SUMMARY

Audit of the Mayor's 2011-2012 Proposed Budget

This report provides an overview of the Mayor's 2011-2012 Proposed Budget of $3,117 million, and makes comparisons to the 2010-2011 Budget, which totaled $2,910 million. The report also includes our analysis and comments related to revenues, appropriations, and other budgetary aspects of City operations included in the Mayor's 2011-2012 Proposed Budget.

Conclusion

Based on our analysis, we have concluded that the proposed budget is overly optimistic and is not based on sound budgeting practices. The Mayor's proposed budget includes revenue assumptions that depend on fast-track legislative changes to state laws, deferment of current and prior-year operating deficits, and postponement of legally required pension obligations. An overview and analysis of major revenues and appropriations follows, however, of particular concern are the following issues that impact the accumulated deficit and the proposed budget. Also, included in this summary are opportunities for City Council to consider as they review the Mayor's Proposed Budget.

Lack of Transparency

The Administration was not forthcoming and did not provide details to specific questions regarding proposed revenue and appropriation initiatives included in the Mayor's Deficit Elimination Plan, as a result, we were limited in our review of the plan. Given the critical precipice that we face, we must emphasize the necessity of the Administration to work closely with City Council to present a reasonable balanced budget. The success of this challenge hinges on the Administration's openness and willingness to share, in detail, crucial information regarding the City's current financial position, including cash flow projections and future initiatives planned to address the City's financial health. The principle of transparency is tantamount to any successful governing process.

Accumulated Deficit

While the Mayor's Proposed Budget attempts to address the structural deficit for 2011-2012, the Administration did not provide answers to specific questions regarding proposed revenue and appropriations initiatives for fiscal year 2011-2012. Our analysis estimates the accumulated deficit for fiscal year 2011-2012 at approximately $324 million, as compared to the Mayor's Proposed Budget projections.

The following schedule compares the Mayor's Proposed Budget to our projections:

Elements of the Projected and Estimated 2011-2012 Accumulated Deficit	In Millions	
	Mayor's 2011-2012 Proposed Budget	OAG Estimate
2009-2010 Accumulated Deficit (per June 30, 2010 CAFR)	$ (156)	$ (156)
Estimated 2010-2011 Operating Deficit	(53)	(67)
Estimated Accumulated Deficit 2010-2011	$ (209)	$ (223)
Proposed/Estimated 2011-2012 Operating Deficit	5	(101)
Mayor's Proposed Deferred/OAG Estimated 2011-2012 Accumulated Deficit	$ (204)	$ (324)

- For fiscal year 2010-2011, the Mayor projects the current year deficit will increase by $53 million due to a projected operating deficit. We determined that the Mayor's projection is most likely understated by $14 million as we project a $67 million operating deficit in the current fiscal year.
- The Mayor's Proposed 2011-2012 Budget and Five-year Deficit Elimination plan includes deferment of $204 million of the projected current year-end deficit to future years. In our opinion, we believe deferring the prior year's accumulated deficit is inconsistent with both the City Charter, City's Municipal Code, and the State's Uniform Budget Manual.
- Included in the 2011-2012 Proposed Budget are several revenue and appropriation initiatives recommended by the City's Transformation Management Office (TMO) and embraced by the Administration. In our opinion $101 million of these initiatives require amendments to current state laws, and achieving these projected net savings in the next fiscal year is overly optimistic.

The General Fund Surplus/Deficit is discussed further on page 47 of this report.

Overview

The Mayor's 2011-2012 Proposed Budget of $3,117 million is approximately $207 million, or 7%, greater than the 2010-2011 Budget of $2,910 million. The primary reason for the increase is the anticipated sale of $300 million in revenue bonds for the Water Department. The proposed budget also includes increased revenues from an initiative to increase the casino wagering tax and municipal income tax rates. The increased revenues were offset by a decrease in other revenues due to restructuring efforts being spread into department budgets. Estimated revenues included in the proposed budget consist of amounts from Local, State, and Federal sources. The following schedule identifies budgeted revenues and percentages for each governmental source, as compared to the Mayor's 2011-2012 Proposed Budget.

