,875,000.00	1,739,985.44	92.80
TOTAL EXPENDITURES	1,875,000.00	33,517.00	1.79
NET OF REVENUES & EXPENDITURES	0.00	1,706,468.44	100.00

Revenues

Building inspections	2,009,285.71	286,699.53	14.27
Transfers in	539,169.96	0.00	0.00
TOTAL Revenues	2,548,455.67	286,699.53	11.25

Expenditures

General government	0.00	(130.07)	100.00
Building inspections	2,548,455.45	464,907.56	18.24
TOTAL Expenditures	2,548,455.45	464,777.49	18.24

Fund 542 - Building Inspection Fund:

TOTAL REVENUES	2,548,455.67	286,699.53	11.25
TOTAL EXPENDITURES	2,548,455.45	464,777.49	18.24
NET OF REVENUES & EXPENDITURES	0.22	(178,077.96)	

Revenues

General government	10,000.00	0.00	0.00
Utilities	31,908,397.00	7,976,676.92	25.00

TOTAL Revenues	31,918,397.00	7,976,676.92	24.99
Expenditures			
General government	48,888.32	8,869.65	18.14
Transfers out	1,860,000.00	0.00	0.00
Debt services - interest	897.98	166.76	18.57
Debt services - principal	5,763.46	1,498.60	26.00
Utilities	34,945,356.01	3,913,194.37	11.20
TOTAL Expenditures	36,860,905.77	3,923,729.38	10.64
Fund 590 - Sewer Fund:			
TOTAL REVENUES	31,918,397.00	7,976,676.92	24.99
TOTAL EXPENDITURES	36,860,905.77	3,923,729.38	10.64
NET OF REVENUES & EXPENDITURES	(4,942,508.77)	4,052,947.54	82.00
Revenues			
General government	0.00	10,011.62	100.00
Utilities	51,414,182.00	13,187,000.15	25.65
TOTAL Revenues	51,414,182.00	13,197,011.77	25.67
Expenditures			
General government	48,888.32	8,869.64	18.14
Transfers out	3,768,071.00	0.00	0.00
Utilities	51,336,180.81	4,734,332.29	9.22
TOTAL Expenditures	55,153,140.13	4,743,201.93	8.60
Fund 591 - Water Fund:			
TOTAL REVENUES	51,414,182.00	13,197,011.77	25.67
TOTAL EXPENDITURES	55,153,140.13	4,743,201.93	8.60
NET OF REVENUES & EXPENDITURES	(3,738,958.13)	8,453,809.84	226.10
TOTAL REVENUES - W/O COMMUNITY DEVELOPMENT	160,276,614.88	47,559,475.19	
TOTAL EXPENDITURES - W/O COMMUNITY DEVELOPMENT	168,954,081.22	21,808,777.03	
NET OF REV & EXPEND - W/O COMMUNITY DEVELOPMENT	(8,677,466.34)	25,750,698.16	
TOTAL REVENUES - COMMUNITY DEVELOPMENT	16,337,763.92	1,395,328.61	
TOTAL EXPENDITURES- COMMUNITY DEVELOPMENT	16,332,005.72	2,442,719.86	
NET OF REV & EXPEND - COMMUNITY DEVELOPMENT	5,758.20	(1,047,391.25)	

TOTAL REVENUES - ALL FUNDS	176,614,378.80	48,954,803.80
TOTAL EXPENDITURES - ALL FUNDS	185,286,086.94	24,251,496.89
NET REVENUE AND EXPENDITURES - ALL FUNDS	<u>(8,671,708.14)</u>	<u>24,703,306.91</u>

ATTACHMENT C Sept 30 2013 Quarterly Report

EMERGENCY FINANCIAL MANAGER'S COMPLIANCE MONITORING REPORT

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

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

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

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

e) Confirm - That the reconciliation of bank accounts has been completed and appropriate adjusting journal entries have been made to the general ledger of the City. The City has completed bank reconciliations for major bank accounts up through August 2013.

