

# The Flint Fiscal Playbook: An Assessment of the Emergency Manager Years (2011-2015)<sup>1</sup>

*MSU Extension White Paper*



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## I. Introduction

The city of Flint, Michigan, has experienced a variety of fiscal difficulties since the early 2000s. In 2002, an emergency financial manager was appointed for the city under Public Act 72 of 1990 and was in place until 2004. Unfortunately, the reforms and changes made at that time only lasted for a few years before fiscal problems re-emerged in Flint (see MSU Extension white paper *Long-Term Crisis and Systemic Failure: Taking the Fiscal Stress of America's Older Cities Seriously*). By 2011, a second wave of emergency managers would be named to run the city under two newer laws (including PA 4 of 2011 and PA 436 of 2012). These emergency managers were removed from the city, restoring home rule in April 2015. The key question: Can Flint avoid the problems that have plagued it for the last 15 years without being placed under state control for the third time? Before answering that question, we must understand the reforms and changes that have occurred in the city since a fiscal emergency was declared in 2011.

The objectives of this case study of Flint, Michigan, are to understand the economic and fiscal trends that led to the state takeover via an emergency financial manager in November 2011 and to analyze the impact of the emergency manager policy on the city's fiscal health. It updates trends presented in a previous case study on fiscal stress in Flint,<sup>3</sup> provides additional detail regarding the policy changes that emergency managers have made, and examines the impacts of those changes.

<sup>3</sup> Eric Scorsone and Nicolette Bateson, *Long-Term Crisis and Systemic Failure: Taking the Fiscal Stress of America's Older Cities Seriously* (Michigan State University Extension, September 2011), [http://expeng.anr.msu.edu/uploads/files/42/MSUE\\_FlintCaseStudy-2011%202.pdf](http://expeng.anr.msu.edu/uploads/files/42/MSUE_FlintCaseStudy-2011%202.pdf)

## II. Historical Overview of Flint, Michigan

Examining the history of Flint can provide an understanding of the evolution of the chronic fiscal stress that has plagued the city, as well as its significance in the geographic region. The city of Flint is located in Genesee County, about 60 miles northwest of Detroit. The Flint River provided the natural resources to create successful commerce in the 1800s for fur trading, the lumber industry, the manufacture of carriages, and eventually the production of horseless carriages that led to the birth of the automotive industry. The entrepreneurial spirit and wealth in the area contributed to the founding of the Buick Motor Company in 1903, followed by the incorporation of General Motors (GM) in 1908. With the rapid growth of the automotive industry came concerns for employee working conditions. This led to the first automotive sit-down strike in 1936-1937 in Flint. After 44 days, the strike ended with the first union agreement with GM, which gave rise to the United Auto Workers (UAW). The continued improvements in working conditions and wages enabled Flint to become an ideal place to live and work, and the increase in wealth fostered a well-respected educational system. Early automotive industry leaders such as Charles Stewart Mott and William C. Durant provided the vision to create a strong cultural environment. Flint prospered for most of the years from the 1930s into the early 1970s. Like many industrial cities, however, the economic vibrancy ebbed and flowed with the U.S. automotive industry. In 1978, GM employed

over 80,000 Flint-area residents. By 1990, the number of employees decreased to 23,000, dipping to as low as 8,000 in 2006.

### City Government

The City of Flint was incorporated in 1855. The present charter, adopted in 1974, provides for a strong mayor-council form of government. The city council consists of nine members, each representing a ward and serving four-year terms. The mayor, also elected to a four-year term, is the chief executive officer. The mayor appoints a city administrator, as well as principal officials and department heads.

The City of Flint provides a full range of services across 32.8 square miles, including: police and fire protection, construction and maintenance of streets and infrastructure, recreational and cultural activities, water and sewer services, and sanitation and garbage pickup services. In addition, the City of Flint is financially accountable for four other entities:

- ▶ City of Flint Board of Hospital Managers (manages and operates the Hurley Medical Center providing inpatient, outpatient, and emergency care)
- ▶ Flint Downtown Development Authority (promotes rehabilitation of the downtown area)

- ▶ City of Flint Economic Development Corporation (provides financing and development opportunities for businesses located in the City)
- ▶ Flint Area Enterprise Community<sup>4</sup> (coordinates the federal enterprise and helps to leverage the resources for the zone)

Flint is the county seat for Genesee County. Like most counties in Michigan, the county government provides court services, human services, record keeping, and community enrichment for its residents. The county and its elected officials also serve as regional problem solvers.

## Demographics

The city of Flint’s population has changed drastically over the past 50 years. This section explores the historical changes that have occurred throughout the city and region. These trends are essential for explaining the path that has led to Flint’s fiscal distress and may point to the path that the city may need to follow in order to build a sustainable future.

## Population

According to data collected by the U.S. Census Bureau, the population of the city of Flint has declined over five consecutive decades. There were 48% fewer residents in the city in 2010 compared to 1960 (**Exhibit II-1**). In 2012, there were 100,515<sup>5</sup> residents in the city; in 2013 the city’s estimated population further declined to 99,758<sup>6</sup>.

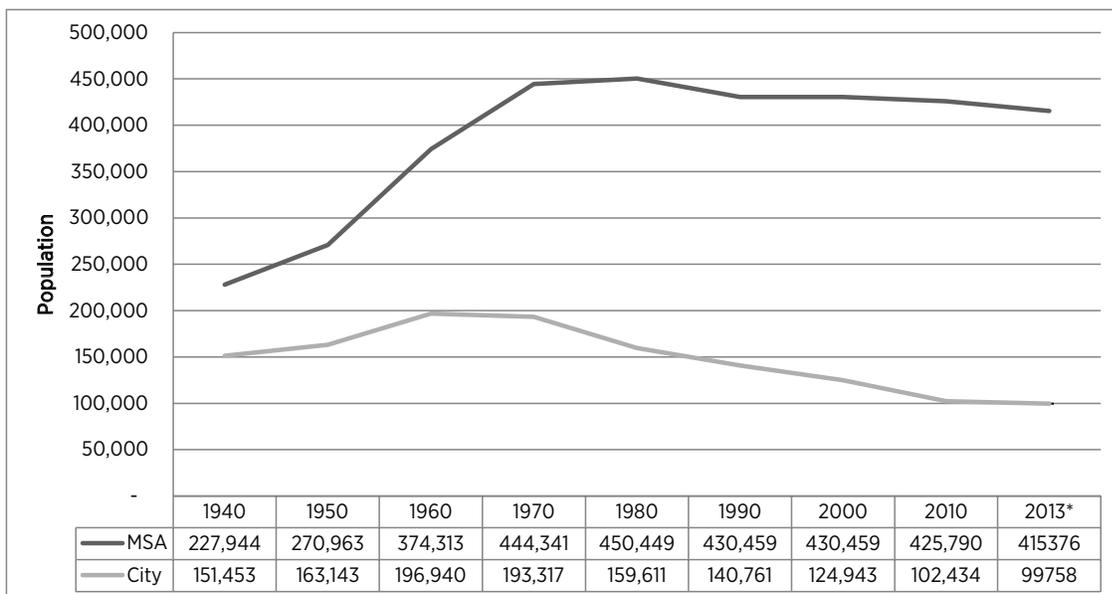
In contrast, the population trends in the Flint metropolitan statistical area (MSA), defined by Genesee County boundaries, indicate enormous growth through the 1970s with slight declines over the following three decades. This indicates that the Flint metropolitan statistical area has experienced significant decentralization.

<sup>4</sup> The Flint Area Enterprise Community (FAEC) was consolidated with the Economic Development Corporation (EDC) (with the EDC Board of Directors exercising authority and control of the FAEC) by an executive order of the city’s emergency manager effective August 8, 2012.

<sup>5</sup> With a margin of error of +/- 27 people.

<sup>6</sup> 2013 American Community Survey 1-year estimate, [http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_13\\_1YR\\_S0101&prodType=table](http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_13_1YR_S0101&prodType=table)

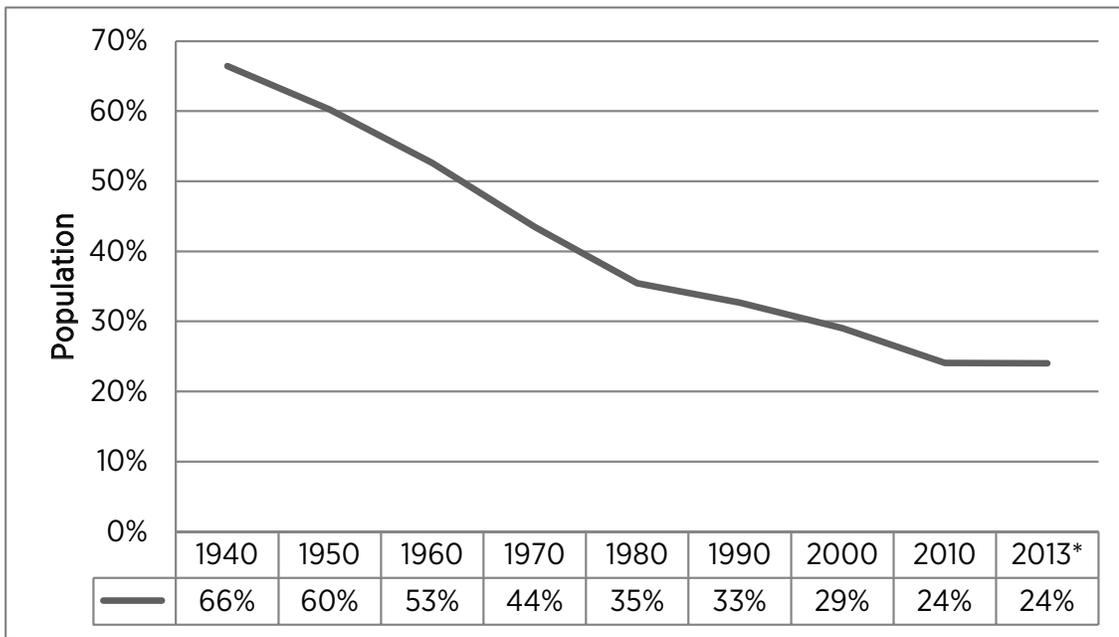
**Exhibit II-1 Flint Metropolitan Statistical Area (MSA) and Flint City Population**  
Data source: U. S. Census Bureau (Decennial Census, American Community Survey\*)



**Exhibit II-2** more clearly illustrates this decentralization. In 1940, the city of Flint comprised 66% of the population of the Flint MSA population compared to only 24% in 2013. The estimates from the 2013 American Community Survey indicate that the net migration into the suburbs may be starting to stabilize, though Flint’s population has continued to decline in recent years.

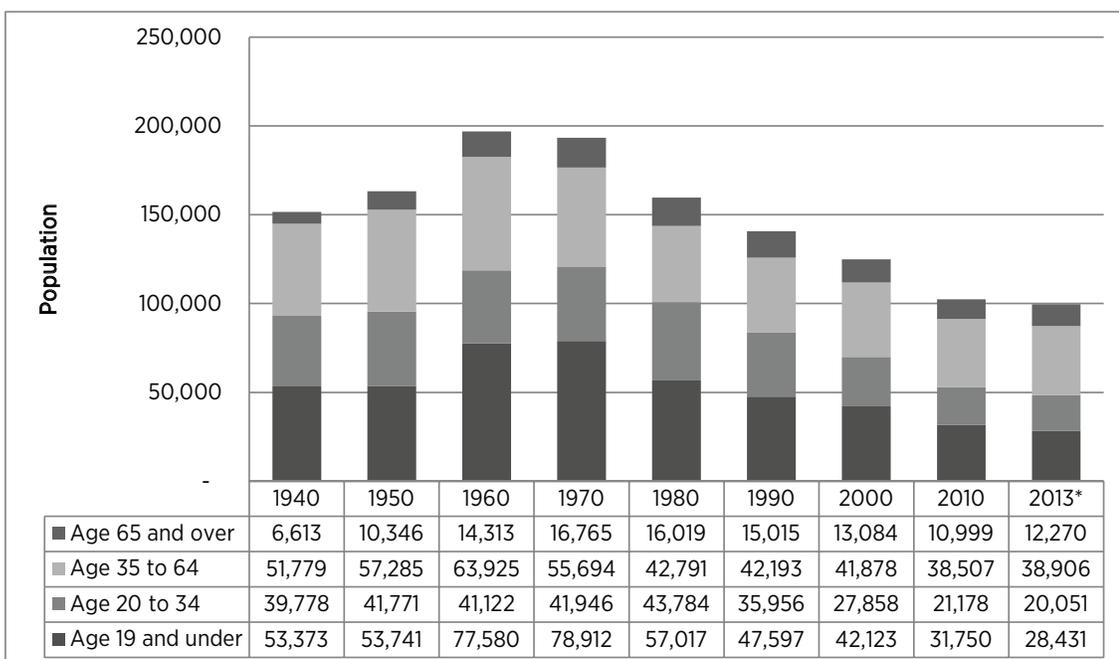
### Population Characteristics

Flint’s population has been aging over the past several decades. **Exhibit II-3** shows a breakdown of the number of people by age group in Flint from 1940 through 2013.



**Exhibit II-2 Flint City Population as a Percent of MSA**

Data source: U. S. Census Bureau (Decennial Census, American Community Survey\*)



**Exhibit II-3 Age of Flint Population**

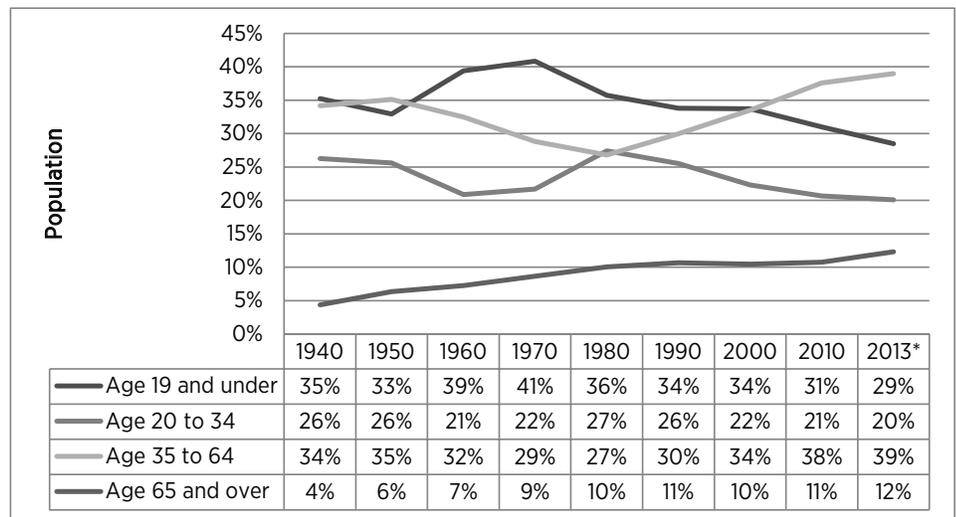
Data source: U. S. Census Bureau (Decennial Census, 2013 American Community Survey\*)

To see this more clearly, **Exhibit II-4** shows the relative share of each age category in the total population for each year. The share of population aged 19 years old and under generally increased from 1940 to 1970 with the Baby Boom and has since continually declined from its peak of 41% in 1970, to only 29% of the population in 2013. The share of individuals aged 20 to 34 has fluctuated over the last seven decades, but has been on a general decline since 1980. The share of population aged 35 to 64 years old experienced a period of contraction from 1950 to 1980 followed by a continuous period of growth since then, likely due to the aging of the Baby Boomer population. Finally, during the past seven decades, there has been a fairly steady expansion of residents aged 65 and over, probably due to increased life expectancy. This demographic is expected to continue to expand with the aging of the Baby Boomer population.

