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From: Vandegrift, Drew (TREASURY)
Sent: Tuesday, July 23, 2013 10:44 AM
To: Byrne, Randall (Treasury)
Cc: Cline, Richard (Treasury); Dube, Mathieu (Treasury); StonebrookS@michigan.gov
Subject: Flint Financial and Operating Plan V3

Good Day,

Following a study of Flint's June 28, 2013 Financial and Operating Plan (Plan), this summary can be provided. This Plan is intended to also function as EM Kurtz's closing memorandum. The Plan is extensive, and subdivided into several major sections which will be addressed in their native order.

Financial and Operating Plan

The document begins with a summary of Flint's Emergency Manager history; in 2011 Mike Brown was appointed, and then when PA 4 was repealed by referendum, Ed Kurtz was appointed on August 8, 2012. As of the release date, Mike Brown had not yet been appointed for a second time.

The dire nature of the City's fiscal woes is quickly addressed. The Plan states that while the City has largely kept to a balanced budget so far during FY 13, decreasing property values, grant expirations, and increasing legacy costs will contribute to structural deficits in the following years, ranging from $3-5 million annually. All of these projected losses will occur without the budgeting for any capital needs, which the city currently estimates to be approximately $300 million. The Plan admits that "[t]his structural deficit essentially precludes the City from stabilizing services levels even at minimal levels . . . without structural change, this situation is not sustainable and the City will not achieve even a minimal level of financial solvency in the long term".

Bankruptcy is acknowledged as a possible solution, however the Plan dismisses it as "expensive, slow, and with outcomes that are far from certain". Instead, the Plan is summarized as "an increase in the local income tax rate to the levels afforded other urban centers, coupled with significant additional changes in health care and pension for active employees and retirees appears to have the potential to overcome the . . . structural deficit while providing a similar amount for stabilizing services and beginning to address capital needs."

The City's cash position has improved due to a public safety millage, a street light assessment, and waste collection fees. However, it is stated that the general fund still needs to borrow to remain solvent. Deficit financing is a necessary component under the Plan. This request to borrow was incorporated into the City's most recent DEP application; this DEP has not yet been certified by LAFD.

The Plan describes the efforts to secure concessions from the City's six bargaining units. While wage reductions have been achieved with four of these units, this area is fraught with litigation and union threats of litigation. On a more positive note the City has recently contracted with a part-time labor relations specialist who, it is reported, has resolved dozens of union grievances.

The City has resolved to enter into a contract with KWA. This partnership with Genesee County, the City of Lapeer, Lapeer County and Sanilac County is designed to *stabilize the cost of water for all the involved parties. There still is ongoing negotiation regarding a 72" pipeline which will be integral for the KWA plan.* Additionally, one of the city's sewage pump stations is becoming fully automated; the station is fully staffed at all times now. This automation is projected to save at least $500,000 annually.

During FY13, the City has held three auctions where surplus equipment was sold, netting $410,000.

The fiscal hardships of the City have reduced its ability to fight blight. All demolitions are now the responsibility of the Genesee County Land Bank Authority, who has recently received a $3.5 million MSHDA grant for demolition purposes. The Land Bank is also soliciting a $20 million grant from the "Hardest Hit" federal grant fund.

Six priority actions are identified for the future:

1. Increase revenue through an income tax increase
2. Develop a blight elimination plan
3. 9-1-1 reconsolidation
4. KWA implementation
5. Win the lawsuits that threaten the OPEB reduction
6. Maintain capital infrastructure

Five Year Financial Plan Projections

These figures show a degree of budgetary stability through FY14, when stagnant revenues are projected to be overtaken by increasing retirement expenses and grant expirations. Difficult decisions must be made in FY15 and onward, as past staffing cut have left little other than public safety to reduce. Any reductions to public safety must be arrayed against the resulting physical insecurity to the citizens of Flint.

In conclusion, much of the Financial and Operational Plan's conclusions are identical to those reached by the OFR. While considerable cuts have been made, the minimal operational expense and the legacy costs for Flint's retirees are simply a larger sum than the tax revenues of the City. Additional revenues and additional cost savings must be realized soon if the City of Flint is to be a going concern that can provide essential services to its people.

-Drew

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