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

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

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

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

October XX, 2013

DRAFT 10/7/2013

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

RE: 25-2-040
City of Flint
FY13 Deficit Elimination Plan (DEP)

Dear Mr. Goodrich,

The City of Flint is confronted with a financial emergency, and has been in receivership since November 2011. The primary focus of the emergency management team has been to see the City return to financial solvency in order that Flint can once again become a thriving municipality attractive to residents, businesses, students, and visitors. Eliminating accumulated deficits is a critical part of our effort.

This letter provides our Deficit Elimination Plan (DEP) to address the deficits for the fiscal year ended June 30, 2013. The deficits identified in the City’s Comprehensive Annual Report for FY13 are follows:

	FY13	FY12
General Fund -	\$ 14,902,894	\$19,184,850
Water Supply Division -	\$ 5,276,536	\$ 8,758,091
Economic Development Corporation	\$ -0-	\$ 119,439

The City’s plan is as follows:

General Fund

This is the third DEP filed by an Emergency Manager since November 2011. In the first DEP, which was approved by Treasury for the General Fund FY11 deficit, we stated that it is unrealistic to assume that the General Fund deficit could be addressed from any existing financial sources within the City. We proposed at that time borrowing \$9.8 million to eliminate the FY11 deficit, with debt service paid from the dedicated proceeds of the charter mandated Capital Improvement Fund. However, actual borrowing was never authorized by Treasury.

In the second DEP, it was necessary to address an increased deficit resulting from the financial and budgetary actions taken by the Mayor and Council prior to the declaration of financial

emergency and the appointment of an Emergency Manager. Again, we stated that it would be unrealistic to assume that the General Fund deficit could be addressed from any existing financial sources within the City. We proposed at that time borrowing \$12 million from the state, and dedicating specific amounts of general fund revenues over the next five years to eliminate the entire \$19.1 million accumulated deficit. This was based on the expectation that the FY13 budget would contain the necessary revenue and expense adjustments - short and long term - to assure that expenses would not exceed revenues at the close of the fiscal year. However, no action was taken by Treasury on this plan.

I am happy to report that our plan to balance the FY13 budget and to operate within its limits worked exceedingly well. Not only did revenues exceed expenses by more than \$4 million, but changes made in retiree health care obligations alone reduced the city's unfunded liabilities by more than \$500 million. Consequently, the Deficit Elimination Plan for FY13 focuses on addressing an accumulated deficit of less than \$15 million.

In the course of the last two years, we have had the opportunity to better assess the financial capacity of the City as it pertains to eliminating the accumulated deficit. As stated in the two prior DEP's, we continue to believe that the City will be better served in the long term by assuring that any debt service incurred to eliminate accumulated deficits be paid solely from the Capital Improvement Fund, even if it requires expenditure reductions in other funds as the means to eliminate deficits not relieved by borrowing. We have again determined that the amount of debt service which could be paid from the Capital Improvement Fund will support the borrowing of \$12 million.

However, given the improved cash position of the City (from \$10 million to \$40 million), and the positive results from FY13, we believe that a majority of the accumulated deficit (\$11 million) can be addressed by documenting the amounts currently owed to the Water and Sewer funds as a loan, and budgeting repayment of the outstanding amounts, including interest, from the Capital Improvement Fund. The \$3 million remaining balance will be eliminated over the next 3 years by committing to expenditure reductions or revenue increases.

Sewer Fund

One of the primary areas of concern leading to the appointment of an Emergency Manager was the financial condition of the Water and Sewer Funds, where a surplus of more than \$60 million in 2006 had degenerated into a more than \$20 million deficit by the end of FY10. This financial condition led to significant increases in user fees (average 25%) and operational reductions as part of the implementation of the FY13 budget.

Both the FY11 and FY12 DEP's addressed deficits in the Water Supply Fund, which had deficits in amounts which were due primarily to the inclusion of unfunded OPEB liabilities. We advised in both DEP's that in light of the cost pressures on the City and its residents, further increasing rates to fund a liability that we were not addressing in other areas of the City government was not feasible.