The racial distribution of the city has also changed since the 1940s, as shown in **Exhibit II-5**. The city has become more diverse with a population that is 39% white and 56% black/African-American in 2012 compared to 95.6% white and 4% black/African-American in 1940. The share of the population in the “Other” category, which includes both individuals of other races and multi-racial individuals, has also grown from 0.1% in 1940 to 6% in 2010.

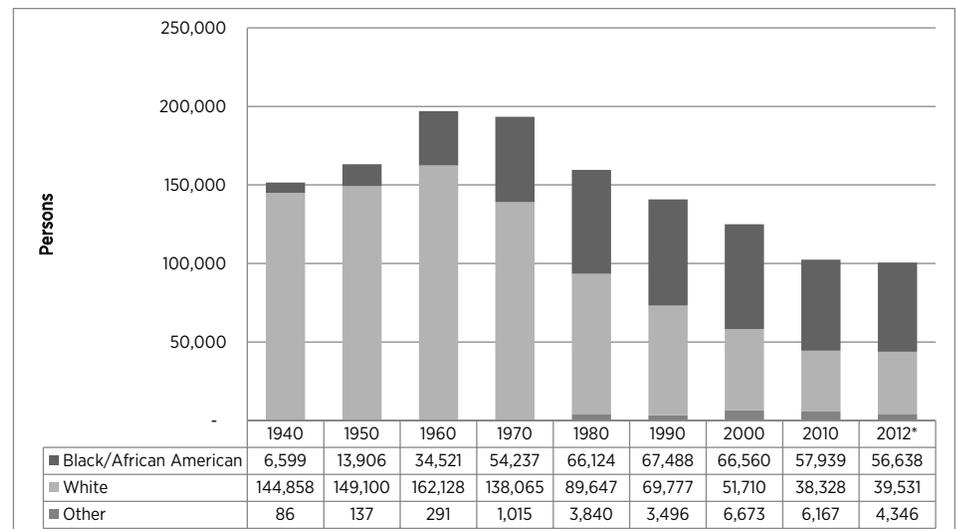
**Exhibit II-4 Flint Age by Percentage of Population**

Data source: U. S. Census Bureau (Decennial Census, 2013 American Community Survey\*)



**Exhibit II-5 Flint Population by Race**

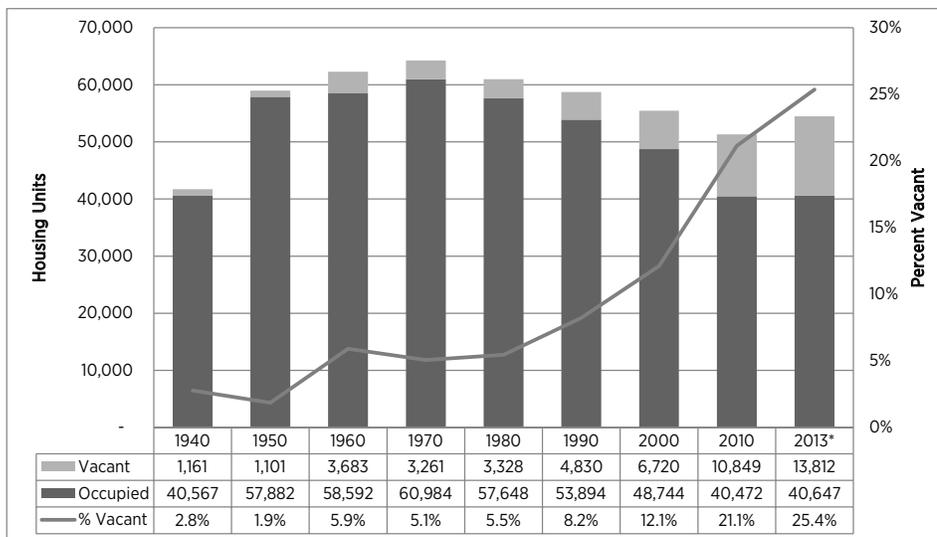
Data source: U. S. Census Bureau (Decennial Census, 2012 American Community Survey\*)



## Housing Trends

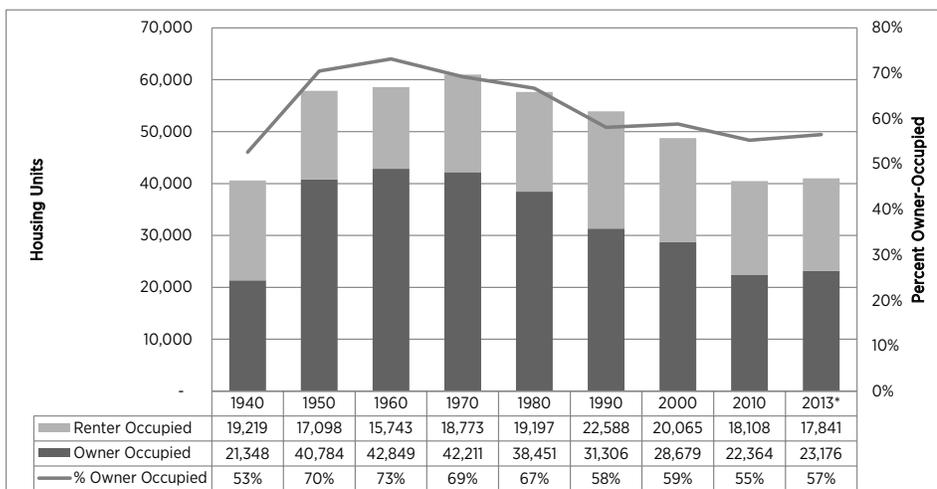
Housing trends also help tell the story of a city that is facing fiscal stress. The rate of housing vacancy increased from 5.1% in 1970 to 25.4% in 2013 (**Exhibit II-6**). The rate of change in vacancy was highest between 2000 and 2013 with a 13 percentage-point increase. This coincides with Michigan’s decade of economic decline. The potential impact of increased housing vacancies on fiscal health include not only decline in property values and associated property tax revenues, but also increased municipal maintenance, police patrol, fire protection, and other costs to address health and human safety concerns.<sup>i</sup>

Home ownership is also associated with the strength of a community’s property values. In 2013, owner-occupied housing only comprised 57% of occupied housing units compared to 73% of units at its peak over the last seven decades in 1960. However, the rate of owner-occupied housing in 2013 is a slight increase from its value in 2010, perhaps a small sign of recovery for the city of Flint (**Exhibit II-7**).



**Exhibit II-6 Flint Vacant vs. Occupied Housing Units**

Data source: U. S. Census Bureau (Decennial Census, 2013 American Community Survey\*)



**Exhibit II-7 Flint Renter-Occupied vs. Owner-Occupied Housing Units**

Data source: U. S. Census Bureau (Decennial Census, 2012 American Community Survey\*)

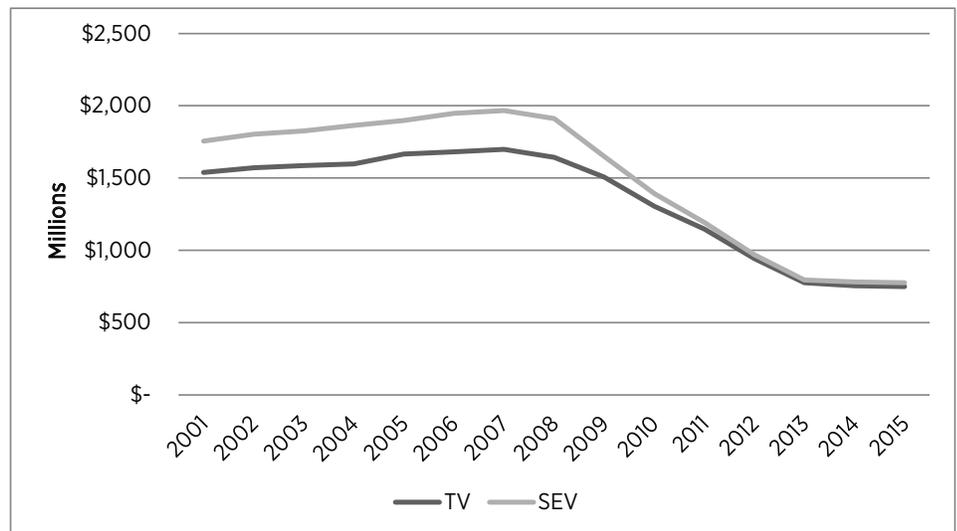
Given these trends, it is no surprise that property values in the Flint area have declined drastically since the Great Recession as shown in **Exhibit II-8**. The state equalized value (SEV) and the taxable value (TV) have almost converged as of 2015. This could be attributed to a combination of falling property values and the “pop-up” effect of the transfer of ownership of property due to Proposal A (which will be discussed in more detail in section IV). Since local governments tend to rely heavily on property taxes for revenue, this is another indicator of the declining tax base of the city.

**Economy**

The trends in the jobless rate in the city of Flint and Flint MSA tend to follow the same pattern as that of Michigan as a whole (**Exhibit II-9**). The jobless rate rose during the 2001 recession and did not see sustained recovery until after the Great Recession ended in 2009; however, absolute unemployment rates tend to be higher in the city compared to the MSA and the state as a whole. While there has been a drop in unemployment in the city of Flint since the end of the Great Recession, it is still higher (14% in 2014) than pre-2001 recession levels (8% in 2000).

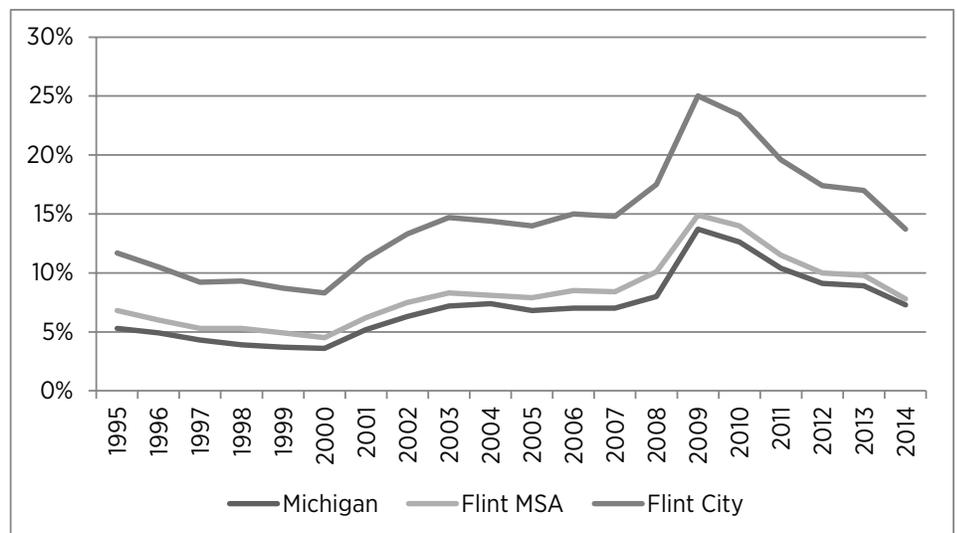
**Exhibit II-8 State Equalized Value (SEV) and Taxable Value (TV) - Flint**

Data source: Genesee County Equalization Department



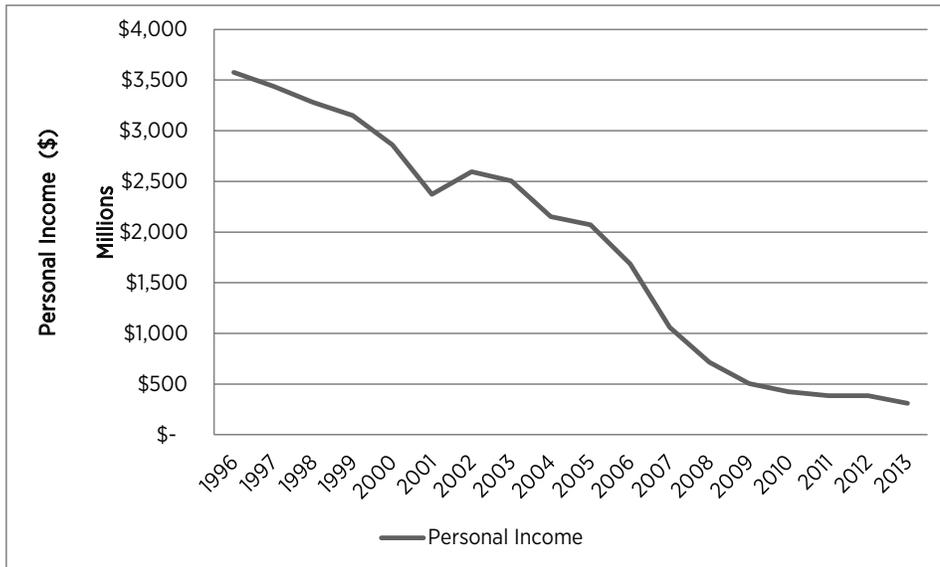
**Exhibit II-9 Flint Jobless Rate**

Data source: Michigan Department of Technology, Management & Budget



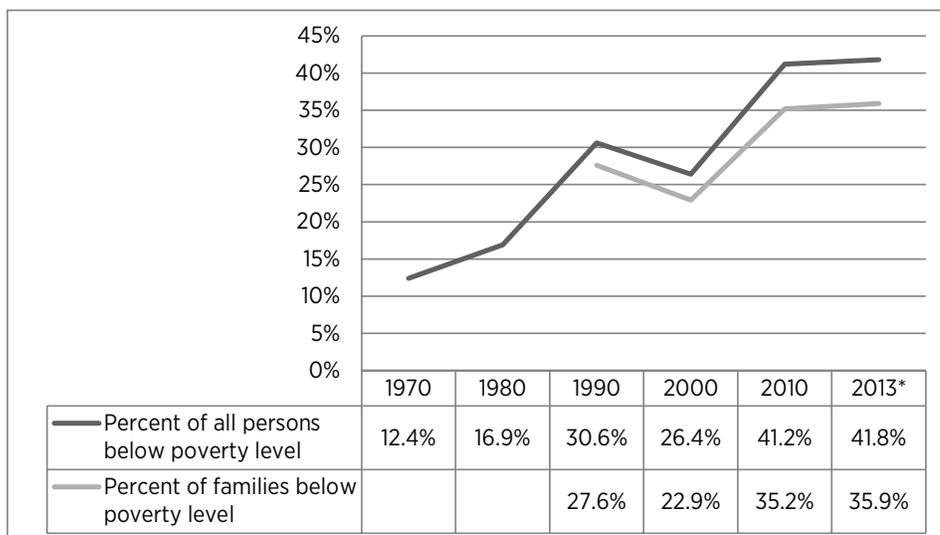
The city of Flint’s audit reports disclosed the city’s personal income statistics as shown in **Exhibit II-10**. While a slight recovery occurred after the 2001 recession, in general, personal income has been on a long-term decline since 1996, indicating a diminishing tax base. A decline in personal income not only indicates a lower capacity for property tax and income tax revenues, but also suggests a relation to a lower demand for business-type services. If this demand is fairly elastic with respect to personal income, this would lead to a reduction in city income from public recreation programs, parking fees, and similar sources. The decline in personal income began leveling off in 2009, suggesting signs of stabilization following Michigan’s decade in recession.

While the economic climate in the 1990s and 2000s worsened the city of Flint’s employment and income trends, many decades of above average poverty rates signal long-term fiscal stress. **Exhibit II-11** shows the general growth in the share of total population living below the poverty level, which peaked at 41.2% in 2010. The share of families below the poverty level follows the population trend. Poverty rates reported by the 2012 American Community Survey indicate



**Exhibit II-10 Flint Personal Income**

Data source: City of Flint Comprehensive Annual Financial Reports



**Exhibit II-11 Population of Flint Below Poverty Level**

Data source: U.S. Census Bureau (Decennial Census, 2012 American Community Survey\*)

a possible improvement since 2010, which also coincides with the improvements in unemployment and income, discussed above. If the unemployment and income trends are indeed indicative of economic recovery, then these improvements in poverty statistics are possibly explained by a countercyclical relationship between poverty and the business cycle.