	2011-2012 Estimated Revenues (In Millions)	Percent of Total	2010-2011 Estimated Revenues (In Millions)	Percent of Total
Local sources	$2,537.8	81.4%	$2,236.8	76.9%
State sources	305.7	9.8	396.8	13.6
Federal sources	273.7	8.8	276.7	9.5
Total	$3,117.2	100.0%	$2,910.3	100.0%

Analysis of Major Revenues and Appropriations

Revenues

- Other Revenues – The proposed amount of $1,956.1 million appears reasonable based on limited information received from the Budget Department.
- State Revenue Sharing – The proposed amount of $166.6 million is $6.3 million greater than the amount recommended in the Governor's 2011-2012 Executive Budget. The Mayor's proposed budget is $68.1 million less than the amount budgeted for fiscal year 2010-2011 which is comprised of a reduction of $11.2 million in the constitutional portion of state revenue sharing and an estimated reduction of $56.9 million in the statutory portion of state revenue sharing. The reductions are based on Detroit's population loss as determined by the 2010 Census, and the Governor's proposed elimination of the statutory portion of the shared tax in favor of the implementation of the Economic Vitality Incentive Program.
- Property Tax Revenue – The net property tax projections of $204.8 million and $16.5 million for delinquent property taxes for fiscal year 2011-2012 are optimistic, due to declining property values, housing foreclosure rates remaining at a high level, and Detroit's continued population loss. We estimate $13.7 million less in net property tax revenues for the current fiscal year 2010-2011.
- Municipal Income Tax Revenue – Based on our analysis of economic factors impacting Detroit such as the lack of job growth and continued population loss, the Mayor's Proposed Budgeted amount of $243.5 million from Municipal Income Tax is overstated. The Administration projects income tax revenue to increase by 13.3% or $28.5 million more than the 2010-2011 budgeted revenue. The 2011-2012 Proposed Budget includes $17.0 million of addition income tax revenues projected to materialize from the Transformation Management Office (TMO) revenue generating initiatives.

- Casino-Related Revenue – Included in the Mayor's 2011-2012 Proposed Budget is an additional $20.0 million of gaming revenue based on a proposed temporary one-year increase to the wagering tax rate currently charged to the three casinos. Based on our analysis and the dependency of the increase on the State amending the gaming statutes, we conclude that the proposed $197.7 million in Casino-related Revenues is questionable. Further, the three casino operators have publicly announced their opposition to the proposed increase.

- Utility Users Tax Revenue – The proposed budget amount of $48.5 million of Utility Users Tax is questionable, considering the release of the 2010 Census and rate of collections for the past two years. Current state laws allow cities with a population of 750,000 or more to collect a tax on public utility usage. The Mayor's 2011-2012 Proposed Budget assumes that the City will be able to collect 100% of the projected utility tax revenues, in spite of the release of the 2010 census results which reports the City's current population below the required threshold.

Appropriations

- Salaries and Wages – The proposed amount of $624.2 million appears unreasonable because overtime will exceed the budget. Based on our projections, total overtime will exceed budgeted overtime by $29.7 million for fiscal year 2010-2011 and we expect this trend to continue in 2011-2012. The net decrease of 192 positions in the Mayor's proposed budget reflects the elimination of 454 budgeted positions and the addition of 262 positions (189 positions added from the 2010-2011 budget amendment and another 73 positions added per the 2011-2012 Proposed Budget).

- Employee Benefits (Excluding Pensions) – The proposed amount of $348.8 million appears reasonable. This amount represents an increase of $37.1 million or 11.9% due to rising health care costs. Budgeted hospitalization cost for active civilian and uniform employees increased by $1,651 per employee, along with increases in dental and eye care cost.

- Pensions – The Mayor's proposed amount of $189.4 million is not reasonable. The Mayor's 2011-2012 budget for pension contributions assumes postponement of unfunded actuarial accrued liability payments totaling $65.0 million by entering into payment agreements with the Board of Trustees of the General Retirement System and the Police and Fire Retirement System. In addition, the budget includes $8.0 million in savings due to a recent arbitration ruling in favor of the City, and $11.0 million in savings due to other appropriation initiatives. According to an excerpt from the State Constitution:

  > The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby.

  In essence, based on a strict interpretation of the law, the City is required to record the liability for the pension payments, even if an agreement is reached to postpone actual payments. The Proposed Budget for pension contribution payments assumes a reduction in the pension multiplier for all City employees. Based on our computation, we estimate the Mayor's proposed pension amount is understated by a total of $105.9 million.

- Other Expenses – The proposed amount of $675.5 million appears unreasonable. Other expenses include a variety of charges, including the Mayor's proposed deferral of the prior year deficit of $203 million.