With the rate increases for Water and Sewer, coupled with reduced expenditures, the Water Fund is no longer in a deficit position. However, the Sewer Fund has a deficit of \$1,376,000. This amount is less than the accumulated unfunded OPEB liabilities. Thus, as with the Water Fund in previous years, we do not propose borrowing funds to eliminate that deficit. Our approach to eliminating deficits associated with OPEB liabilities has been to reduce the liabilities by modifying provisions related to retiree health care. We have made significant progress in that effort, and as a result, the City's total OPEB liability has been reduced from more than \$900 million in FY11 to less than \$400 million in FY12. Going forward, we are continuing to work to reduce OPEB liabilities and will implement rate increases as appropriate. As the City as a whole begins to pre-fund OPEB liabilities, pre-funding in the Water Supply and Sewer Funds will occur in the same manner.

Economic Development Corporation

The \$119,439 deficit in unrestricted net assets in the EDC in FY12 was related to continued operating losses of the Oak Business Center, a small business incubator facility. In prior years, the operating losses were covered by other assets of the EDC, but in FY12 there were not sufficient assets available to avoid the disclosure of a deficit. For FY12, a transfer from the General Fund was authorized to eliminate the deficit. We have been advised, however, that it is not the financial responsibility of the City to alleviate EDC deficits, and, should there be a deficit, the EDC will be responsible to develop a plan to eliminate the current deficit as well as the potential for additional deficits in future years. However, based on preliminary FY13 results, there will be no deficit for the EDC.

Summary

In summary, the City's accumulated General Fund deficit of \$19.1 million for FY12 has been reduced by \$4.2 million to \$14.9 million. \$11 million of this accumulated deficit is proposed to be eliminated by 1) documenting the amounts currently owed to the Water and Sewer funds as a loan, and budgeting repayment of the outstanding amounts, including interest, from the Capital Improvement Fund; and 2) eliminating the remaining \$3.9 million over the next five years by budgeted appropriations in the General Fund and other funds. The capacity of the City's CIP Fund to accommodate the additional debt service is shown in Attachment #2, and the projected amounts of deficit to be addressed annually through budgeted appropriations are shown in Attachment #1.

Should the EDC have a deficit for FY13, it will be eliminated according to a plan to be submitted by the EDC Board of Directors. No appropriation from the General Fund will be made to eliminate this deficit.

With respect to the deficit in the Sewer Fund, our plan is to continue our efforts to reduce the City's overall OPEB liabilities, and to move with the rest of the City when it begins to pre-fund OPEB liabilities. We will assure that any deficit in the Sewer Fund is less than its OPEB liabilities, using cost controls and rate increases as needed.

Thank you for your consideration of our plan. Feel free to contact me at 810-237-2035 or City Finance Director Jerry Ambrose at 517-230-9793 if you have questions.

Sincerely,

Michael K. Brown, Emergency Manager
City of Flint

FY 13 Deficit Elimination Plan

ATTACHMENT #1

	Budget FY14	Projected				
		FY15	FY16	FY17	FY18	FY19
\$19.1 Million Accumulated Deficit for FY12 Reduced to \$14.9 Million for FY13	-\$14.90	-\$13.90	-\$2.10	-\$0.55	\$0.00	\$0.00
<u>Borrowing to Eliminate \$11.0 million:</u> \$10.8 million loan from W&S Funds) (Debt service paid from Capital Improvement Fund)		-\$10.80	\$0.00	\$0.00	\$0.00	\$0.00
<u>Budgeted Appropriations Eliminating \$8.1 million</u>						
General Fund		-\$1.00	-\$1.55	-\$0.55	\$0.00	\$0.00
<u>Other funds subsidized by the General Fund:</u> Neighborhood Policing (\$427,183) Parks & Recreation (\$425,000) Senior Citizens Center (\$51,000) Building Safety (\$1,100,000) Garbage Collection (\$1,875,000) DDA (Parking Debt) (\$286,198)						
Total Budgeted Appropriations *	-\$1.00	-\$1.00	-\$1.55	-\$0.55	\$0.00	\$0.00
<u>Remaining Deficit</u>	-\$13.90	-\$2.10	-\$0.55	\$0.00	\$0.00	\$0.00
Appropriations as Percent of Projected General Fund Revenues (millions)	\$59.50 1.7%	1.7%	2.6%	0.9%	0.0%	0.0%

* Projection shows total amount appropriated coming from the General Fund. It may be possible and appropriate to utilize other funds where there has been a General Fund subsidy.