**Exhibit II-12** depicts the cumulative change in the number of nonfarm jobs in the city of Flint, the Flint MSA, and Michigan as a whole. While the state overall saw a period of growth in employment in the mid-1990s, employment in the city of Flint and the Flint MSA began to decline in 1996. According to annual estimates from the Bureau of Labor Statistics (BLS) for the Flint MSA, the decline in manufacturing was the driving force of unemployment. Employment in this sector consistently fell between 1995 and 2008, from 48,200 jobs to 9,500.<sup>7</sup> Over this same period, the share of manufacturing jobs (of total nonfarm employment) dropped from 27% to 9%. This trend is likely due to the region's reliance on the domestic auto industry and the declines in the Big Three's market share that began in the 1980s and led to plant closures in the 1990s and early 2000s. According to Genesee County's audit reports, the county's largest employer in FY1997 was GM with 40,944 employees. In FY2009, GM still held its rank as the county's largest employer, but with only 3,417 employees in the county.

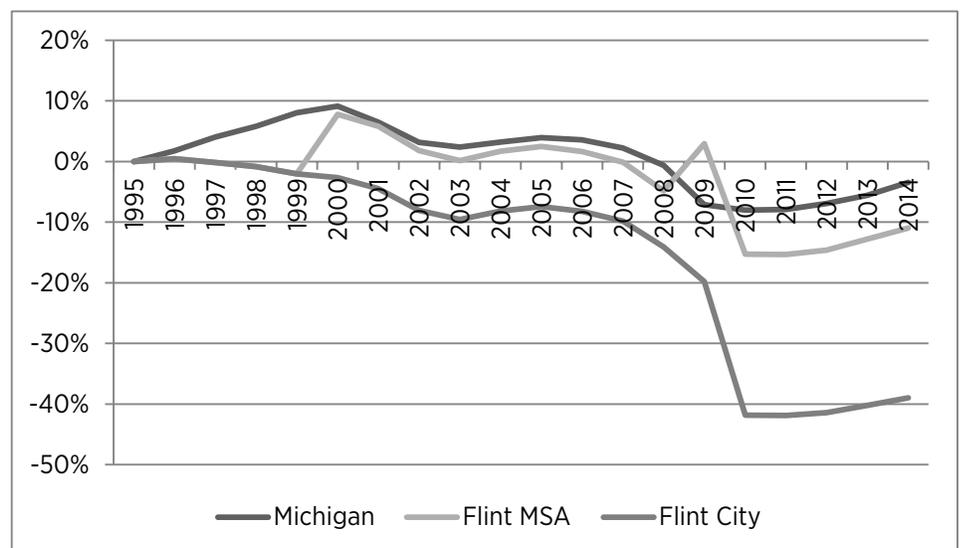
While the Flint MSA saw a boost in jobs in 2000, the city experienced a long-term decline in employment over the period shown, with 39% fewer jobs in 2014 than existed in 1995. The share of employment in the city compared to the MSA as a whole also fell in the same time period; as of 2014, employees in Flint represent about 18% of those in the Flint MSA compared to 26% in 1995.

The trends in **Exhibit II-12** indicate that employment started to recover slightly in 2010. This has been primarily driven by the private sector, namely the manufacturing, professional and business services, and trade, transportation and utilities sub-sectors. Public sector employment in the region has followed national trends as it continues to decline. The overall rise in employment in Flint along with the unemployment, income, and poverty trends support the story that the city is experiencing signs of economic recovery.

<sup>7</sup> Not seasonally adjusted

**Exhibit II-12 Cumulative Change in Employment in Flint and in Michigan**

Data source: Michigan Department of Technology, Management & Budget

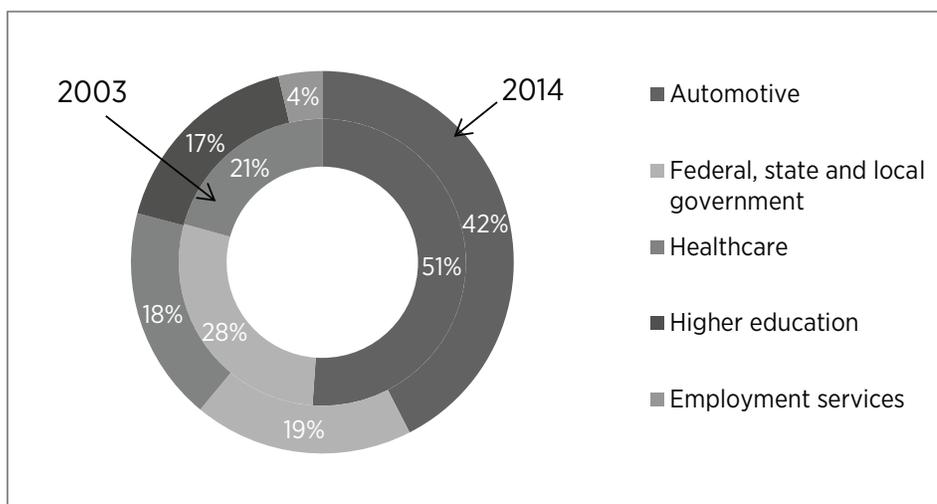


The industries representing the city’s 10 largest employers have diversified over the past decade. Most notable is the increased prevalence of higher education and employment services (**Exhibit II-13**). During periods of economic decline, enrollment in higher education often increases as individuals seek to expand their skill sets or pursue career changes. Demand for job placement services also increases. Another trend is the increasing concentration of employees in the top 10 employers. The 10 largest employers represented about 65% of the total number of employees in 2014 compared to only 59% of the total number of employees in 2003. This indicates that the impact of smaller firms in the city has diminished over this period. Larger firms tend to have more organizational slack,<sup>ii</sup> which can act as a buffer during economic downturns. Smaller firms that do not have such slack are likely more vulnerable to poor economic environments. Depending on the nature of recovery, employment in small firms could diminish even further during future recessions.

**Exhibit II-14** illustrates the diversification of employment in the city of Flint by comparing the share of employees in each industry in 2003 and 2014. The relative share of both automotive employment and public sector employment dropped more significantly than that of healthcare employment.

Principal Employer Industry	FY2003	FY2014
Automotive	23,616	13,975
Federal, state and local government	13,037	6,103
Healthcare	9,569	5,963
Higher education	-	5,656
Employment services	-	1,214
Employees working for ten largest employers	46,222	32,911
Total employees working in City	78,553	51,128

**Exhibit II-13 Employment in Flint’s 10 Largest Employers by Industry**  
Data source: City of Flint Comprehensive Annual Financial Reports



**Exhibit II-14 Flint’s 10 Largest Employers by Industry**  
Data source: City of Flint Comprehensive Annual Financial Reports

The city has concentrated efforts to encourage new development. Although most new projects include property that is either tax exempt or requires a property tax incentive, they have brought employees to the city, which increases the nonresident income tax revenue. Recent redevelopment efforts have focused on marketing the 452-acre vacant “Buick City” property. The Environmental Protection Agency has committed up to \$7 million for Phase I clean-up of that property.<sup>iii</sup> The total commitment to Buick City is approximately \$30 million. Funding for the remediation is from the Revitalizing Auto Communities Environmental Response (RACER) Trust that was created through the GM bankruptcy. The soil remediation project began in early 2011. According to the March 2014 update, corrective measures are being implemented in the Southend site. A corrective measures proposal for the Northend cleanup is being reviewed and will be presented to the public in summer 2014.<sup>iv</sup>

In November 2013, the American Cast Iron Pipe Company announced plans to construct a plant on the Buick City property, creating 50 to 60 manufacturing jobs for Flint. The plant opened in December 2014.

Flint’s air transportation needs are serviced by nearby Bishop International Airport. In January 2011, the Bishop Airport Board approved the bid process for a \$16.8 million expansion.<sup>v</sup> This project added 47,000 square feet of terminal space, four gates and doubled the width of the corridor linking two sections of the airport. The expansion was completed in November 2012, adding 350 jobs and increasing the number of passengers at Flint’s Bishop International Airport<sup>vi</sup>. Several highways meet road transportation needs.

## III. Flint Under Emergency Financial Management

### Path to Receivership

Due to its decreasing population, employment, and tax revenues, the Flint city government has been under considerable fiscal stress in recent years. In the early 2000s, an emergency financial manager (EFM) was appointed for the city, and was in place until 2004; however, the city soon returned to fiscal insolvency.

The cycle of returning to a deficit position after an EFM appointment ends is not unique to Flint. Drawing on the experience of Flint and other cities that have been assigned an EFM, state policy makers drafted revisions to PA 72, which was replaced by PA 4 in 2011. After a referendum, PA 4 was repealed in 2012, then replaced by PA 436 of 2012<sup>8</sup>.

The new law provides greater incentive and mechanisms for local governments to address budget challenges before an emergency manager (EM) is assigned. PA 436 also provides four options to struggling municipalities<sup>9</sup>, offering alternatives to the appointment of an EM. Ultimately, however, if cities with chronic fiscal stress are suffering from structural challenges beyond their control, improved management will only be able to cure a limited number of problems.

If a city is placed in receivership under PA 436 of 2012 and an EM is appointed by the state, he or she is granted broad powers to address the struggling city's finances. This includes the authority to amend collective bargaining agreements, make personnel changes, and review and approve the city's budget.

Responding to the most recent fiscal crisis, Michigan's Treasury Department conducted a preliminary review of Flint's financial situation in August and September 2011.<sup>vii</sup> The review found that general fund expenditures had exceeded revenues for the preceding four years. Two years after its deficit reduction plan had been submitted to the state, the general fund deficit had more than doubled. The review also reported that departments within the municipal government had been compensating for cash shortages by borrowing from other funds. The review team determined

it was uncertain whether the City of Flint would be able to fulfill its short-term financial obligations.

Due to the City of Flint's structural deficit, increasing legacy costs, and accumulating debt, the review team recommended to the governor that the city be placed under emergency financial management under Public Act 4. In November 2011, the governor of Michigan placed the City of Flint in receivership.

Michael Brown was appointed as the city's emergency financial manager effective December 1, 2011. In August 2012, Michael Brown was replaced by Edward Kurtz as emergency manager (who had served as the city's EM from 2002 to 2004). Ed Kurtz served as the city's emergency manager until July 2013, at which time Michael Brown was again appointed by the governor. Michael Brown resigned in September 2013; Darnell Earley was appointed as his replacement. In January 2015, it was announced that Jerry Ambrose, who had previously served as the city's finance and administration director, would replace Darnell Earley as emergency manager. Jerry Ambrose served as the city's EM until April 2015, when control of the city's finances was returned to the mayor and city council under the supervision of a Receivership Transition Advisory Board.

### Reforms to Personnel Costs

#### Wages and Salaries

Significant actions were taken shortly after Michael Brown's appointment as emergency manager. Almost immediately after his appointment, the salaries, benefits, and other compensation were eliminated for the city's mayor and nine council members. The mayor's salary was later restored to 60% of his base salary with full restoration of his benefits, and the salaries of city council members were restored to \$7,000 per year with no benefits. Additionally, council members were required to complete level one of the Michigan Municipal League's core courses for municipal government. Several positions were eliminated, which included the Office of the Ombudsman, the Civil Service Commission, and the respective staff assigned to these offices.

<sup>8</sup> Emergency financial managers were in place under Act 72; the term "emergency manager" is used in PA 4 and PA 436. There are somewhat different powers under the various acts but otherwise the concept is the same.

<sup>9</sup> These options include entering into a consent agreement with the state, filing for bankruptcy, agreeing to mediation, or accepting the appointment of an EM.

In an effort to reduce the city government’s wage expenses by 20%<sup>viii</sup>, significant changes were made to the collective bargaining agreements of the City of Flint’s police and fire unions. Wages were reduced across the board for members of all police unions: by 1.5% for sergeants, by 2.5% for captains and lieutenants, and by 5% for officers). Salaries and wages of members of the firefighters’ union were also reduced<sup>10</sup>.

Substantial changes were also made to the city government contracts with the American Federation of State, County and Municipal Employees (AFSCME) locals 1600 and 1799, the unions representing the majority of general city government employees. Wages for Local 1600 members were reduced by 2.5%, and several changes to overtime, holiday, and leave pay were made for both unions.

With the exception of emergency overtime, the EM required that all employee overtime be approved in advance. Executive orders were also issued to put limitations on departments’ spending authority, with EM approval required for purchases over \$10,000. Stringent budgetary guidelines were put on all departments, emphasizing that budgetary authority is not a mandate to spend and that actions to keep expenses low should be taken whenever possible.

## Pensions

Changes were made to police and fire unions’ pension eligibility. Employees’ annual pension contributions were increased to 9.5% of all earnings for those in the fire and police unions. For members of the unions hired prior to the introduction of the new pension guidelines, the portion of pensions earned up to the 20th year of service are calculated according to the expired bargaining agreement. However, the multiplier was reduced to 2.25 and capped at 240 hours of leave time included as part of the final average compensation (FAC) for all service time earned after the effective dates of the new collective bargaining agreements.

Similar adjustments were made to the pension benefits for locals 1600 and 1799. The defined benefit multiplier was reduced to 1.5% prospectively, and the employee contribution rate was increased from 8% to 12% for Local 1600 and to 9.5% for Local 1799. Hybrid retirement plans (with both defined contribution and defined benefit components) were established for new hires and former defined benefit plan participants. Employees’ contributions to the defined contribution components are matched by the City of Flint; employer contributions to the defined benefit component were capped at 10%.

<sup>10</sup> From \$63,080.16 to \$50,791.52 for CAD supervisors, from \$60,515.52 to \$56,998.24 for quartermaster, and from \$33,467.20 to \$27,270.88 for comm. specialist trainees

To save administration-related costs, pensions for all unions with collective bargaining agreements with the City of Flint were transferred from the Flint Employees’ Retirement System (FERS) to the Michigan Municipal Employees Retirement System (MERS).<sup>ix</sup> This move was approved by all but the police officers’ union; section 19(k) of PA 4 was invoked to approve the transfer of Flint police officers’ pensions.

## Other Post-Employment Benefits

Changes were made to the healthcare benefits received by retirees of the police and fire unions. Cuts included discontinuing healthcare for a former employees’ spouse if he or she is eligible to receive paid health coverage through an employer or former employer. The City of Flint reduced the number of plans offered to employees hired after July 1, 2012, offering a high deductible plan in conjunction with a health savings account. Through executive orders, the EM reserved the right of the city to change or discontinue the health insurance programs in response to the Patient Protection and Affordable Care Act (PPACA) as amended.

The City of Flint scaled back its contribution requirements for an active employee’s health coverage, requiring employees to pay any premium contributions that exceed the amount contributed by the employer through pension deductions.

Retirees and their spouses aged 65 and over who are covered by Medicare supplemental plan at the employer’s expense are subject to contribution limits of the Publicly Funded Health Insurance Contribution Act (PA 152 of 2012) if and only if the retiree enrolls in and pays for Medicare Supplemental Part B. Changes made to the healthcare coverage of retired members of the local 1600 and 1799 unions were similar to those of the other major unions representing City of Flint employees.

Changes were made to the retiree health benefits offered to personnel hired after the effective dates of the new agreements. Instead of employer-paid retiree healthcare coverage, members of the police officers’ and firefighters’ unions, as well as locals 1600 and 1799 hired after April 2012 were eligible for Retiree Medical Savings Accounts (RMSAs) to which the City of Flint and employees contribute through payroll deductions.