Other

- General Fund Surplus/Deficit – The Mayor's 2011-2012 Proposed Budget projects an estimated prior year deficit of $5.2 million. Based on our analysis the projected deficit for fiscal year 2011-2012 will be approximately $323.8 million.
- Risk Management Fund – The proposed budget for the Risk Management Fund of $84.7 million is reasonable. However, the City's current risk management budgeting approach lacks accountability by charging losses to the risk fund rather than to the budgets of the departments who are responsible for the losses.
- General Fund Subsidy – The General Fund Subsidy payments included in the proposed budget totals $60.5 million which represents an increase of $0.3 million from fiscal year 2010-2011. The Department of Transportation is proposed to receive $51.2 million, which represents 47.9% of its operating revenues based on a four year average. Other entities that rely heavily on subsidy payments from the General Fund include Detroit Transportation Corporation (The People Mover) averaging 55.5% of operating revenues, the Charles H. Wright Museum of African American History averaging 41.7%, and the Airport whose general fund subsidy accounts for 40.5% of operating revenues.

EXHIBIT 1

Components of the Increase in Revenues
In The Mayor's 2011-2012 Proposed Budget

	Increase/(Decrease) In Millions
Sales of Water Department Revenue Bonds	$ 300
Municipal Income Taxes	29
Wagering Taxes (Casinos)	25
Enterprise Revenue from Operations	25
Sales of Electricity and Steam	12
Parking Fines	8
Other Local Revenues - Net	6
Other Federal Revenues - Net	6
Delinquent Property Taxes Collections	6
POC Transactions	6
Gas and Weight Taxes	(6)
Workforce Investment Act Grant	(9)
Property Taxes	(15)
Library Revenues	(15)
Other State Revenues - Net	(17)
State Revenue Sharing	(68)
Restructuring Consolidation	(86)
Net Increase in Revenues	$ 207

EXHIBIT 2

Components of the Increase in Appropriations
In The Mayor's 2011-2012 Proposed Budget

	Increase/ (Decrease) In Millions
Other Expenses (Increase is primarily due to the sale of $300 million revenue bonds for the Water Department; offset by increases in miscellaneous expenses.)	$ 217
Employee Benefits (Increase is primarily due to a increase in hospitalization and dental with reductions in longevity and pensions.)	36
Fixed Charges (Increase is primarily related to an increase of $10 million in Retirement of Debt Principal; offset by reductions in interest on other indebtedness.)	7
Professional and Contractual Services (Net decrease is primarily due to an increase of $10 million for the Water and Sewerage Department, $2 million for legislative staffing, $2 million in Workforce Development contracts; offset by an initiative to cut $6 million or 10% in contractual professional and personal services in numerous departments.)	(1)
Operating Supplies (Decrease primarily is due to a net $3 million decrease in enterprise agencies, and $3 million decrease in general fund agencies.)	(6)
Capital Equipment (Decrease primarily is due to $10 million reduction in major repairs buildings and building modernizations and a reduction of $2 million in the acquisition of library reference materials, offset by an increase of $5 million to purchase new EMS vehicles.)	(7)
Salaries and Wages (Decrease is primarily related to a net decrease of 454 positions ($23 million), offset by 189 positions ($12 million) added per the 2010-2011 Budget Amendment)	(11)
Operating Services (Decrease is primarily due to purchase services reductions of utilities, telecommunications, rentals buildings, and repairs and maintenance.)	(28)
Net Increase in Appropriations	$ 207

Ramifications of Public Act 4 of 2011 – Local Government and School District Fiscal Accountability

The State of Michigan enacted Public Act 4 of 2011 - Local Government and School District Fiscal Accountability Act (PA 4) in April 2011. In general, the act:

- Increases the number of trigger events to allow earlier state intervention.
- Much greater direction for consent agreements, including granting extraordinary powers to local officials.
- Expand the powers of an appointed emergency manager.

Public Act 4 of 2011 allows the State to appoint an emergency manager in cases where the local unit is deemed to be in a condition of financial stress or financial emergency. Beginning in 2006, the State began to monitor the financial conditions of local governments by developing fiscal indicators, reviewing the conditions of 1,346 cities and municipalities, and assigning a score based on a nine-point scale." Since the inception of the fiscal scoring system, Detroit has consistently been in the "fiscal watch" status.