Capital Improvements Fund Projections (with additional debt service for FY13 DEP)

ATTACHMENT #2

	Actual FY12	Actual FY13	Projected					Projected						
			FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
REVENUES														
Property Tax	\$ 2,330,170	\$ 2,020,027	\$ 1,717,023	\$ 1,545,321	\$ 1,468,055	\$ 1,468,055	\$ 1,468,055	\$ 1,512,096	\$ 1,557,459	\$ 1,604,183	\$ 1,652,308	\$ 1,718,401	\$ 1,718,401	\$ 1,718,401
DDA payment- Parking Bonds	\$ 440,755	\$ 338,858	\$ 400,000	\$ 400,000	\$ 400,000	\$ 425,000	\$ 450,000	\$ 475,000	\$ 500,000	\$ 550,000	\$ 600,000	\$ 650,000	\$ 700,000	\$ 727,013
Interest	\$ 288,058	\$ 7,502	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
Other														
TOTAL REVENUES	\$ 3,058,983	\$ 2,366,385	\$ 2,117,523	\$ 1,945,821	\$ 1,868,555	\$ 1,893,555	\$ 1,918,555	\$ 1,987,596	\$ 2,057,959	\$ 2,154,683	\$ 2,252,808	\$ 2,368,901	\$ 2,418,901	\$ 2,445,914
EXPENSES														
FY11 Fiscal Stabilization Bond (2011-2035)	\$ 440,755	\$ 600,142	\$ 602,104	\$ 600,192	\$ 602,754	\$ 604,417	\$ 604,417	\$ 604,417	\$ 604,417	\$ 604,417	\$ 604,417	\$ 604,417	\$ 604,417	\$ 604,417
Parking Deck Bond	\$ 728,598	\$ 728,953	\$ 726,163	\$ 724,213	\$ 726,213	\$ 727,013	\$ 727,013	\$ 727,013	\$ 727,013	\$ 727,013	\$ 727,013	\$ 727,013	\$ 727,013	\$ 727,013
Notes Payable to Sewer Fund	\$ 400,000	\$ 522,880	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Outlays	\$ 1,027,287	\$ 103,280	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000
Due from DDA Parking Deck - Write-off	\$ 1,893,187													
Expenses w/o FY12 DEP Borrowing	\$ 4,257,787	\$ 1,953,055	\$ 1,503,267	\$ 1,499,405	\$ 1,503,967	\$ 1,506,430	\$ 1,506,430	\$ 1,506,430	\$ 1,506,430	\$ 1,506,430	\$ 1,506,430	\$ 1,506,430	\$ 1,506,430	\$ 1,506,430
<i>Estimated \$11 Million Issue (20yrs@4.5%)</i>	\$ -	\$ -	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000	\$ 835,000
TOTAL EXPENSES with DEP Borrowing	\$ 4,257,787	\$ 1,953,055	\$ 1,503,267	\$ 2,334,405	\$ 2,338,967	\$ 2,341,430	\$ 2,341,430	\$ 2,341,430	\$ 2,341,430	\$ 2,341,430	\$ 2,341,430	\$ 2,341,430	\$ 2,341,430	\$ 2,341,430
Net Revenues	\$ (1,198,804)	\$ 413,330	\$ 614,256	\$ (388,584)	\$ (470,412)	\$ (447,875)	\$ (422,875)	\$ (353,834)	\$ (283,471)	\$ (186,747)	\$ (88,622)	\$ 27,471	\$ 77,471	\$ 104,484
Beginning Fund Balance	\$ 2,829,294	\$ 1,630,490	\$ 2,043,820	\$ 2,658,076	\$ 2,269,492	\$ 1,799,079	\$ 1,351,204	\$ 928,328	\$ 574,495	\$ 291,024	\$ 104,277	\$ 15,655	\$ 43,126	\$ 120,597
Ending Nonspendable Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Unassigned Fund Balance	\$ 1,630,490	\$ 2,043,820	\$ 2,658,076	\$ 2,289,492	\$ 1,799,079	\$ 1,351,204	\$ 928,328	\$ 574,495	\$ 291,024	\$ 104,277	\$ 15,655	\$ 43,126	\$ 120,597	\$ 225,080