



STATE OF MICHIGAN  
EXECUTIVE OFFICE  
LANSING

RICK SNYDER  
GOVERNOR

BRIAN CALLEY  
LT. GOVERNOR

November 8, 2011

Dayne Walling, Mayor  
City of Flint  
1101 S. Saginaw Street  
Flint, Michigan 48502

Flint City Council  
1101 S. Saginaw Street  
Flint, Michigan 48502

Dear Mayor Walling and Flint City Councilmembers:

Public Act 4 of 2011, the Local Government and School District Fiscal Accountability Act, requires that I, as Governor, reach one of the following four conclusions within 10 days of receiving a financial review team report:

- (a) The local government is not in a condition of severe financial stress.
- (b) The local government is in a condition of severe financial stress as provided in section 14, but that a consent agreement containing a plan to resolve the financial stress has been adopted under this act.
- (c) A local government financial emergency exists as provided in section 14 and no satisfactory plan exists to resolve the emergency.
- (d) The local government entered into a consent agreement containing a continuing operations plan or recovery plan to resolve a financial problem, but materially breached that consent agreement.

I have reviewed in detail the report submitted to me on November 8, 2011, by the Flint Financial Review Team. I agree with the conclusions of the report. Therefore, I wish to inform you that, pursuant to Section 15(1)(c) of the Local Government and School District Fiscal Accountability Act, I have determined that a local government financial emergency exists within the City of Flint and no satisfactory plan exists to resolve the emergency.

#### **Findings of Fact**

Section 15(2) of the Act requires that, upon the determination by me of a financial emergency, I provide you with findings of fact utilized as the basis upon which this determination was made, and a concise and explicit statement of the underlying facts supporting the factual findings.

**Preliminary Review**

On August 29th, 2011, the Department of Treasury conducted a preliminary review of the finances of the City of Flint to determine whether or not probable financial stress existed. Section 12(1) of the Act provides that a preliminary review may be conducted if one, or more, of the conditions enumerated therein occurs. The preliminary review of the City of Flint resulted from the condition enumerated in subdivision (j), (m), (o) and (r) of Section 12(1) having occurred within the City.<sup>1</sup>

The preliminary review found the following:

- The City had incurred cumulative deficits in many of its funds over several years as follows:

Fund	2007	2008	2009	2010	Unaudited 2011
General	--	\$(7,046,820)	\$(10,113,744)	\$(14,621,546)	\$(11,149,907)
Building Department	--	(1,550,369)	--	(576,276)	(1,251,459)
Central Maintenance	\$(226,349)	(4,233,859)	(3,183,144)	(1,922,489)	*(2,029,230)
Data Processing	(778,458)	(245,488)	(72,773)	--	--
EDC	(26,772)	(10,721)	(58)	(7,404)	--
EDC Oak Business Ctr	(28,403)	(19,843)	(5,285)	(24,898)	--
Garbage Collection	--	--	--	(909,283)	(1,444,581)
Golf Course	(473,294)	(1,909,377)	--	(282,670)	*(576,861)
Self Insurance	--	--	--	--	(33,580)
Parks & Recreation	--	--	--	(163,096)	(185,255)
Senior Citizens	--	--	--	--	(26,709)
Water Supply	--	--	--	(5,795,973)	*(9,009,825)
<b>Total</b>	<b>\$(1,533,276)</b>	<b>\$(15,016,477)</b>	<b>\$(13,375,004)</b>	<b>\$(24,303,635)</b>	<b>\$(25,707,407)</b>
*Estimated					

- Deficit elimination plans submitted to the Department of Treasury by City officials had not been followed. City officials submitted a deficit elimination plan concerning a general fund deficit of \$7,046,820 as of June 30, 2008. That five-year plan projected a general fund deficit of \$9,124,747 as of June 30, 2010. However, the actual deficit as of that date was \$14,621,546, or

<sup>1</sup> Subdivision (j) provides that the "local government has violated a requirement of sections 17 to 20 of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.437 to 141.440." Subsection (m) provides that a "local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan." Subsection (o) provides that a "municipal government has ended a fiscal year in a deficit condition as defined in section 21 of the Glenn Steil state revenue sharing act of 1971, 1971 PA 140, MCL 141.921, or has failed to comply with the requirements of that section for filing or instituting a financial plan to correct the deficit condition." Subsection (r) provides that "[t]he existence of other facts or circumstances that in the state treasurer's sole discretion for a municipal government are indicative of municipal financial stress."

\$5,496,800 higher than projected and the deficit as of June 30, 2011, is estimated to be approximately \$11.0 million. The plan also anticipated that the deficit would be eliminated by 2014, but an updated deficit elimination plan submitted for 2010 did not purport to eliminate the deficit until the year 2030, relying heavily upon the issuance of an additional \$12.0 million of debt in 2013.

