Cline, Richard (Treasury)

From:	Natasha Henderson <nhenderson@cityofflint.com>
Sent:	Wednesday, January 06, 2016 6:42 PM
To:	Cline, Richard (Treasury)
Cc:	Headen, Frederick (Treasury)
Subject:	Re: FW: RTAB Questions from RTAB Meeting
Categories:	Blue Category

Please see my responses to each item below. Should you need any further clarification or have any additional questions, please let me know.

1. The City Administrator in her email proposes using $7,287,125 of Fund Balance in the water fund to offset the balance projected decrease in the revenue. The latest "budget to actual" report provided shows the Fund Balance in the water fund to be $4,937,210. Will there be an amendment showing where the remaining $2,349,915 will be taken from?

When the first quarter budget amendments were originally presented to Council the FYE 6/30/2015 fund balances for the water and sewer funds were $4.9M and $17.2M, respectively. These were unaudited year end projections as the City worked to close it's books and prepare for the auditors arrival. The City has historically looked at the combined total of the fund balances of both funds to determine the financial position of the system as a whole. I would note that, in light of the recent attention being paid to the City's compliance with the Revenue Bond act, the practice of reviewing the combined fund balances for financial position of the total system will not be followed in the future. This is especially important as new GASB statements governing the preparation of the City's financial statements continue to be issued requiring the City to report total pension liabilities for unfunded expenses.

With the changes in GASB reporting that require net pension liability to be reported for the first time, the water and sewer funds now carry unrestricted deficits for both funds. The funds maintain a positive total net position. Net pension liability is a long term liability that has always existed, however with the implementation of GASB 68 and 71 is shown on the face of the financial statements. I have been maintaining ongoing conversations with the City's auditors regarding the presentation of the net pension liability on the water and sewer fund unrestricted fund balances (also referred to as unrestricted net assets) and how to communicate that to the City's management, elected officials and public. These statements impact all units of government across the nation and have resulted in many of them, including Flint, reporting negative unrestricted balances for their enterprise funds. I have asked that the auditors be prepared to discuss this matter in more detail with the Council and RTAB.

I have summarized unrestricted net asset data below. The unrestricted net position has been adjusted to remove net pension liability in order to present a clearer indication of the City's current financial position and, therefore, its ability to respond to any change in financial circumstances ($11.3M for water and $22.8M for sewer). It would be from these assets that the City would be offsetting the shortfall in revenues to cover operating expenditures (shown as budgeted use of fund balance of $7.3M for water and $4M for sewer). The unrestricted net asset and net pension liability balances were taken directly from page 3-11 of the City's audited financial statements, which are now available online.

CITY OF FLINT
WATER AND SEWER FUND UNRESTRICTED NET POSITION ANALYSIS

	Budgeted Use of Fund Balance	Projected FYE 6/30/2015 Unrestricted Net Assets	Actual FYE 6/30/2015 Audited Unrestricted Net Assets	Add Back: Net Pension Liability	**Unrestricted Net Position w/o Net Pension Liability**
Water	**(7,287,125)**	4,937,210	(20,358,465)	31,703,314	**11,344,849**
Sewer	**(3,975,246)**	17,229,833	(14,158,340)	36,982,444	**22,824,104**
Total	**(11,262,371)**	22,167,043	(34,516,805)	68,685,758	**34,168,953**

2. The last budget to actual report provided to RTAB (Month Ended October 31, 2015) the 590 Sewer Fund shows a "YTD Balance" at 10/31/15 of $2,480,146 in the "Charges for Services" line item. If I annualize this, the total would be $7,440,438. The budget amendment of a $5,941,475 reduction in that budget line item adjusts the total budgeted amount to be $24,493,240. In what months from November 2015 through June 2015 will there be an acceleration of service for fee revenue that will allow us to achieve the amended budget?

Unfortunately, as a result of the Preliminary Injunction Order the process of moving delinquent balances off of customers accounts removed all of the billed revenue from the current year actual totals. This was necessary in order to identify accounts with delinquent balances outstanding on bills issued after the rates were reduced. The City's Utility Billing and Finance staff are working together to repost the actual billed revenue to the appropriate periods and move the revenue that was reduced to the appropriate allowance for doubtful accounts.

Stated another way, nearly $11.6 million in delinquent balances were "set aside" in order to process shut off notices. In doing so, the utility billing department inadvertantly reduced the current year billed revenue reported under "Charges for Services" on the RTAB report by the same amount. Adding this back and annualizing activity through 10/31/2015 to fiscal year end returns projections closely to those reflected by the amounts reflected in the first quarter budget amendment. It should be further noted that with the amendment to the preliminary injunction order, the City looks forward to recommending a third quarter budget amendment that will restore a portion of the projected revenue.

3. The same concern for the Water Fund as well.

See above.

Thanks,

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On Wed, Jan 6, 2016 at 10:03 AM, Cline, Richard (Treasury) <cliner1@michigan.gov> wrote:

For your review

Eric Cline | Department Manager | State of Michigan

Michigan Department of Treasury | Local Government Financial Services Division | Fiscal Responsibility Section

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