City of Detroit Fiscal Scores

FISCAL INDICATOR	2006	2007	2008	2009
1. Population growth	1	1	1	1
2. Real taxable valuation growth	0	0	0	1
3. Large real taxable value decrease	0	0	0	1
4. General fund expenditures as a percent of taxable valuation	1	1	1	1
5. General fund operating deficit	0	0	0	0
6. Prior general fund operating deficits	1	0	0	0
Note: Scores were given the prior two years deficits.	1	1	0	0
7. Size of general fund	1	1	1	1
8. Fund deficits in current or previous years	1	1	1	1
9. General long-term debt as a percent of taxable value	1	1	1	1
Total Fiscal Indicator Score	**7**	**6**	**5**	**7**

Points from Scale:

- (0–4) Fiscal Neutral: No State action needed.
- (5–7) Fiscal Watch: Unit is notified of its relatively high score and is placed on a watch list for the current and following year.
- (8-10) Fiscal Stress: Unit is notified of its high score, is placed on a watch list for the current and following year, and receives consideration for review.

According to Public Act 4 of 2011, there are eighteen conditions that can trigger a preliminary review, in addition to the fiscal scoring criteria indicated above. Based on our analysis, the ramification of PA 4 is an opportunity for the Administration and City Council to effectively address the financial condition of the City before the State intervenes and appoints an emergency manager. **Appendix A** examines Public Act 4 of 2011 in greater detail and **Diagram 1** gives an overview of legislation process.

Emerging Issue - Census 2010

According to the 2010 Census, the population of the City of Detroit fell from 951,270 to 713,777, a 25% decrease of 237,493 residents. **Appendix B** identifies statues for local units of government that are dependent on population size and which affect primary revenue sources. Without amendments to the statues, falling below the threshold of 750,000 residents can significantly and adversely impact revenue projections in the Mayor's 2011-2012 Proposed Budget.

APPENDIX A

Public Act 4 of 2011 – Local Government And School District Fiscal Accountability Act

In March 2011, the State of Michigan (State) enacted Public Act 4 - Local Government and School District Fiscal Accountability Act (Act). The legislation allows:

- The State to appoint an Emergency Manager to assist a local government deemed to be in a condition of financial stress or financial emergency to develop financial and operational plans to regulate expenditures, investments, and the provision of service by units of local government, including school districts.
- The Emergency Manager to modify or terminate contracts under certain conditions.
- The Emergency Manager to set the conditions for terminating a local government financial emergency.

The following explains the process by which the State determines a local government is in either financial stress or financial emergency, and the power and authority of the Emergency Manager.

<u>Conditions of Local Government Financial Stress or Financial Emergency</u>
The Act contains eighteen conditions for determining a local government to be in either financial stress or financial emergency. For municipal governments, the State Treasurer may conduct a preliminary review to determine the existence of one or more of the conditions. Below are some of the conditions contained in the Act applicable to municipalities:

- The governing body (City Council) or the chief administrative officer (Mayor) may request in writing that the State perform a preliminary review. The written request should identify the existing or anticipated financial conditions or events that make the request necessary.
- The State Treasurer receives a written request from a creditor with an undisputed claim that is six months past due and is the greater of $10,000 or one percent of the annual general fund budget. The creditor must have notified the local government in writing of their intention to send the request to the State Treasurer at least thirty days before sending the request.
- The State Treasurer receives a written petition containing specific allegations of local government financial distress. A number of registered voters that live in the local government's jurisdiction must sign the petition. The number of signatures must be equal or more than 5% of the total votes cast in the local jurisdiction during the last gubernatorial election.
- The State Treasurer receives written notification that the local government failed to deposit timely the minimum obligation payment to the local government pension fund.

- The State Treasurer receives written notification that the local government failed to pay for a period of seven days or more wages to its employees or benefits to its retirees.
- The State Treasurer receives written notification that the local government defaulted on a bond or note payable or violated one or more bond or note covenants.
- The State Treasurer receives a resolution from either the State Senate or the State House of Representatives requesting a preliminary review.
- The local government fails to file its Comprehensive Annual Financial Report (CAFR) timely.
- A taxing jurisdiction requests a preliminary review after the local government is delinquent in the distribution of tax revenues that the local government has collected for the taxing jurisdiction.

If it is determined that a finding of probable financial stress exists, the Governor shall appoint a review team consisting of the State Treasurer, the Director of the Department of Technology, Management, and Budget, a nominee of the Senate Majority Leader, and a nominee of the Speaker of the House of Representatives or their designees. The Governor may appoint other state officials or persons with relevant professional experience to the review team. The review team shall complete the preliminary review within thirty days following its commencement.