Under the executive orders, the City of Flint committed to contribute \$1,500 annually to the RMSAs, with employees contributing \$600 per year. Employees will be 100% vested at all times on their own contributions and investment earnings, while employer contributions and investment earnings will be 100% vested after five years of completed service. The same changes were made to retiree health benefits of newly hired nonunion city government

employees. Contributions to a new employee's RMSA continue until the employee is no longer employed by the City of Flint (including retirement) or when the employee becomes eligible for Medicare. These benefits were not made available to nonunion retirees or spouses who are eligible for health coverage through another employer or former employer.

### Other Reforms

In addition to actions taken to reduce the City of Flint's financial obligations in relation to staff, other measures were taken to address the growing deficit. User fees were implemented for waste collection and a special assessment was levied to provide funds for the operation of street lighting (to eliminate \$2.85 million in costs to the city government's general fund<sup>x</sup>). Both fees were added to

homeowners' property tax bills. Water and sewer rates were increased by 25% to adequately cover the costs of operating both systems.

The City of Flint's Fiscal Year 2013 budget, passed by an executive order on April 24, 2012, was the first balanced budget it had passed in seven years. A total of 155 positions (16% of the workforce) were eliminated.<sup>xi</sup>

Property taxes were increased in order to support police and fire budgets. This increase was achieved by a vote of the city's residents, who approved a 6 mill property tax increase on November 6, 2012.<sup>xii</sup> This tax increase allowed the city government to maintain staffing levels in the police and fire departments that had, up until that point, been supported through a federal grant.

## IV. City Finances

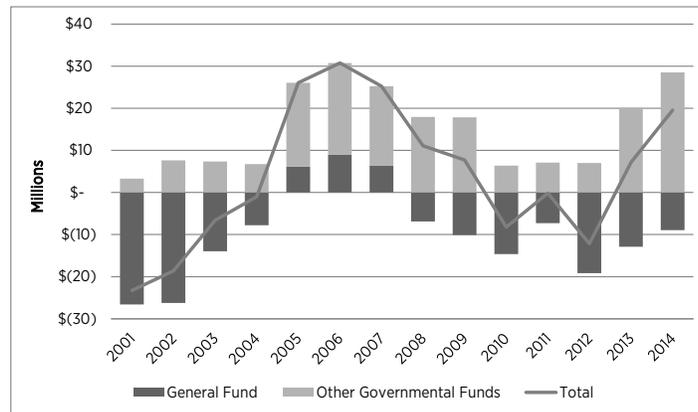
Repeated periods of governmental fund deficits can be used to identify cities with chronic fiscal stress. If a city is consistently unable to sustain a positive fund balance, it is likely facing structural budgetary constraints. The City of Flint’s fund balance/accumulated deficit history highlights its recurring deficits (**Exhibit IV-1**). Temporary solutions provided some periods of short-term relief in 2005 to 2007 due to the measures taken by an emergency financial manager under Public Act 72 of 1990. The governor appointed the EFM in May 2002, who remained in place until 2004. The progress made during the EFM’s tenure was undone three years later due to subsequent labor settlements, costly litigation, and declining revenues. The City of Flint closed FY2008 with a deficit in the General Fund of \$6.8 million. Since 2010, the Flint city government has been able to build up the fund balances in its other governmental funds, but has mixed performance in controlling the deficit in its General Fund, which is the main fund for general operating expenses.

### General Fund

As of June 30, 2014, the City of Flint’s General Fund ended the year with an accumulated deficit of \$8.9 million. This is the seventh consecutive year that the fund balance has been in a deficit position, but significantly reduced from the \$19.1 million deficit in FY2012. FY2014 is also the third year since FY2006 that the city operated with a surplus in its General Fund; the only other year in which the General Fund ended with a surplus is FY2011 (**Exhibit IV-2**).

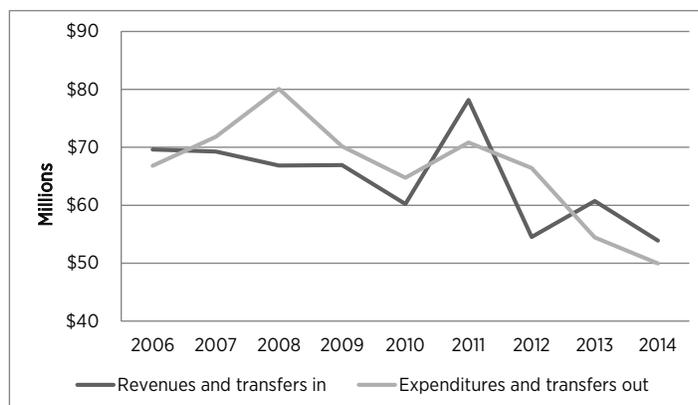
#### Exhibit IV-1 Governmental Funds - Flint History of Fund Balances

Data source: City of Flint Comprehensive Annual Financial Reports



#### Exhibit IV-2 Flint General Fund Revenues and Expenditures

Data source: City of Flint Comprehensive Annual Financial Reports

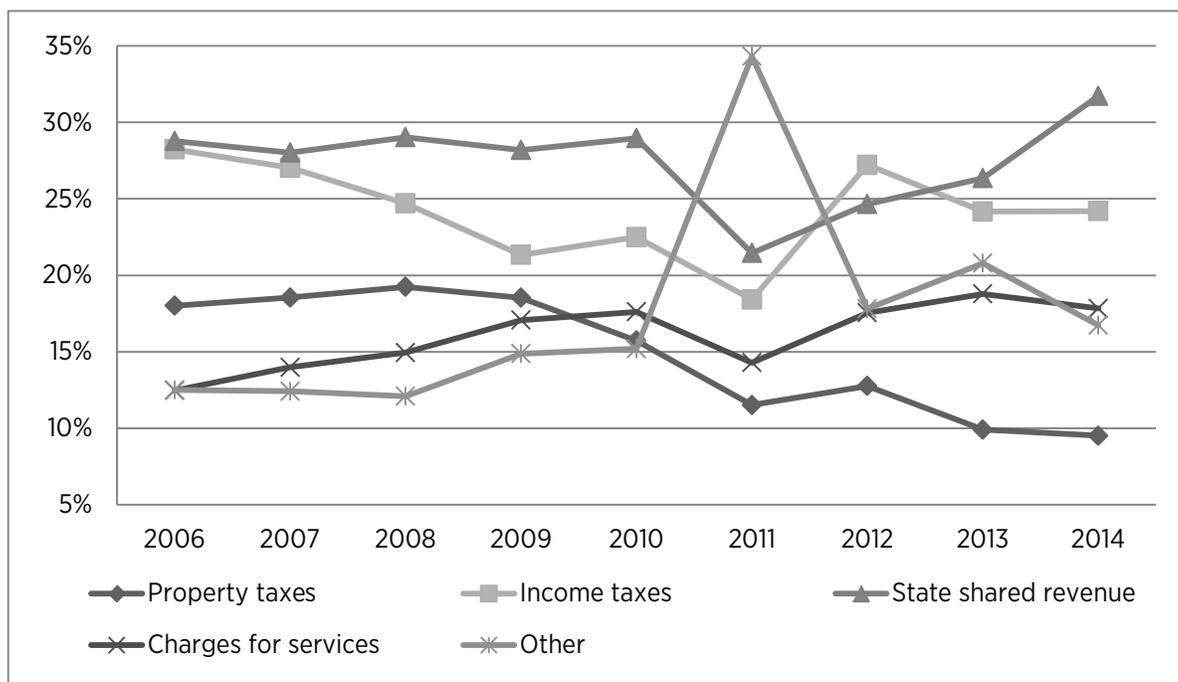


## Revenues

As of 2014, the four primary sources of revenue, and their proportionate share of the General Fund, are property tax (10%), income tax (24%), state shared revenue (32%), and charges for services (18%). **Exhibit IV-3** shows the changes in the share of General Fund revenues over time. Typically, the property tax is the primary source of revenue for local governments. However, the City of Flint’s reliance on the property tax has severely diminished over the last several years, which is a testament to the impact of falling property values in the city. Conversely, the share of revenues from charges for services has seen an overall growth. In FY2010, the share of revenues from charges for services actually exceeded that from property taxes. Both the share of revenues of income taxes and of state shared revenue have also declined, but to a lesser extent. The spike in the share of “Other” revenue funds in FY2011 was due to an \$8 million debt issuance in the form of 25-year fiscal stabilization bonds from the Local Government Loan Program through the Michigan Department of Treasury. This was less than half of the \$20 million in bonds that the City of Flint had initially requested in order maintain operations when it had anticipated that it would run out of cash by March 1, 2011.

## Property Tax

Property tax in Michigan is assessed on both real and personal property, though municipalities are limited in levying property taxes in a number of ways. First, the Home Rule City Act of 1909 limits cities in Michigan to levying property taxes of no more than 20 mills for direct municipal services.<sup>xiii</sup> Next, the Headlee Amendment, ratified in 1978, limits the authorized millage rate when property values rise at a faster rate than the rate of inflation.<sup>xiv</sup> Increases in property values due to improvements or new construction are not subject to this limit. Finally, in 1994, Michigan voters approved Proposal A, which limited annual increases to the taxable value to 5% or the rate of inflation, whichever is lower, until there is a transfer of ownership.<sup>xv</sup>



**Exhibit IV-3**  
**Share of Flint General Fund Revenues**  
 Data source: City of Flint Comprehensive Annual Financial Reports

Compared to the 10 most populated local units in Genesee County, which represent 72% of the population, the city of Flint levies the highest homestead tax rate (**Exhibit IV-4**). This may cause the city to be less competitive in attracting residents, which hinders its ability to increase its tax base. High tax rates also create incentives for residents to relocate to the suburban areas, which may be one factor that contributes to the population decentralization trends shown in **Exhibit II-2**. For example, a homeowner in the city of Flint will pay, on average, 37.7% more in property taxes than residents of the nine other largest communities that own properties with the same taxable value. This is a substantial increase compared to the same analysis that was performed in the 2011 case study; in FY2011, a homeowner in Flint would pay on average 28.2% more than a homeowner in the other nine communities with a property that had the same taxable value. If a residential property has a taxable value of \$75,000, the homeowner in Flint will pay \$4,413. A homeowner in the next most-populated community, Grand Blanc Charter Township, will pay \$3,119.

**Exhibit IV-4 Millage Rates in Genesee County for Fiscal Year 2013 (2014 Tax Rates)**

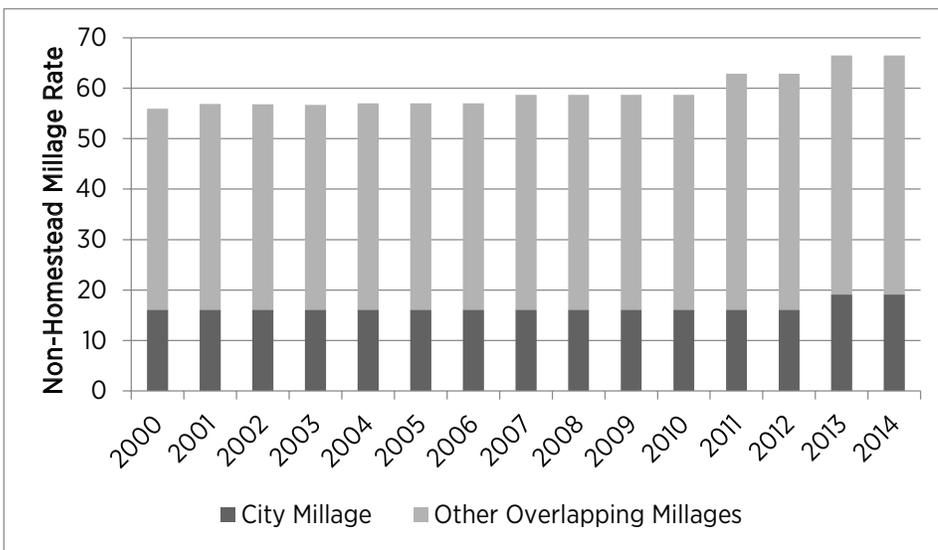
Data source: 2013 American Communities Survey and Michigan Department of Treasury

Taxing Unit	Type of Unit	2013 Population*	Average Property Tax Rates					Annual Bill Based on Taxable Value of \$75,000
			County	Local	School	State Education	Total	
<b>Flint</b>	<b>City</b>	<b>101,649</b>	<b>9.81</b>	<b>22.02</b>	<b>21.01</b>	<b>6.00</b>	<b>58.84</b>	<b>\$ 4,413</b>
Grand Blanc	Charter Township	37,060	10.07	7.13	18.38	6.00	41.58	\$ 3,119
Flint	Charter Township	31,614	10.07	10.74	20.96	6.00	47.77	\$ 3,583
Burton	City	29,663	10.05	15.23	19.27	6.00	50.55	\$ 3,791
Genesee	Charter Township	21,291	10.07	7.99	18.19	6.00	42.25	\$ 3,169
Mount Morris	Charter Township	21,310	9.56	10.94	17.88	6.00	44.38	\$ 3,329
Davison	Charter Township	19,373	10.07	3.35	15.91	6.00	35.33	\$ 2,650
Fenton	Charter Township	15,408	10.07	2.08	15.47	6.00	33.62	\$ 2,522
Mundy	Township	14,932	10.07	5.56	16.51	6.00	38.14	\$ 2,861
Vienna	Charter Township	13,119	10.07	5.04	13.78	6.00	34.89	\$ 2,617
<b>Population of Ten Largest Units</b>		<b>305,419</b>				<b>Average</b>	<b>42.74</b>	<b>\$ 3,205</b>
<b>As a % of County Total</b>		<b>72%</b>						

\* ACS 5-year estimate

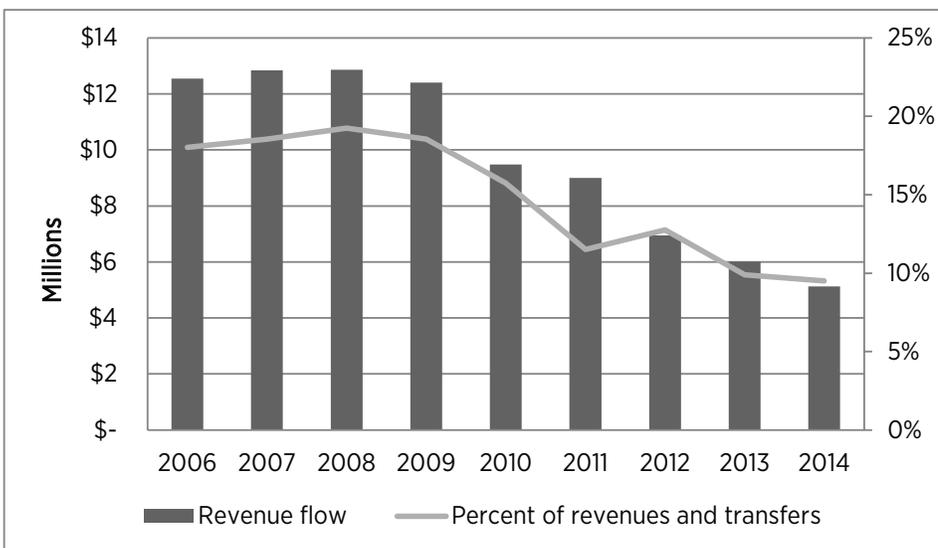
Although the nonhomestead property tax rate had been fairly stable from 2000 to 2010, a more noticeable increase has occurred over the last few years (**Exhibit IV-5**). In 2013, the direct city millage increased from 16.1 to 19.1 mills with the addition of the 6 mill public safety millage and an elimination of a 3 mill waste collection millage.