- General fund expenditures exceeded revenues since 2007 and fund deficits have existed since 2008, as follows:

	6/30/2007	6/30/2008	6/30/2009	6/30/2010	Unaudited 6/30/2011
Revenues	\$69,212,013	\$66,823,137	\$63,937,302	\$57,189,454	\$52,201,018
Expenditures	<u>70,908,742</u>	<u>79,475,612</u>	<u>66,703,149</u>	<u>64,741,451</u>	<u>58,969,882</u>
Excess/Deficiency	(1,696,729)	(12,652,475)	(2,765,847)	(7,551,997)	(6,768,864)
Other Sources (Uses)	<u>(866,831)</u>	<u>(568,589)</u>	<u>(478,527)</u>	<u>3,044,195</u>	<u>10,598,701</u>
Net Change	(2,563,560)	(13,221,064)	(3,244,374)	(4,507,802)	3,829,837
Beginning Fund Balance	8,915,254	6,351,694	(6,869,370)	(10,113,744)	(14,621,546)
Ending Fund Balance	<u>\$6,351,694</u>	<u>\$(6,869,370)</u>	<u>\$(10,113,744)</u>	<u>\$(14,621,546)</u>	<u>\$(10,791,709)</u>

- The City relied upon transfers from the water supply fund and the sewage disposal fund for general City operations. In 2009, City officials increased overhead charges from the water supply fund and the sewage disposal fund from \$1 million to \$2.4 million. Also in 2009, City officials began charging a return upon investments against the water supply fund and the sewage disposal fund of \$2.9 million. Combined, City officials had been utilizing \$5.3 million of water supply and the sewage disposal money for general fund operations annually. This amount of annual appropriation was not a loan and was not expected to be repaid to these funds.
- In addition to the foregoing activity, City officials had borrowed from other funds to compensate for cash shortages. For example, at June 30, 2010, the general fund owed other funds a total of \$18,002,907, of which \$11,698,376 was owed to the sewage disposal fund, \$1,059,914 was owed to the local street fund, \$1,683,733 was owed to the public improvement fund, and \$2,139,590 was owed to the self insurance fund. Local street monies may only be expended for local streets in the City, since those monies derive from Federal and State grants. Similarly, monies placed in a public improvement fund may not be expended for any other purposes.
- The City continued to experience a cash shortage. The City recently borrowed \$8.0 million in fiscal stabilization bonds, pursuant to Public Act 80 of 1981, the Fiscal Stabilization Act, to assist with cash flow shortfalls. However, there remained many negative cash balances in the City's records as of June 30, 2011. For example, the general fund had negative cash of more than \$9.5 million, the rubbish collection fund had negative cash of almost \$1.5 million, and the drinking water revolving loan fund had negative cash of more than \$3 million.

- The City's ability to pay short-term obligations was uncertain. For 2010, the general fund had only \$9 million in short-term assets to cover almost \$22 million in short-term obligations. The City's unaudited financial records lacked sufficient information to reach a meaningful conclusion in the unaudited records of the City for 2011 since total current assets equated to a negative figure.
- The City's pension system was less than 60 percent funded. Benefits were based upon factors ranging from 1.7 to 2.6 of final average compensation. As of June 30, 2008, which was the last actuarial report for the 2010 audit period, there were 1,676 active members compared to 2,820 retirees. The unfunded accrued pension liability was over \$39 million, with a one-year increase in the net pension obligation of \$1,202,047.
- City officials had failed to make staff reductions in accordance with their deficit elimination plan. According to the 2010 audit report, between 2001 and 2010, City officials did reduce staffing from total full-time equivalent positions of 1,525.8 to 767. Many of these reductions came from Police (336 to 122) and Fire (216 to 110). The City continued to reduce staff. However, of the planned 40 layoffs by July 2011, only 18 were made. Of the planned 25 layoffs after July, only seven were made.

Based upon the preliminary review, the State Treasurer concluded, and reported to the Governor on September 12, 2011, that probable financial stress existed in the City of Flint and recommended the appointment of a financial review team.

### **Review Team Findings**

On September 30, 2011, I appointed an eight-member Financial Review Team. The Review Team convened on October 5, 2011, October 13, 2011, October 17, 2011, October 21, 2011, and November 7, 2011, to consider information relevant to the financial condition of the City of Flint. The Review Team found, or confirmed, the existence of the following conditions based upon information provided by City officials, or the City's audit firm, or other relevant sources:

- According to the City's fiscal year 2010 financial audit, the City's cumulative general fund deficit increased by 44.6 percent from \$10,113,744 as of June 30, 2009 to \$14,621,546 as of June 30, 2010. The one-year increase in the City's cumulative general fund deficit resulted from general fund expenditures exceeding general fund revenues by \$7,551,997. However, City officials largely offset this operating deficit by means of \$3,044,195 in other funding sources which included a \$2,990,000 transfer from the water and sewer fund to the general fund.