<u>Preliminary Review</u>
The elected and appointed officials of the local government must fully cooperate with the review team. The review team shall perform all of the following functions:

- Examine the books and records of the local government.
- Utilize the services of other state agencies and employees.
- Negotiate and sign a consent agreement with the Mayor. The consent agreement may provide remedial measures to address the problem and provide for the financial stability of the local government. In addition, the consent agreement may include either a continuing operations plan or recovery plan. Periodic financial status reports to the State Treasurer shall be included in the consent agreement. The City Council must approve the consent agreement by resolution, and the State Treasurer must execute the consent agreement. In the event of a material uncured breach of the consent agreement, the State Treasurer is authorized to place the local government in receivership.

The report submitted by the review team shall indicate the existence of one or more of the aforementioned conditions. The report shall include one of the following conditions:

- The local government is not in financial stress or is in mild financial stress. This means that none of the conditions exists or is likely to occur in the current or next succeeding fiscal year. If they do occur, the local government shall still be able to provide necessary governmental services essential to public health, safety, and welfare.

- The local government is in severe financial stress, but the local government has adopted a consent agreement containing a plan to resolve the problem. Severe financial stress means one of the following occurs:
  - One or more of the previously mentioned conditions exists or is likely occur within the current or succeeding fiscal year and if not addressed, will threaten the local government's ability to provide services essential to public health, safety, and welfare.
  - The Mayor recommends that the State consider the local government to be in severe financial stress.
- The local government is in severe financial stress, and the local government has not adopted a consent agreement.
- A financial emergency exists and no satisfactory plan exists to resolve the emergency. A financial emergency means any of the following occurs:
  - Two or more of the previously mentioned conditions exists or is likely occur within the current or succeeding fiscal year and if not addressed, will threaten the local government's ability to provide services essential to public health, safety, and welfare.
  - The local government has failed to provide timely and accurate information to enable the review team to complete its report.
  - The local government has failed to comply in all material respects with a continuing operations plan or recovery plan or with terms of an approved deficit elimination plan or an agreement pursuant to a deficit elimination plan.
  - The local government is in material breach of a consent agreement that it entered into.
  - The local government is in severe financial stress, and the local government has not adopted a consent agreement.
  - The Mayor, based on the existence or likely occurrence of one or more of the aforementioned conditions, recommends the declaration of a financial emergency and the State Treasurer concurs with the recommendation.

Within ten days of receiving the report, the Governor shall make one of the following determinations:

- The local government is not in a condition of severe financial stress.
- The local government is in a condition of severe financial stress, but a consent agreement containing a plan to resolve the financial stress has been adopted.

- A local government financial emergency exists and no satisfactory plan exists to resolve the emergency.
- The local government entered into a consent agreement containing a continuing operations plan or recovery plan but materially breached the consent agreement.

The Governor will provide a written notification of the determination to the Mayor and City Council. The notification will include the finding of facts and the basis upon which the determination was made. The Mayor or the City Council will have seven days after the notification date to appeal the determination to the State Treasurer for a hearing. Based on the hearing, the Governor, at their discretion, may revoke or confirm the determination. If the determination is confirmed, the Mayor or the City Council may appeal the determination to the Ingham County Circuit Court. If the Ingham County Circuit Court affirms the determination, the Governor will declare the local government in receivership and shall appoint an emergency manager. In addition, the Mayor and City Council may not exercise any of the powers of their offices except as specified in writing by the emergency manager.

Consent Agreement

Under the Act, the State Treasurer will determine if the consent agreement will include a continuing operations plan or a recovery plan.

If the State Treasurer requires a continuing operations plan, the local government shall develop and file the continuing operations plan with the State Treasurer. The State Treasurer has fourteen days to approve or reject the continuing operations plan. If the continuing operations plan is rejected, the local government has thirty days to file an amended plan that addresses the concerns of the State Treasurer. If the State Treasurer rejects the amended plan, the local government is in material breach of the consent agreement. If the continuing operations plan is approved, the local government will be required to file annual updates to the continuing operations plan including the annual filing of the local government's audit report to the State Treasurer.

The continuing operations report shall contain the following:

- A detailed projected budget of revenues and expenditures for not less than three fiscal years, which demonstrates that the local government will not exceed its revenues and the elimination of any existing deficits during the projected budget period.
- The continuing operations plan must include a cash flow projection for the budget period.
- The continuing operations plan must assure fiscal accountability for the local government.
- The continuing operations plan must show reasonable and necessary maintenance and capital expenditures.

- Quarterly compliance reports sent to the State Treasurer.
- A plan indicating how, within the budget period, the local government will address pension and postemployment health care obligations for which the local government is responsible.