As discussed in section II, property values in Flint have dramatically declined over the past four years. **Exhibit IV-6** shows a corresponding reduction in property tax revenues; receipts from property taxes in FY2014 were less than half those in FY2006, and less than 40% of their peak in FY2008. The deterioration of the property tax as a stable revenue source is especially clear given that less than 10% of General Fund revenues are dependent on property taxes in FY2014 compared to more than 18% five years prior.



**Exhibit IV-5 City of Flint Millage Rates**

Data source: City of Flint Comprehensive Annual Financial Reports



**Exhibit IV-6 Flint Property Tax Revenue**

Data source: City of Flint Comprehensive Annual Financial Reports

### Income Tax

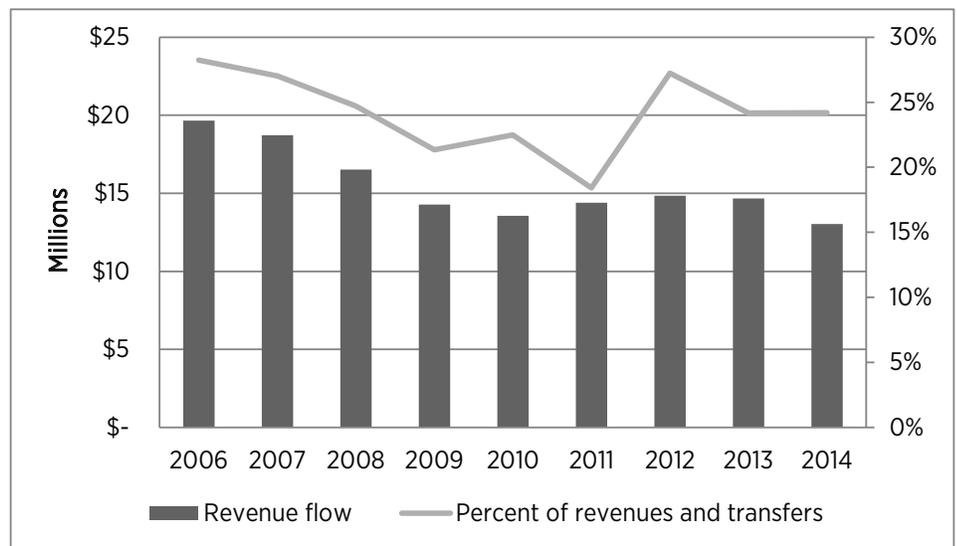
Of the 10 largest cities in Michigan, three are authorized to levy an income tax, including Flint. The income tax rate is 1% for city residents and 0.5% for non-residents. Income tax receipts steadily declined from FY2006 to FY2010 (**Exhibit IV-7**). Since FY2010, this revenue stream has stabilized and seen some slight growth, though it fell again in FY2014.

### State Shared Revenue

State shared revenue is generated from a statewide sales tax. Revenue sharing to local governments consists of both constitutional and statutory payments. The constitutional portion is distributed on a population basis. The statutory portion of revenue sharing is defined by a formula based on a combination of population, taxable value per capita, and millage yield (a ratio of the taxable value per mill levied). Starting in FY2012, the statutory revenue sharing was replaced with the Economic Vitality Incentive Program (EVIP).<sup>16</sup> The EVIP allocates funding to cities, villages, and townships based on their ability to satisfy certain criteria, but relies on the old statutory program to determine participation and individual payment amounts. **Exhibit IV-8** shows the breakdown between the

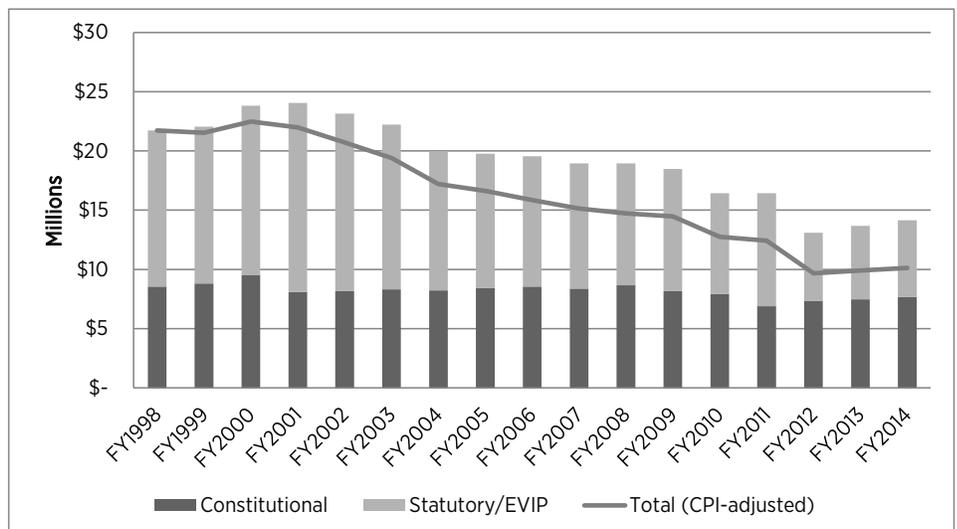
#### Exhibit IV-7 Flint Income Tax Revenue

Data source: City of Flint Comprehensive Annual Financial Reports



#### Exhibit IV-8 Breakdown of Flint State Shared Revenue

Data source: Michigan Department of Treasury

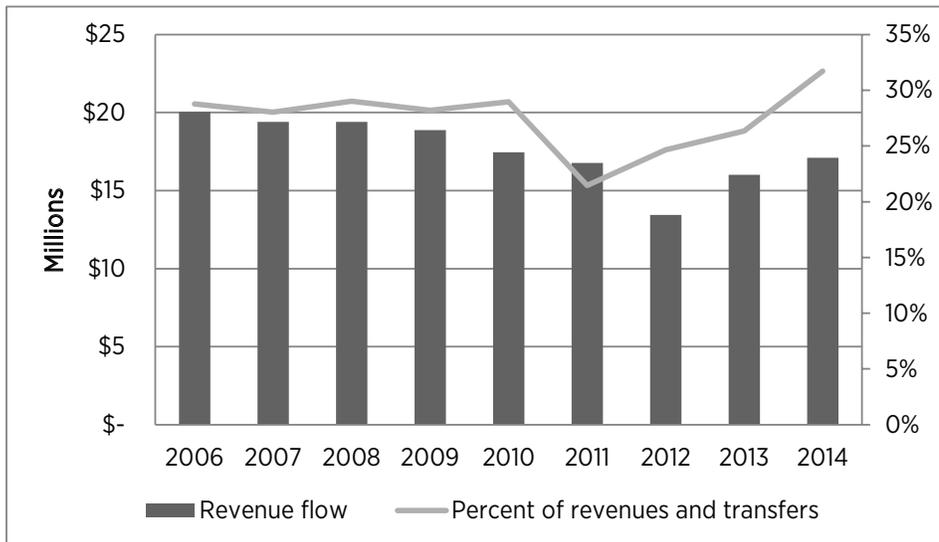


constitutional payments and statutory/EVIP payments to the City of Flint since FY1998. While constitutional payments have been fairly constant, there has been a substantial decline in statutory/EVIP payments.

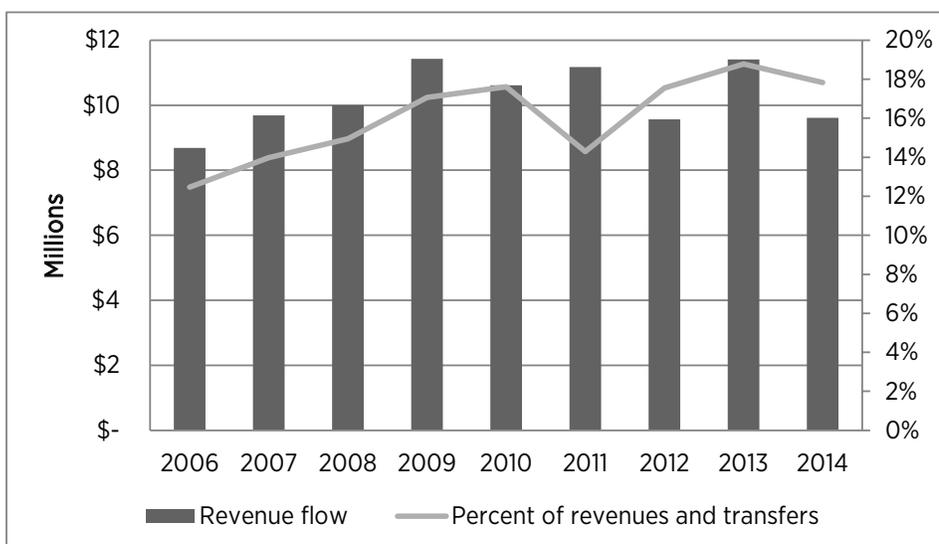
**Exhibit IV-9** displays the change in state shared revenue over time as reported in the city’s financial audit reports.

### Charges for Services

While all other revenue sources have been declining since FY2006, income from user fees and charges for services have actually increased on a nominal basis over the same period (**Exhibit IV-10**). Though it has fluctuated in recent years, the percentage of revenues and transfers from charges for services is still relatively high compared to FY2006. This is indicative of cities undergoing fiscal stress since they seek to replace the typical tax and intergovernmental sources with other revenue streams.



**Exhibit IV-9 Flint State Shared Revenue Over Time**  
Data source: City of Flint Comprehensive Annual Financial Reports



**Exhibit IV-10 Charges for Services in Flint**  
Data source: City of Flint Comprehensive Annual Financial Reports

## Expenditures

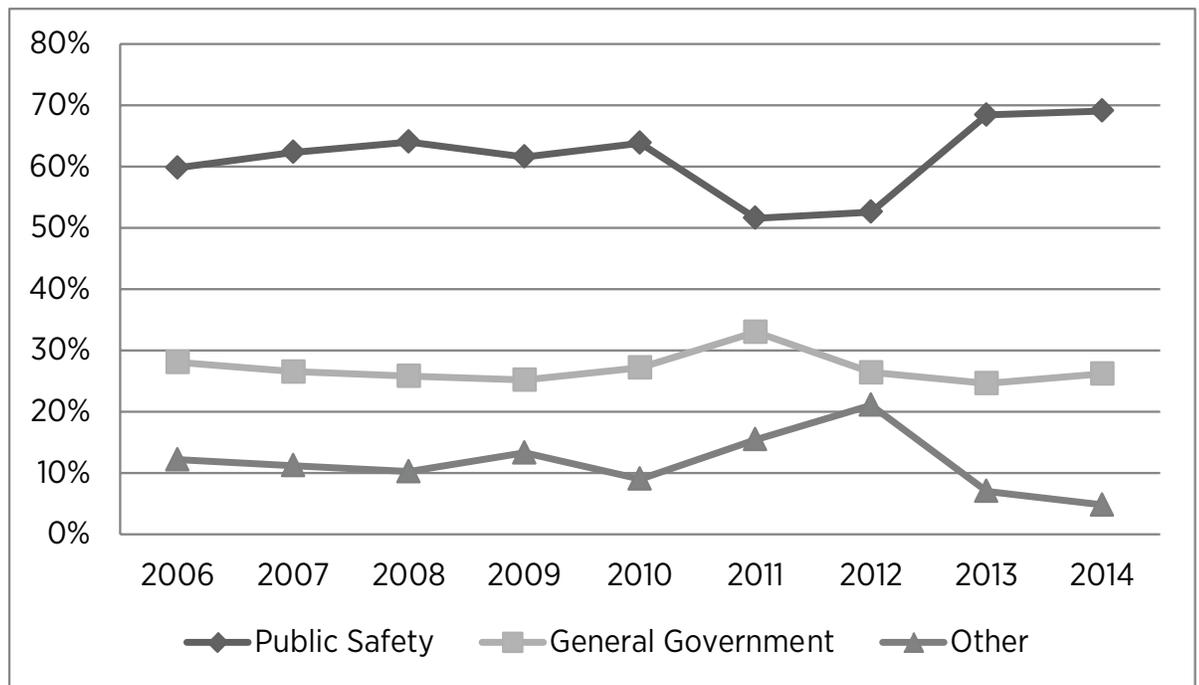
The primary General Fund expenditures are public safety and general government services. In FY2014, 69.1% of spending was allocated to public safety and 26.2% to general government (**Exhibit IV-11**). The following section will detail the spending in various categories for the city of Flint.

### Public Safety

Public safety consists of the majority of the General Fund expenditures, and includes the following categories:

- ▶ Building inspection
- ▶ Combined public safety department
- ▶ Emergency dispatch
- ▶ Fire department
- ▶ Police department

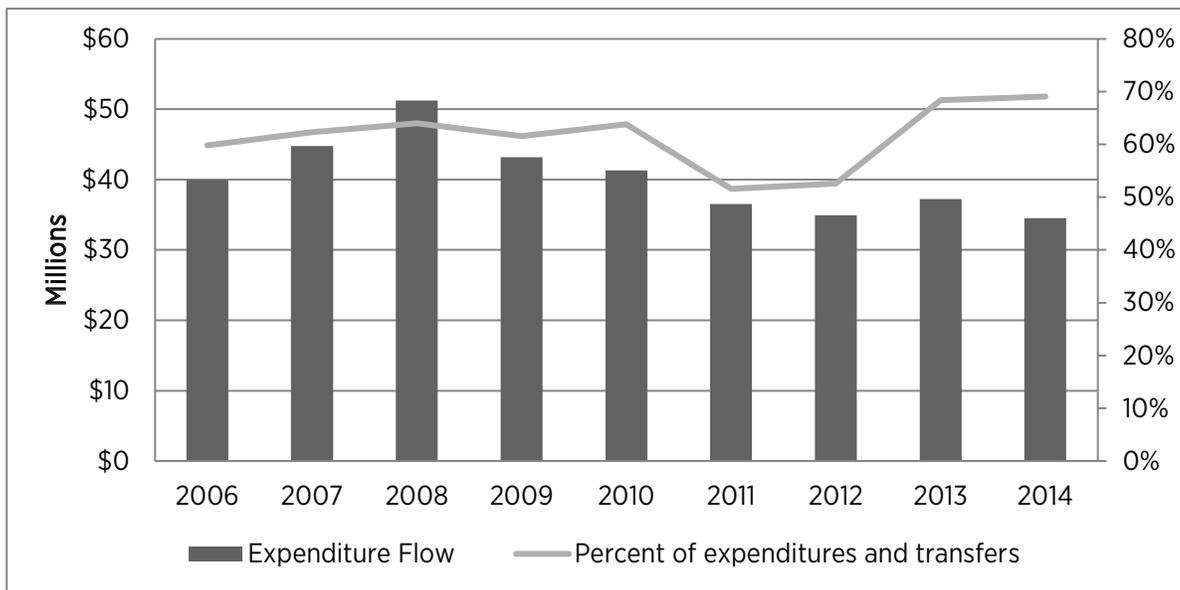
**Exhibit IV-11**  
Share of  
General Fund  
Expenditures in  
Flint  
Data source: City of  
Flint Comprehensive  
Annual Financial  
Reports



As discussed in section III, during the November 2012 elections, the voters of Flint approved a 6-mill property tax increase for public safety with 57% approval.<sup>xvii</sup> The proposal also required that 55.5% of General Fund revenues be allocated to public safety budgets (**Exhibit IV-12**). Additional, temporary funding support includes:

- ▶ \$6.9 million Staffing for Adequate Fire and Emergency Response (SAFER) grant from the Federal Emergency Management Agency (FEMA) awarded in 2012 to avoid laying off 32 fire fighters<sup>11</sup>
- ▶ \$2.1 million in state funds granted in 2012 to re-open the city’s lockup
- ▶ \$1.8 million grant from the Michigan Department of Treasury Competitive Grant Assistance Program (CGAP) to install a communications tower in the city to expand radio coverage for police and firefighters awarded in April 2013

<sup>11</sup> This grant was awarded twice, but not renewed in 2014.



