September 10, 2013

To: Governor Rick Snyder, Treasurer Andrew Dillon

From: Michael K. Brown, Emergency Manager, City of Flint

Subject: CLOSING MEMORANDUM

It has been a pleasure for me to serve the citizens of Flint for the past twenty-two months and I thank you for the opportunity to serve as Emergency Manager.

I have worked hard to begin a cultural change to both improve the approach to city government's interaction with citizens and to encourage a wider range of citizen participation. It is important to me that the next generation of leaders (I have called them emerging leaders) not be from the same mold as the old leaders and have the opportunity to assume positions of responsibility as we set a path to the future for Flint. A significant number of my leadership team is comprised of Flint residents who are committed to the future of their city. While this approach has meant that some things may have taken longer to achieve than it might otherwise take, it has been with the realization that *changing the culture of City Hall is imperative if history is not to repeat itself.*

I have also tried to champion citizen participation throughout my tenure as Emergency Manager. Collectively, hundreds of people have been involved: in the Advisory Teams for Public Safety, Infrastructure, Financial, and Legacy issues which I established in January 2012; in the nine ward public meetings held in February-March 2012; in the Police and Fire Protection millage campaign in Fall 2012; and in the Master Planning process which has involved citizen participation in numerous meetings held throughout the City over the past year. I have attached a list of some of these individuals who have worked on my advisory groups and the millage team.

As our regularly submitted reports to the Department of Treasury have documented, we have made substantial progress in putting the city on a path to solvency and resolving the financial emergency. Many achievements are detailed in the latest Financial and Operating Report which was submitted to the Department of Treasury on June 30, 2013. Significant achievements over the past twenty-two months include:

A. Financial
    1. <u>Developing, adopting and operating with a balanced budget for FY13</u> - the first time in seven years that the City of Flint has lived within a balanced budget.

    2. <u>Significantly improving the City's cash flow</u> - More than $40 million in cash on hand as of September 2, 2013 is significantly better than the approximate $10 million on hand in December 2011. The $10 million in cash at that time was due primarily to an $8 million loan from the state in the form of Fiscal Stabilization Bonds.

    3. <u>Significantly reducing Other Post Employment Benefits (OPEB) liabilities by more than $500 million</u> – a 60% reduction. Not only have we significantly reduced legacy costs by more than 60%, we also have a plan for further reducing legacy costs, as detailed in recent presentations to the Department of Treasury

4. Significantly reducing pension administration costs and improving investment returns by moving administration of the City's pension fund to the Municipal Employees Retirement Fund, while also changing the structure of future pension benefits which will reduce future pension liabilities

5. Developing a plan for and implementing a reduction in the City's $19.1 million deficit ahead of schedule. At the end of FY12, we presented a plan to the State Treasurer for eliminating the $19.1 million deficit within 5 years. Based on preliminary year end results for FY13, we are ahead of the scheduled reduction since it appears that FY 13 will end with a surplus of revenues over expenses by approximately $3 million. This will likely reduce the $19.1 million deficit to the $16 million range. Had the Department of Treasury authorized the borrowing of $12 million as contained in the approved FY12 Deficit Elimination Plan, the remaining deficit would now be closer to $4 million.

6. Developing a five year financial projection which maps out the continuing financial challenges Flint will face, regardless of who is in charge. With FY 14 balanced and adopted, development of the FY15 budget – which will without doubt be the most challenging of the next few years – is underway. In the process of developing the multi-year projection, it has also become clear that the path for Flint's financial solvency will require additional sources of revenue in addition to further reductions in legacy costs. We have identified a path for further reductions in legacy costs, and we have also identified an increase in the local income tax as the most promising and realistic source of new revenue. Unfortunately the Treasurer has not supported that initiative.

7. Stabilizing Police and Fire Protection revenue. Since being appointed in 2011, it has been clear that the stabilization and enhancement of public safety is the top priority in the City of Flint. Many steps have been taken to achieve this, including securing voter approval of a 6 mill property tax increase by a margin of 57% to 43%. Additionally, by ordinance the City must now appropriate no less than 55.5% of General Fund revenues for Police and Fire budgets. The FY 14 budget dedicates more than 60% of General Fund revenues to these purposes, and exceeds 80% when 9-1-1 and District Court funding is included. As a result, staffing for police and fire personnel was maintained at current levels in spite of the significant staffing reductions necessary to balance both the FY13 and FY14 budgets. Unfortunately, without a new source of revenue in FY15, it is unlikely that can continue.

8. Resolving Federal Government liabilities - More than $7 million in questioned grant costs prior to the EM's appointment in December 2011 have been resolved – as documented by the OIG report and HUD findings.

9. Reorganizing City operations – The City workforce has been reduced by more than 25% as the City has faced its financial challenges. Doing so while still providing for the delivery of city services has required restructuring work processes and organizational alignments, as well as the increased use of technology. These changes have been made in the context of a newly developed strategic plan which identifies the key functions and objectives of the City.

B. Public Safety

1. Opening of the Flint Lock-up. The lock-up opened the week of October 1, 2012. Public Safety Director Lock recommended selection of the Genesee County Sheriff as the operator of the Flint lock-up. Lock also recommended that the lock-up be made available to all policing agencies operating within