Once the State Treasurer has approved the continuing operations plan, the local government must amend the budget to conform to the approved continuing operations plan.

If the State Treasurer requires the consent agreement to include a recovery plan, the State Treasurer in consultation with the review team can develop the recovery plan. Once the recovery plan is developed and adopted, the local government is required to file annual updates with the State Treasurer along with the annual filing of the local government's audit report.

The recovery plan may include one or more of the following:

- A detailed projected budget of revenues and expenditures for no less than three fiscal years to demonstrate that expenditures will not exceed revenues and that any existing deficits will be eliminated during the projected budget period.
- The recovery plan will include a cash flow projection for the budget period.
- The recovery plan will include an operating plan for the budget period assuring fiscal accountability.
- The recovery plan will show reasonable and necessary maintenance and capital expenditures.
- The recovery plan will address pension and postemployment health care obligations indicating how the current obligations will be met and steps being taken to reduce the amount of future unfunded obligations.
- The recovery plan should include procedures for cash control and cash management.
- Quarterly reports will be submitted timely to the State Treasurer and the Mayor.

Once the State Treasurer approves the recovery plan and the local government adopts it, the local government will amend its budget to reflect the recovery plan.

The consent agreement may grant to the Mayor, Chief Financial Officer, the City Council, or any other local government official one or more of the powers prescribed for Emergency Managers considering their necessity to achieve the goals and objectives of the consent agreement.

<u>Powers of Emergency Manager</u>

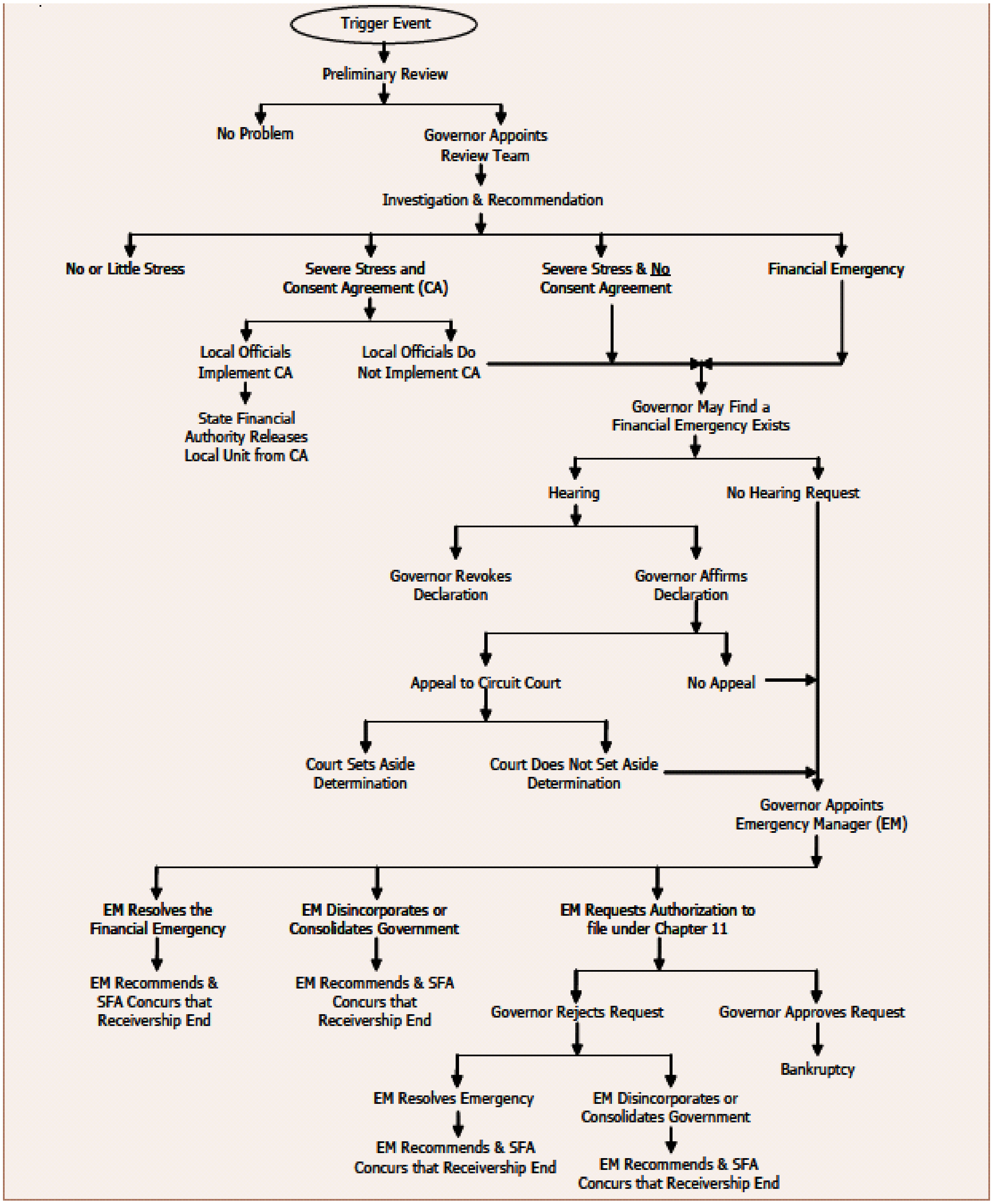
- The Emergency Manager shall issue orders to the appropriate local elected and appointed officials, employees, agents and contractors necessary to accomplish the purposes of this Act. The orders are binding. If the Emergency Manager deems the failure to carry out the orders disruptive, the Emergency Manager may prohibit the offending party from access to the local government's office facilities, electronic mail, and internal information systems.
- The Emergency Manager shall develop and may amend a written financial and operating plan for the local government. The financial and operating plan shall provide or cause to be provided necessary governmental services essential for public health, safety, and welfare and assuring local government fiscal accountability.
- The Emergency Manager may take one or more of the following additional actions:
    - Analyze factors and circumstances contributing to the financial emergency and initiate steps to correct the condition.
    - Amend, revise, approve, or disapprove the budget and limit the total amount appropriated or expended.
    - Receive and disburse all federal, state, and local funds earmarked for the local government.
    - Require and approve or disapprove, or amend or revise a plan for paying all outstanding obligations of the local government.
    - Examine all records and books of account.
    - Review payrolls or other claims against the local government before payment.
    - Establish and implement staffing levels for the local government.
    - Reject, modify, or terminate one or more terms and conditions of an existing contract.
    - After meeting and conferring with the appropriate bargaining representative and, if in the Emergency Manager's sole discretion and judgment, a prompt and satisfactory resolution is unlikely to be obtained, reject, modify, or terminate one or more terms and conditions of an existing collective bargaining agreement.
    - If a municipal government's pension fund is not actuarially funded at a level of 80% or more, at the time the most recent comprehensive annual financial report for the municipal government or pension fund was due, the Emergency Manager may remove one or more of the serving trustees or, if the State Treasurer appoints the Emergency Manager as the sole trustee of the local pension board, replace all the serving trustees of the local pension board.