**Exhibit IV-12**  
**Flint Public Safety**  
Data source: City of Flint Comprehensive Annual Financial Reports

### General Government

As of FY2014, general government expenditures include the following categories of local government operations:

- ▶ Mayor’s office
- ▶ Finance
- ▶ Human relations
- ▶ City clerk
- ▶ Law office
- ▶ Human resources
- ▶ City administrator

Expenditures on general government have followed an overall decline since FY2008 (**Exhibit IV-13**). The exception in FY2011 was due to a settlement payment related to a lawsuit against the city regarding the sale of the Genesee Towers building.

### Special Revenue Funds

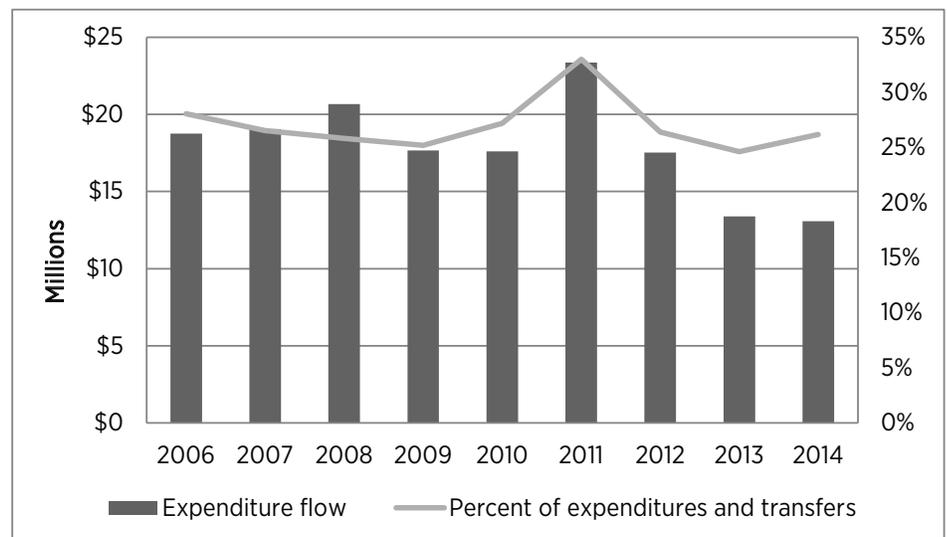
Revenues and expenditure trends for other governmental funds are shown in **Exhibit IV-14**. These include special revenue funds and debt service funds. As of FY2014, special revenue funds consist of the following types of funds:

- ▶ Major streets
- ▶ Local streets
- ▶ Neighborhood policing
- ▶ State Act 251 – forfeitures
- ▶ EDA Revolving Loan
- ▶ Public Improvement Fund
- ▶ Parks and recreation
- ▶ Senior citizen centers
- ▶ City park
- ▶ Building department
- ▶ Garbage collection
- ▶ Street light (special assessment)
- ▶ Public safety (special millage)

The city established a special assessment for streetlights in FY2013 to avoid making cuts to public safety. The public safety special millage was discussed in earlier sections of this report. As of FY2014, debt service includes funds from a

**Exhibit IV-13 Flint General Government**

Data source: City of Flint Comprehensive Annual Financial Reports



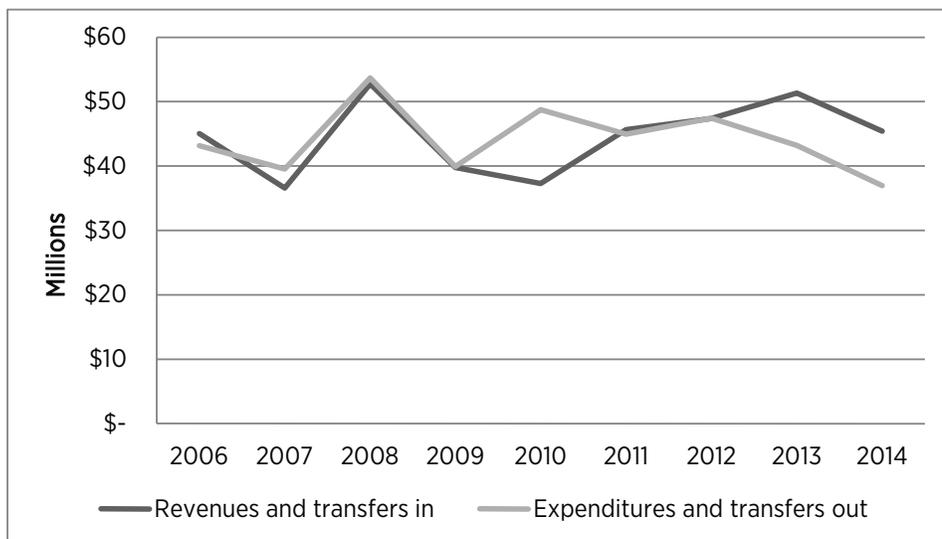
parking deck, Windmill Place, and Buick City. Relative to the General Fund, the city government has managed to keep expenditures in pace with revenues. About \$6.5 million of the \$10 million deficit in FY2011 was due to the Federal Grants Fund. The majority of the remaining deficit consisted of a \$2.3 million deficit in the Major Streets Fund.

### Proprietary (Enterprise) Funds

The City of Flint’s two proprietary funds include water supply and sewer disposal operations. Prior to FY2012, Hurley Medical Center and the Golf Division were considered business-type activities as part of the city government under proprietary funds. However, starting in FY2012, the city began presenting Hurley as a separate component unit in the audit report, and in March 2012, the city entered into agreements with Flint City Golf, LLC, and the Mott Park Public Golf Course Association to operate the city’s golf courses.

Historically, the City of Flint purchased Lake Huron water from the Detroit Water and Sewerage Department (DWSD). Per a resolution that authorized the sale of Drinking Water Revolving Fund bonds, the city government sets its water rates to cover expenses of the administration and operation of the water system. These expenses include the rates charged by the DWSD, which had increased on average by 10% per year. The rates must be sufficient to pay an amount equal to 125% of principal and interest on bonds and any other obligations. In January 2011, the city increased water and sewer rates by 25% and 22% respectively. Another increase of 35% on both water and sewer rates followed in September 2011 in order to meet these revenue requirements.

In April 2013, the city ended its contract with DWSD, and opted instead to contract with the Karegnondi Water Authority (KWA) to build a pipeline from Lake Huron to Genesee County. Effective October 1, 2013, the City of Flint entered into a contract to purchase water from the KWA, with the pipeline expected to be completed in July 2016. The city officially switched its water source to the Flint River in April 2014, to be used until the agreement with the KWA came into effect. However, the city and its residents have experienced several issues with water quality since then.<sup>xviii</sup> Flint was awarded \$2 million from the state through Michigan’s Financially Distressed Cities, Villages, and Townships Grant Program to improve its water infrastructure and quality.<sup>xix</sup>



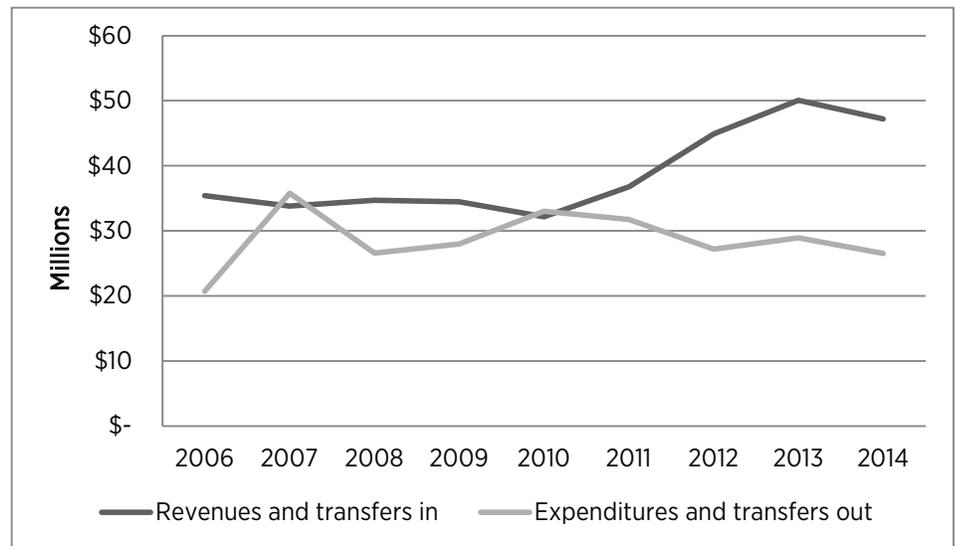
**Exhibit IV-14 Other Flint Governmental Funds Revenues and Expenditures**  
 Data source: City of Flint Comprehensive Annual Financial Reports

In general, the revenues and transfers into the water supply fund have exceeded expenditures and transfers out (**Exhibit IV-15**).

In contrast, the sewer disposal fund had seen major deficits annually up until FY2013 (**Exhibit IV-16**). One major contributor to the operating losses associated with this fund is internal borrowing by other funds. This will be discussed in more detail in section V.

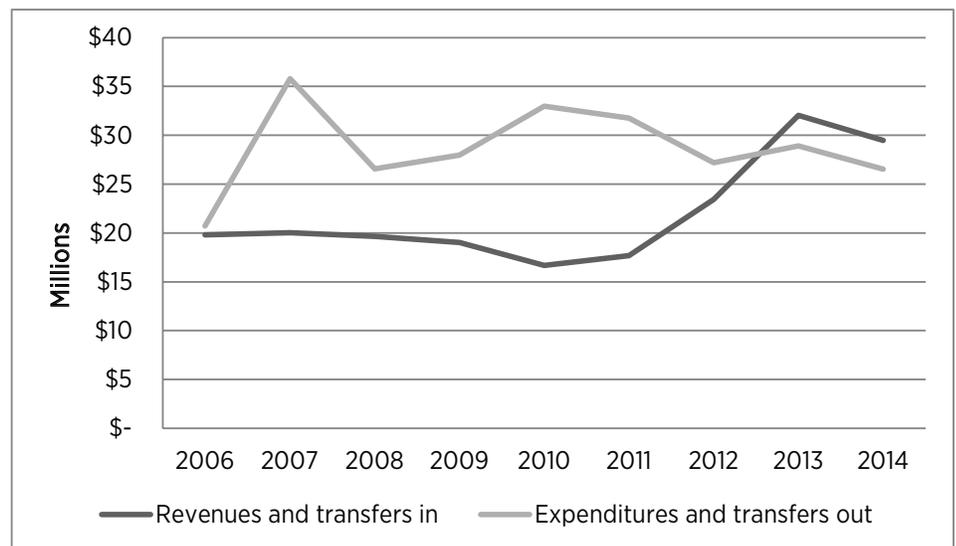
**Exhibit IV-15 Flint Water Supply Fund Revenues and Expenditures**

Data source: City of Flint Comprehensive Annual Financial Reports



**Exhibit IV-16 Flint Sewer Disposal Fund Revenues and Expenditures**

Data source: City of Flint Comprehensive Annual Financial Reports



## Internal Service Funds

The City of Flint allocates the internal service funds for data processing, fringe benefits, central maintenance garage, and self-insurance. Internal service funds should be self-sustaining through charges for services to other departments and funds. However, this is not always the case, as shown by the positive figures for “Transfers In” in **Exhibit IV-17**. The Central Maintenance Garage Fund received incoming transfers for six consecutive years. On average, these transfers amount to about 28% of operating costs annually. There was an exception in FY2013, in which the Central Maintenance Garage Fund issued an outgoing transfer to the Garbage Collection Fund in order to transfer proceeds related to the sale of city garbage trucks.

### Exhibit IV-17 Flint Internal Service Fund Revenues and Expenditures (in thousands)

Data source: City of Flint Comprehensive Annual Financial Reports

Fiscal year	2006	2007	2008	2009	2010	2011	2012	2013	2014	Variation	
										\$	%
<b>Revenues and Transfers In</b>											
Charges for services	\$ 32,159	#####	\$ 41,269	\$ 39,817	\$ 35,715	#####	#####	\$40,051	#####	\$ 22,931	71%
Transfers In	-	1,039	2,147	1,546	1,789	1,363	1,876	(1,500)	(1,072)	(1,072)	100%
Gain on Disposal of Capital Assets	-	-	-	-	-	-	-	1,047	155	155	
Investment Income	134	281	177	98	110	17	8	(83)	(6)	(139)	-104%
Revenues and transfers in	<u>32,293</u>	<u>49,044</u>	<u>43,593</u>	<u>41,461</u>	<u>37,615</u>	<u>46,288</u>	<u>52,088</u>	<u>39,515</u>	<u>54,168</u>	<u>21,875</u>	<u>68%</u>
<b>Expenditures</b>											
Data Processing	2,104	2,149	2,360	2,868	2,032	2,367	2,887	2,019	2,376	272	13%
Central Maintenance Garage	4,013	5,179	6,439	6,020	5,370	5,613	5,148	3,976	3,372	(641)	-16%
Self Insurance	2,770	17,715	5,180	3,173	2,028	8,706	3,813	2,387	1,399	(1,371)	-50%
Fringe Benefits	<u>23,406</u>	<u>24,577</u>	<u>29,157</u>	<u>29,874</u>	<u>27,592</u>	<u>28,754</u>	<u>30,847</u>	<u>27,476</u>	<u>49,291</u>	<u>25,885</u>	<u>111%</u>
Expenditures and transfers out	<u>32,292</u>	<u>49,619</u>	<u>43,136</u>	<u>41,935</u>	<u>37,022</u>	<u>45,439</u>	<u>42,695</u>	<u>35,858</u>	<u>56,437</u>	<u>24,145</u>	<u>75%</u>
Net change in	1	(575)	457	(474)	592	849	9,393	3,657	(2,269)		
Fund balance - beginning	<u>2,856</u>	<u>2,856</u>	<u>2,281</u>	<u>2,738</u>	<u>2,264</u>	<u>2,857</u>	<u>3,706</u>	<u>13,099</u>	<u>16,756</u>		
Fund balance - ending	<u>\$ 2,856</u>	<u>\$ 2,281</u>	<u>\$ 2,738</u>	<u>\$ 2,264</u>	<u>\$ 2,857</u>	<u>\$ 3,706</u>	<u>\$13,099</u>	<u>\$ 16,756</u>	<u>\$14,487</u>		

## V. Debt

The City of Flint’s bond rating has not been updated since the 2011 case study was written. The last bond rating was performed by Moody’s Investor Service in February 2006. At that time, the City of Flint was assigned a rating of Bal with a stable outlook.