- The City's pooled cash position (exclusive of Hurley Medical Center) decreased significantly over the last five fiscal years as follows:

<u>Fiscal Year Ending</u>	<u>Pooled Cash</u>
2006	\$69,025,428
2007	\$63,894,691
2008	\$45,580,145
2009	\$24,688,481
2010	\$4,378,207

- Financial audit reports for the City for its last three fiscal years reflected the following variances between general fund revenues and expenditures, as initially budgeted and as amended, versus general fund revenues and expenditures actually realized:

	<u>2007-08</u>	<u>%</u>	<u>2008-09</u>	<u>%</u>	<u>2009-10</u>	<u>%</u>
<u>Revenues</u>						
Budgeted	\$70,441,919		\$65,007,471		\$65,866,661	
Amended	\$71,059,795		\$68,471,610		\$62,441,644	
Actual	<u>\$66,823,137</u>		<u>\$63,937,302</u>		<u>\$57,189,454</u>	
Variance	(\$4,236,658)	(5.96)	(\$4,534,308)	(6.62)	(\$5,252,190)	(8.41)
<u>Expenditures</u>						
Budgeted	\$74,073,657		\$64,880,786		\$62,816,336	
Amended	\$74,907,224		\$68,053,422		\$64,734,773	
Actual	<u>\$79,475,612</u>		<u>\$66,703,149</u>		<u>\$64,741,451</u>	
Variance	(\$4,568,388)	(6.10)	\$1,350,273	1.98	(\$6,678)	(0.01)

The foregoing variances reflected several considerations. First, there was the tradition of City administrations proposing, and City Councils then adopting, without significant modification, budgets that knowingly overestimated revenues, knowingly underestimated expenditures, or both. Second, City officials indicated to the Review Team that, while financial information is monitored and disseminated on a monthly basis, amendments to the budget to reflect actual revenues and expenditures are made only upon a quarterly, or semi-annual, basis. Finally, the

effect of adopting unrealistic budgets is exacerbated by the fact that City officials, as some expressed to the Review Team, "manage to the budget."

- City officials consistently had failed to abide by various proposals submitted to the Department of Treasury which purported to address the City's financial deficiencies. For example, on February 28, 2011, the City administration submitted to the Department a written proposal in conjunction with a request to issue \$20.0 million in fiscal stabilization bonds. The particulars of the proposal included: a reduction of 19.5 full-time equivalent positions in the Police Department unless concessions equal to a 15 percent reduction in compensation were achieved; a reduction of 13.1 full-time equivalent positions in the Fire Department unless concessions equal to a 15 percent reduction in compensation were achieved; a reduction of 25 full-time equivalent (non police and fire) positions; a reduction in City Council positions and other organizational adjustments which required amendments to the City charter.

However, at its meeting on October 17, 2011, the Review Team was informed that none of the proposed charter amendments had been submitted to City electors, that only a fraction of the reductions in non police and fire positions had been made, and that no additional reductions in police and fire positions had been made despite the fact that a 15 percent reduction in compensation costs had not been achieved.

- City costs associated with actuarially determined other post employment benefits are increasing. In 2010 alone, the unfunded liability increased by nearly \$37 million (i.e., the total cost for that year was \$57,295,237, but the City funded only \$20,325,123). In the aggregate, the unfunded liability for other post employment benefits stood at \$860,623,370 as of 2010.

## **Conclusion**

Based upon the foregoing information, the Review Team confirmed the findings of the preliminary review, concluded that a local government financial emergency existed within the City of Flint and that no satisfactory plan existed to resolve the local government financial emergency, and recommended the appointment of an emergency manager. Pursuant to Section 15(1)(c) of the Act, I have determined the same to exist.

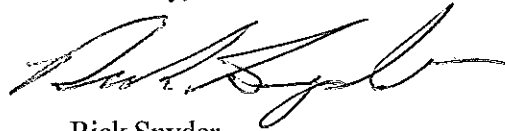
## **Notice of Hearing**

Pursuant to Section 15(2) of the Local Government and School District Fiscal Accountability Act, the chief administrative officer or governing body may within seven days request a hearing upon the determination of a financial emergency. The deadline for requesting a hearing is 5:00 P.M., Tuesday November 15, 2011. In the event that a hearing is requested, it will be convened on Friday November 18, 2011, at 9:00 A.M., at the Richard H. Austin (Treasury) Building before the State Treasurer, or his designee, Tom Saxton, Deputy Treasurer.

Hon. Dayne Walling  
Flint City Councilmembers  
November 8, 2011  
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It should be noted that the hearing would not be an original fact finding proceeding. Its purpose would be to afford City officials an opportunity to indicate whether the findings of the Review Team report were supported by competent, material, and substantial evidence on the whole record. Therefore, any information which City officials may wish to present that was not available to the Review Team, or that concerns actions taken by City officials since the Review Team filed its report, or that concerns actions City officials anticipate taking in the future to address the financial emergency in the City, will be considered beyond the scope of the hearing.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick Snyder", with a long horizontal flourish extending to the right.

Rick Snyder  
Governor