  - Consolidate or eliminate departments or transfer functions from one department to another and appoint, supervise, and remove administrators, including heads of departments other than elected officials.
  - Employ or contract for auditors, and other technical personnel considered necessary to implement this Act at the expense of the local government and with the approval of the State Treasurer.
  - With the prior written approval of the Governor or their designee, sell, lease, convey, assign or otherwise use or transfer assets, liabilities, functions, or responsibilities of the local government provided it does not endanger the health, safety, or welfare of residents or unconstitutionally impair a bond, note, security, or uncontested legal obligation of the local government.
  - Authorize the borrowing of money on behalf of the local government.
  - Enter into agreements with creditors for the payment of existing debts including the settlement of claims by the creditors.
  - Enter into agreements with other local governments, public bodies, or entities for the provision of services, the joint exercise of powers, or the transfer of functions and responsibilities.
  - For municipal governments, with approval of the Governor, disincorporate or dissolve the municipal government and assign its assets, debts, and liabilities.
- The local government is responsible for compensating the Emergency Manager.

<u>Provisions Pertinent to the Mayor and City Council</u>
In addition to the aforementioned provisions related to the Mayor and the City Council, the Act has two other pertinent provisions.

- Upon the local government being placed in receivership and during the pendency of the receivership, the salary, wages, or other compensation, including the accrual of postemployment benefits, and other benefits of the Mayor and City Council shall be eliminated. However, this does not authorize the impairment of vested pension benefits.
- The local elected and appointed officials shall promptly and fully provide the necessary assistance requested by the State Treasurer, the review team, or the Emergency Manager to effectuate the duties, powers, and the purposes of this Act. Failure of the local government official to abide by the Act shall be considered gross neglect of duty that may be reported to the State Treasurer and the Attorney General. Following a review and hearing, the State Treasurer may recommend to the Governor that the Governor remove the elected official from office.