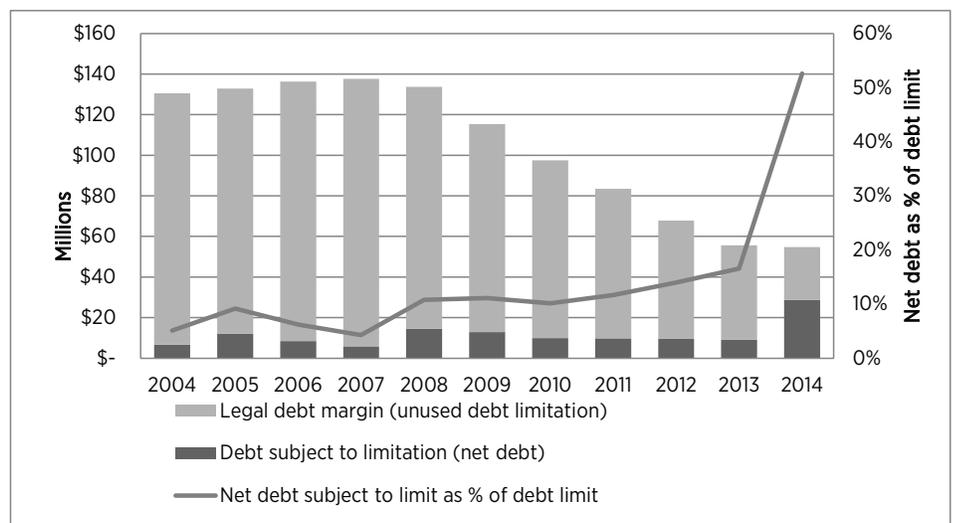
According to the city’s financial audit reports, the City Charter limits net debt to 7% of the assessed value of the real and personal property in the city. **Exhibit V-1** discloses breakdown of the city’s net debt limit since 2004. While the absolute amount of the city’s debt has been fairly stable over time, the decline in property values in the city has closed the legal debt margin considerably (**Exhibit V-1**). As a result, the net debt as a percentage of the debt limit has jumped from about 4.3% in FY2007 to 16.6% in FY2013.

Many cities with chronic fiscal stress have a significantly large debt burden, which has not necessarily been the case for the City of Flint. The 2011 case study noted that this issue of fiscal distress was mainly due to the lack of capacity to issue debt or manage a long-term capital improvement program. In FY2011, the City made its final payment on an \$8 million financial recovery bond issued in 2004 when it was operating under the authority of a state-appointed EFM. As noted earlier, the current level of fiscal stress has caused the City of Flint to seek \$20 million fiscal stabilization bonds, of which it received \$8 million. These funds are intended to address the chronic cash shortage and unfunded prior operating expenditures. Recurring cash shortages and the need to finance prior years’ operations are often considered additional red flags indicating chronic fiscal stress.

Another symptom of chronic fiscal stress is an increased reliance on internal borrowing, another trend that has continued since the 2011 case study. When the City of Flint has difficulty obtaining external financing at a reasonable rate, cash from internal funds becomes a default source of borrowing. **Exhibit V-2** summarizes interfund borrowing activity since FY2006. The nature of this type of activity is generally related to operating transactions among funds. The City of Flint has used this to address cash shortages at the close of the fiscal year. The “Due to/from Other Funds” section is related to short-term loans, while the

### Exhibit V-1 Flint Long-Term Debt Limit

Data source: City of Flint Comprehensive Annual Financial Reports



“Advances to/from Other Funds” is related to long-term loans. A concern arises when these balances are significant in dollar amounts and present for more than one year. The City of Flint’s General Fund has relied on short-term interfund resources for seven out of the last nine fiscal years and long-term interfund resources since FY2012. As shown in **Exhibit V-2**, the primary lending fund for these transfers has been the Sewer Disposal Division Fund, which contributes to the fund’s long-term structural deficit, as reported in **Exhibit IV-16** on page 26. The short-term balance of approximately \$13.2 million at June 30, 2013, equates to almost 25% of General Fund revenues for FY2014.

In July 2012, the Flint City Council President, along with three other residents, filed a lawsuit against the city, claiming that the water and sewer rate increases in 2011 violated city ordinances.<sup>xx</sup> The claim was that because water and sewer funds have been transferred to the General Fund, additional funds raised had not been allocated toward their intended purposes. A Genesee County Circuit Court judge dismissed the case in June 2013, claiming that the rate increases were in compliance with Public Act 4, which granted legal power to emergency managers to make rate increases to reflect true operating costs.

As noted in the 2011 case study, advances among funds are often formalized in a written note with specific payment terms including an interest rate. The City of Flint has used advances to fund capital equipment purchases in its internal services funds. Such reliance on interfund borrowings may restrict the lending fund’s financial flexibility and use of resources for the designated purpose. Recent advances from the Sewer Disposal Division Fund to the General Fund represent return on equity.

**Exhibit V-2 Flint Interfund Borrowing for FY 2006 through FY 2014**

Source: City of Flint Comprehensive Annual Financial Reports

Fiscal year	Due to/from Other Funds								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Due to:</b>									
Sewer Disposal Division Fund	\$ 10,371,382	\$ 3,677,506	\$ 20,161,971	\$ 20,076,951	\$ 15,532,804	\$ 10,524,275	\$ -	\$ -	\$ -
Self Insurance Fund	-	15,700,000	16,505,386	11,533,250	-	-	-	-	-
Others	9,344	-	-	263,503	7,849,233	12,326,801	18,281,313	9,681,892	9,637,895
	<u>\$ 10,380,726</u>	<u>\$ 19,377,506</u>	<u>\$ 36,667,357</u>	<u>\$ 31,873,704</u>	<u>\$ 23,382,037</u>	<u>\$ 22,851,076</u>	<u>\$ 18,281,313</u>	<u>\$ 9,681,892</u>	<u>\$ 9,637,895</u>
<b>Due from:</b>									
General Fund	\$ 7,279,154	\$ -	\$ 14,653,786	\$ 17,169,931	\$ 18,002,907	\$ 14,491,155	\$ 10,911,215	\$ 6,312,097	\$ 13,216,455
Special Revenue Funds	1,987,245	1,977,579	2,915,148	2,470,945	3,024,856	3,426,800	2,929,238	2,518,595	-
Internal Service Funds	495,116	973,629	216,290	66,535	115,959	-	-	-	-
Pension Trust Funds	609,867	309,265	1,125,312	-	-	-	-	-	-
Enterprise Fund	-	413,729	1,251,435	369,540	1,387,115	708,044	3,589,660	-	-
Fiduciary	-	3,304	-	-	-	-	-	-	-
Sewer Disposal Division Fund	-	15,700,000	16,505,386	11,533,250	851,200	4,225,077	851,200	851,200	-
Others	9,344	-	-	263,503	-	-	-	-	-
	<u>\$ 10,380,726</u>	<u>\$ 19,377,506</u>	<u>\$ 36,667,357</u>	<u>\$ 31,873,704</u>	<u>\$ 23,382,037</u>	<u>\$ 22,851,076</u>	<u>\$ 18,281,313</u>	<u>\$ 9,681,892</u>	<u>\$ 13,216,455</u>
<b>Advances to/from Other Funds</b>									
<b>Advance from:</b>									
Sewer Disposal Division Fund	\$ 5,251,361	\$ 6,094,131	\$ 4,940,753	\$ 9,266,399	\$ 2,426,749	\$ 1,348,618	\$ 10,522,453	\$ 9,800,000	\$ 2,660,000
Water Supply Division Fund	-	-	-	-	-	-	1,000,000	1,000,000	1,130,000
	<u>\$ 5,251,361</u>	<u>\$ 6,094,131</u>	<u>\$ 4,940,753</u>	<u>\$ 9,266,399</u>	<u>\$ 2,426,749</u>	<u>\$ 1,348,618</u>	<u>\$ 11,522,453</u>	<u>\$ 10,800,000</u>	<u>\$ 3,790,000</u>
<b>Advance to:</b>									
Internal Service Funds	\$ 4,539,404	\$ 5,524,565	\$ 4,513,579	\$ 7,279,154	\$ 2,426,749	\$ 1,348,618	\$ 522,680	\$ -	\$ -
Enterprise Fund	711,957	569,566	427,174	1,987,245	-	-	-	-	-
General Fund	-	-	-	-	-	-	10,999,773	10,800,000	3,790,000
	<u>\$ 5,251,361</u>	<u>\$ 6,094,131</u>	<u>\$ 4,940,753</u>	<u>\$ 9,266,399</u>	<u>\$ 2,426,749</u>	<u>\$ 1,348,618</u>	<u>\$ 11,522,453</u>	<u>\$ 10,800,000</u>	<u>\$ 3,790,000</u>

## VI. Personnel Costs

### Annual Earnings and Benefits

The City of Flint's payroll has declined by almost 1,000 full-time equivalent employees, about 63%, since 2001 due to attrition and downsizing (**Exhibit VI-1**). This breaks down to a 59% reduction in public safety employees and a 65% reduction in other city employees. The majority of this reduction has taken place since 2008.

### Pension Benefits

The City of Flint has a defined benefit pension plan with a benefit that ranges from 1.7% to 2.6% of the participant's Final Average Compensation (FAC) based on the last three years of credited service, multiplied by the years of credit service based on the date of hire. Employees who retire at or after age 55 with 10 years of credited service (eight years for appointed officials) or those members with 25 years of credited service (23 years for police and fire employees), regardless of their age, are entitled to a retirement benefit. Certain police members can voluntarily retire at age 50 with 25 years of service. Benefits fully vest on reaching 10 years of service with the benefit payable at age 55. The plan requires employee contributions ranging from 0% to 9%.

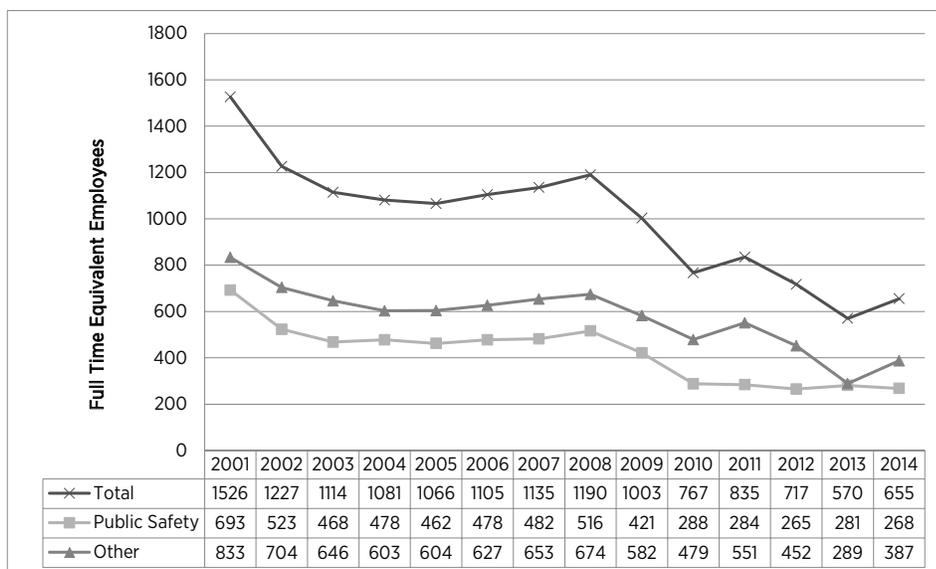
Beginning in October 2012, the City of Flint closed out its single-employer plan and transferred approximately \$270 million of assets to the Michigan Municipal Employees' Retirement System, an agent multi-employer plan that covers substantially all employees of city government. The City of Flint's unfunded pension liability is \$241 million, as of its most recent actuarial valuation.

Defined benefit plan pension benefits are determined by following a three-part formula:



### Exhibit VI-1 Flint Full-Time Equivalent Employees

Data source: City of Flint Comprehensive Annual Financial Report



**Years of Service** - Years of service is based on actual employee service, although sometimes the employee or employer may “buy” years of service at an actuarially determined cost. Unless this is fully funded in advance, it increases the long-term liability.

**Final Average Compensation (FAC)** - The final average compensation is the average of wages or salary paid to the employee based on a predetermined number of years. Identifying what type of compensation is included in the FAC is important. If it includes overtime, vacation leave payout, longevity, and other pay items, the cost to the employer increases. When the FAC is determined using fewer years, typically the benefit is higher since it is based on highest years. When the FAC period is very short, even small increases in overtime, compensatory time payout, or accrued leave time payout will increase the pension. This is the reason some retirees’ actual pension benefits are higher than their regular full-time pay as active employees.

**Pension Multiplier** - The pension multiplier represents a percent of pay for each year of service.

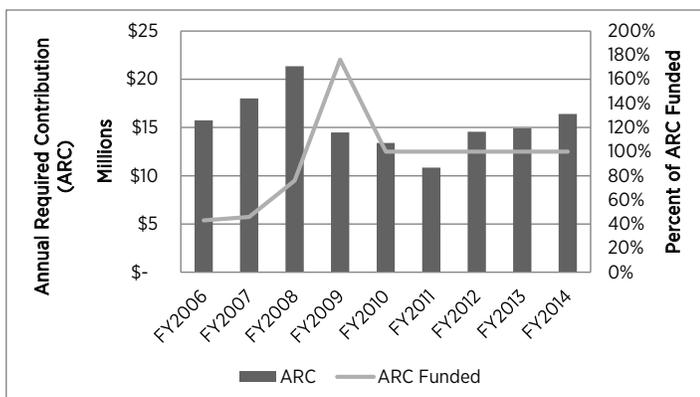
A cost of living adjustment (COLA) provides an annual increase in benefit retirement. A COLA benefit of E2 provides a 2% annual increase in pension for retirees. Granting automatic pension increases can further constrain future administrations. Employers typically have a pension plan design where they may instead grant a one-time COLA adjustment to retirees.

The proportion of the Annual Required Contribution (ARC) that the city government has contributed to cover pension expenses has improved over the past several years (**Exhibit VI-2**). For every year since FY2009, the City of Flint has contributed at least the ARC amount.

Flint’s pension Unfunded Accrued Actuarial Liability (UAAL) has increased from \$194 million in 2006 to \$323 million in 2011, which was the time of the last actuarial valuation (**Exhibit VI-3**). The funded ratio fell during this time from 81% to 61%.

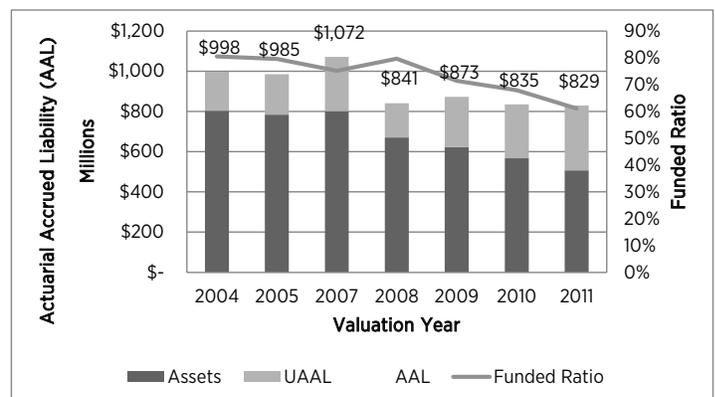
**Exhibit VI-2 Flint Pension - Actual vs. Annual Required Contribution**

Data source: City of Flint Comprehensive Annual Financial Reports



**Exhibit VI-3 Flint Pension Funding Status**

Data source: City of Flint Comprehensive Annual Financial Reports



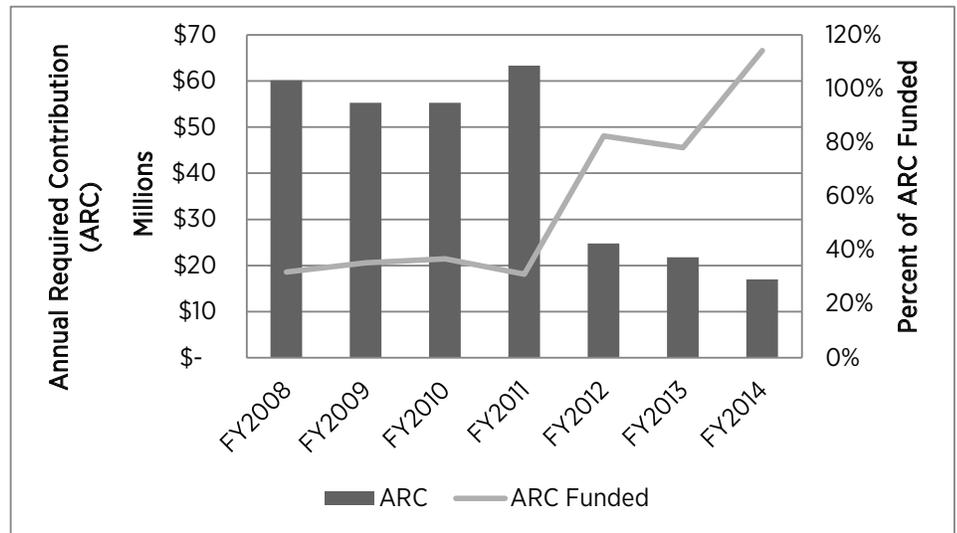
### Other Post-Employment Benefits

The City of Flint contributes to other post-employment benefits (OPEB) for public safety and general employees under collective bargaining agreements of Local 1799, Local 1600, and Fire Local 352. The proportion of the ARC that the city has paid to cover OPEB expenses has improved over the past couple years, from 31% in FY2011 to only 114% in FY2014 (**Exhibit VI-4**).

Since its actuarial valuation in 2006, the City of Flint’s unfunded OPEB liability has been cut by \$468 million. The city government began advance funding its OPEB plan in FY2012, which has been reflected in its 2012 actuarial valuation. As of this valuation, the plan is 0.1% funded, though that dropped to 0% in the 2013 valuation (**Exhibit VI-5**).

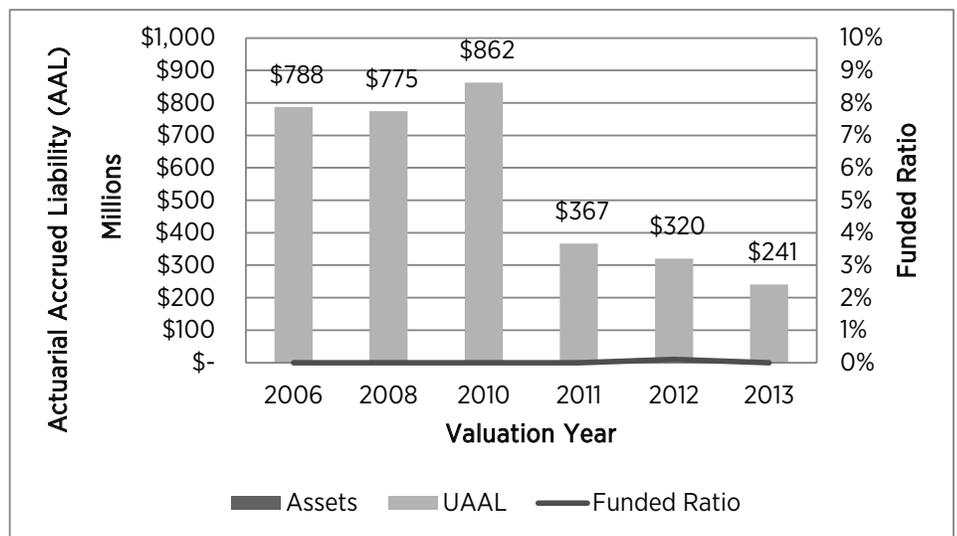
**Exhibit VI-4 Flint Other Post-Employment Benefits - Actual vs. Annual Required Contribution**

Data source: City of Flint Finance Department and Comprehensive Annual Financial Reports



**Exhibit VI-5 Flint Other Post-Employment Benefit Funding Status**

Data source: City of Flint Comprehensive Annual Financial Reports



## VII. Conclusion

On April 30, 2015, Gov. Rick Snyder rescinded the financial emergency in Flint and restored home rule and the power of the city's elected officials. It had been more than 10 years since the last time such an event occurred in Flint in the summer of 2004. Many questions still continue to swirl around the city's fiscal and economic future. A review of the reforms and changes that occurred since the appointment of an emergency manager in 2011 is a useful starting point for the city to understand the future fiscal trajectory it faces. This review will allow local and state officials to assess the reforms and changes in place and shape the future fiscal policy of the city of Flint, Michigan.

Changes implemented by the four emergency managers appointed to oversee Flint's finances were aimed at reducing the city's considerable budgetary deficit through reducing its financial obligations, especially pensions and other retiree benefits, while increasing city revenue. Some of the most significant changes have impacted the employees and retirees of the City of Flint. These two groups were the most important creditors of the city government. They remain so. Like many city governments in Michigan, Flint does not carry a large debt burden outside of water and sewer borrowing. This means that city retirees and employees are the groups owed the most by the city government and therefore, will be the most directly impacted during a financial reorganization following a fiscal crisis.

The structure of the city government was changed, with staffing reduced by 20%. A city administrator, who will serve as the city's chief administrative officer, was hired on a five-year contract. Among other responsibilities, the city administrator has the authority to negotiate collective bargaining agreements with the city's employee unions.

Reforms were also made to the way the city's budgeting practices, requiring two-year budgeting and three-year financial forecasts to be performed annually. This will allow city officials to identify and potentially deal with budgetary issues before they occur. The city government also adopted a master plan for the first time since the 1960s. The master plan identifies a vision for the city. It was developed with considerable input from the residents of Flint.

The electorate of Flint passed a referendum to have a Charter Review Commission put in place in the summer of 2015. The nine-member commission was elected in May of 2015. It will review the entire charter and assess options for reform. This is an excellent opportunity for the commission and the citizens of Flint to evaluate the current charter and determine a path forward for the city government that includes short-and long-term solvency.

The emergency manager signed a number of final orders before leaving office in April 2015. These orders involved the city council including agenda and meeting dates. They also included setting the special assessment for street lighting, restoring mayor and city council compensation, and adopting a set budget for FY 2016 and 2017. In addition, they included an order ensuring compliance with the so-called hard cap section of PA 152 of 2011 stating that the city shall not pay more than 80% of employee healthcare plans.

The final and perhaps most important order of the Flint emergency manager was issued on April 30, 2015. The overall purpose of the order is to ensure that the mayor and city council shall implement reforms and changes to maintain the fiscal stability of the city government. These provisions included following the recommendations of the Receivership Transition Advisory Board (RTAB) and city administrator. Specific other actions include 1) fully funding the annual pension requirement, 2) not interfering with city employees, 3) observing the budget ordinance, 4) ensuring all local laws are consistent with state laws, 5) not issuing debt without approval of the RTAB, 6) documenting all city liabilities, 7) verifying the appropriate eligibility requirements of all official city positions, 8) acting expeditiously on all economic development projects, and 9) reviewing and acting expeditiously on all intergovernmental cooperation initiatives by the city administrator. All of these provisions are intended to ensure that the city government, as dictated by the mayor and city council, follow certain practices and recommendations that are intended to maintain fiscal stability and solvency. These types of provisions were not in place after the 2002-04 crisis.

The city administrator is also subject to a number of provisions in the final EM order. These provisions include 1) overseeing day-to-day operation of city government, 2) negotiating and recommending changes to bargaining unit contracts to the RTAB, 3) submitting regular reports on city progress, 4) ensuring full compliance with PA 436 of 2012, 5) not removing city administrator without approval of RTAB, 6) observing all purchasing order ordinances, and 7) serving as primary interface between city council and city employees. Again, all of these provisions are meant to ensure the fiscal stability of the city government.

The changes made by the emergency managers have improved Flint's financial position. The general fund deficit was reduced from its peak of over \$19 million in FY2012 to just over \$8 million in the most recent fiscal year. The city has applied for a \$7 million loan from Michigan's Emergency Loan Board, which would effectively eliminate

this deficit. Pension and OPEB liabilities have been significantly reduced, and reforms to employee collective bargaining agreements have reduced future legacy costs. Other cost-saving measures include transferring emergency dispatch to Genesee County and contracting out waste collection.

Despite the progress made since a fiscal emergency was declared in 2011, the City of Flint still faces considerable challenges to its fiscal solvency. Outgoing emergency manager Jerry Ambrose mentioned some of these in his final letter, including the lawsuit filed on behalf of Flint's retirees over changes made to their healthcare benefits, the structural deficit that still exists in the city's financial projections, challenges to fund the city's public safety needs, and the city's ageing infrastructure.

The overall Flint fiscal playbook that has been enacted by the state government and its emergency managers serves as an important template for these types of interventions.<sup>12</sup>

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<sup>12</sup> This statement is not meant as recommendation or approval for the state emergency manager law. There are many dimensions upon which the state emergency manager should be assessed. This statement is simply meant to reflect that, in following this path, the Flint experience, with one of the state's largest cities, may be an important reference point.

The first part of the playbook is that any reforms or changes must be in reference to the largest component of the fiscal problem, which in this case related to liabilities owed to employees and retirees. Many important changes were made to wages and compensation, pension system benefits, medical benefits and other such liabilities. Of equal or perhaps greater importance, there are a number of safeguards now in place to ensure that these changes remain in place for a long period. Any adjustments to these reforms must go through the city administrator and the RTAB. These safeguards are obviously meant to prevent any backsliding to previous wage or benefit levels. It is this type of activity that led to the most recent crisis, as changes made by the emergency financial manager in 2004 were not kept in place and most of those changes were rescinded by the elected officials between 2004 and 2011. Those changes, combined with the worst recession since the Great Depression, meant that the city faced short- and long-term fiscal insolvency in 2011.

## List of Exhibits

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- Exhibit II-1 Flint Metropolitan Statistical Area (MSA) and Flint City Population
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- Exhibit II-3 Age of Flint Population
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- Exhibit IV-4 Millage Rates in Genesee County for Fiscal Year 2013 (2014 Tax Rates)
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- Exhibit IV-6 Flint Property Tax Revenue
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- Exhibit V-1 Flint Long-Term Debt Limit
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- Exhibit V1-1 Flint Full-Time Equivalent Employees
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- Exhibit V1-3 Flint Pension Funding Status
- Exhibit V1- 4 Flint Other Post-Employment Benefits - Actual vs. Annual Required Contribution
- Exhibit VI-5 Flint Other Post-Employment Benefit Funding Status

## Endnotes

- <sup>i</sup> Ellen M. Bassett, John Schweitzer, and Sarah Panken, *Understanding Housing Abandonment and Owner Decision-Making in Flint, Michigan: An Exploratory Analysis* (Lincoln Institute of Land Policy, July 2006), <http://people.virginia.edu/~emb7d/docs/Understanding%20Owner%20Decision.pdf>
- <sup>ii</sup> Gerard George, “Slack Resources and the Performance of Privately Held Firms,” *The Academy of Management Journal* 48, no. 4 (August 1, 2005): 661–76, doi:10.2307/20159685.
- <sup>iii</sup> U.S. Environmental Protection Agency, “Buick City | Region 5 Cleanup Sites | US EPA,” U.S. *Environmental Protection Agency*, March 17, 2014, <http://www.epa.gov/Region5/cleanup/rcra/buickcity/index.html>.
- <sup>iv</sup> US Environmental Protection Agency Region 5 Land and Chemicals Division, “Buick City - Region 5 Cleanup Sites,” Overviews & Factsheets <http://www.epa.gov/Region5/cleanup/rcra/buickcity/index.html#cmi>.
- <sup>v</sup> Khalil AlHajal, “Bishop Airport Board Votes to Begin Seeking Bids for \$16.8 Million Expansion” | *MLive.com*, January 25, 2011, [http://www.mlive.com/news/flint/index.ssf/2011/01/bishop\\_airport\\_board\\_votes\\_to.html](http://www.mlive.com/news/flint/index.ssf/2011/01/bishop_airport_board_votes_to.html).
- <sup>vi</sup> Shaun Byron, “Bishop Airport’s Expansion Viewed as Economic Boost for Genesee County Economy,” *MLive.com*, November 13, 2012, [http://www.mlive.com/business/mid-michigan/index.ssf/2012/11/bishop\\_airports\\_expansion\\_view.html](http://www.mlive.com/business/mid-michigan/index.ssf/2012/11/bishop_airports_expansion_view.html).
- <sup>vii</sup> “Quarterly Report to State Treasurer April 15, 2012” accessed April 7, 2014, <http://www.cityofflint.com/FinancialMgr/images/Quarterly%20Report%20to%20State%20Treasurer%20April%2015,%202012.pdf>
- <sup>viii</sup> Ibid.
- <sup>ix</sup> Kristin Longley, “Split Retirement Board Approves Transfer of Flint Pension Fund after Emergency Manager Changes Board,” *MLive.com*, July 19, 2012, [http://www.mlive.com/news/flint/index.ssf/2012/07/split\\_retirement\\_board\\_approve.html](http://www.mlive.com/news/flint/index.ssf/2012/07/split_retirement_board_approve.html).
- <sup>x</sup> “Quarterly Report to the State Treasurer Regarding the Financial Condition of the City of Flint July 15, 2012,” accessed April 9, 2014, [http://www.cityofflint.com/FinancialMgr/doc/QtlyReport040112\\_063012.pdf](http://www.cityofflint.com/FinancialMgr/doc/QtlyReport040112_063012.pdf).
- <sup>xi</sup> Ibid.
- <sup>xii</sup> Kristin Longley, “Election 2012: Final Tally Shows Flint Public Safety Millage Passed by More than 5,000 Votes,” *MLive.com*, November 8, 2012, [http://www.mlive.com/news/flint/index.ssf/2012/11/election\\_2012\\_results\\_of\\_flint.html](http://www.mlive.com/news/flint/index.ssf/2012/11/election_2012_results_of_flint.html).
- <sup>xiii</sup> *Home Rule City Act*, 1909, [http://www.legislature.mi.gov/\(S\(bxuyqkj2k5kow155gfwbriqd\)\)/mileg.aspx?page=GetObject&objectname=mcl-act-279-of-1909](http://www.legislature.mi.gov/(S(bxuyqkj2k5kow155gfwbriqd))/mileg.aspx?page=GetObject&objectname=mcl-act-279-of-1909).
- <sup>xiv</sup> *Headlee Amendment*. (1998 April, 1). Retrieved from Michigan in Brief: <http://www.michiganinbrief.org/edition06/text/issues/issue-31.htm>
- <sup>xv</sup> *The Growing Difference Between State Equalized Value and Taxable Value in Michigan*. (2001, March). Retrieved from Citizens Research Council: <http://www.crcmich.org/PUBLICAT/2000s/2001/memo1058.pdf>
- <sup>xvi</sup> Citizens Research Council, *Using State Revenues to Incentivize Local Behavior* (Citizens Research Council, July 2012), <http://www.crcmich.org/PUBLICAT/2010s/2012/sbn2012-03.pdf>.
- <sup>xvii</sup> Genessee County, “Genessee County Canvass Proposal,” November 28, 2012, [http://www.gc4me.com/departments/county\\_clerks/docs/Elections/Nov12/12NOVGEN\\_CANVASS\\_PROP.pdf](http://www.gc4me.com/departments/county_clerks/docs/Elections/Nov12/12NOVGEN_CANVASS_PROP.pdf).
- <sup>xviii</sup> *Flint Water System Timeline*. <https://www.cityofflint.com/public-works/city-water-system-timeline/>
- <sup>xix</sup> Ron Fonger, “Governor Awards Flint \$2 Million for Troubled Water System: Mayor Says More Is Needed,” *MLive.com*, February 3, 2015, [http://www.mlive.com/news/flint/index.ssf/2015/02/governor\\_awards\\_flint\\_2\\_millio.html](http://www.mlive.com/news/flint/index.ssf/2015/02/governor_awards_flint_2_millio.html).
- <sup>xx</sup> Dominic Adams, “Judge Dismisses Flint City Council President Scott Kincaid’s Lawsuit against the City,” *MLive.com*, June 21, 2013, [http://www.mlive.com/news/flint/index.ssf/2013/06/judge\\_tosses\\_flint\\_city\\_counci.html](http://www.mlive.com/news/flint/index.ssf/2013/06/judge_tosses_flint_city_counci.html).