Public Act 4 Process[1]



[1] Source: The Local Government and School District Fiscal Accountability Act, Public Act 4 of 2011, Citizens Research Council of Michigan, April 2011, Report 368.

Population Based State Statues
Affecting Primary Revenue Sources

MCL SECTON YEAR, PA #	CATEGORY	SUBJECT	CENSUS 2010 POSSIBLE IMPACT FOR DETROIT
City or Municipalities with a population of 750,000 or more can….			
141.1152 1990, PA 100	City Utility Users Tax Act	Levy a maximum of 5% tax on utility bills.	Loss of Revenue – may not be able to levy taxes on utility bills.
117.34a 1990,PA 279	Home Rule City Act – General Obligation Bonds	Issue general obligation bonds for all lawful purposes.	Loss of Revenue – may not be able to issue bonds in the future.
141.503 164, PA 284	City Income Tax Act	Levy and collect an income tax on corporations of 2%, on residents of 3%, and on non-residents of 1.5%.	Loss of Revenue – Municipal Income Tax rates will be reduced.
141.913 1971, PA 140	Glenn Steil State Revenue Sharing Act	Receive a guaranteed amount of $333.9 million or less depending on the state sales tax collections.	Loss of Revenue – reduction of State Revenue Sharing
124.402 1967, PA 204	Metropolitan Transportation Authorities Act	Apply, receive, and distribute federal and state transportation funds.	Loss of Revenue – reduction of funds for transportation.
City or Municipalities with a population of 800,000 or more can….			
432.201- 432.226 1997, PA 69	Casino Gaming Act	Issue (no more than) three casino licenses to operate within the city. Licenses are renewable annually.	Loss of Revenue – Loss of Casino Payments, Wagering Tax, and Municipal Service Revenue - Casino licenses may not be renewed.
Other:			
247.663 1951 PA 51	State Transportation Act	The amount of funds returned to municipalities based on population based on the most recent statewide federal census as certified at the beginning of the state fiscal year.	Loss of Revenue - Reduction of funds returned to municipalities.

Budget Opportunities

During our review of the Mayor's Proposed Budget, we looked for items within the budget that are possible revenue and cost saving opportunities for consideration by City Council.

Close Out Vacant Positions

Based on our review of actual employees on the payroll, compared to budgeted employees, we determined an opportunity of an estimated savings of $27 million in the General Fund, if the Administration eliminates vacant positions of Police and Fire General Fund employees. According to actual employees reported in the Mayor's Proposed Budget, as of March 30, 2011, the City employed 12,095 persons. Budgeted positions for fiscal year 2011-2012 total 12,944, which includes 667 vacancies in Enterprise Agencies, and the 182 net vacancies in General Fund Agencies. The Police Department currently has 139 vacancies and the Fire Department has 133 vacancies which forms the basis of our estimating savings in the General Fund.

To further emphasize this opportunity, we reviewed cities with similar population and land size to determine the ratio of public safety employees to these demographics. Our analysis revealed that at least one major City with similar demographics is providing public safety with fewer fire and police personnel.

Comparison Based on Land Size

City	Police	Fire	Population	Police Per 1,000 Residents	Fire Per 1,000 Residents
Detroit	3,388	1,467	713,777	4.75	2.06
Columbus	2,238	1,653	787,033	2.84	2.10

Comparison Based on Land Size

City	Police	Fire	Area in Square Miles	Police Per Square Mile	Fire Per Square Mile
Atlanta	2,217	1,000	131	16.87	7.61
Detroit	3,388	1,467	138	24.57	10.64

Initiate a Cost Optimizing Review

- Require operating cost reductions from each agency and department based on a proportional weight average percentage. This requires each agency and department to critically examine their operations and determine the best way to affect cost savings.

- Analyze potential savings from reducing the organizational and administrative structure in Agencies and Departments. Eliminate duplicate divisions and overlapping responsibilities or services across Agencies and Departments.

Sale of Surplus Assets

Analyze potential revenue from sale of surplus assets including obsolete parts, materials, and inventories. The review should include the City's vast collection of historical artifacts and art maintained at various cultural institutions throughout Detroit.

Reduction of Subsidies

Reduce organizations reliance on the City's subsidy by requiring them to develop a sustainable funding plan that includes implementing operational efficiencies and diversification of funding sources. The goal and challenge of the City should be to reduce their subsidies over the next five years, based on best practices and industry standards for self reliance of organizations.