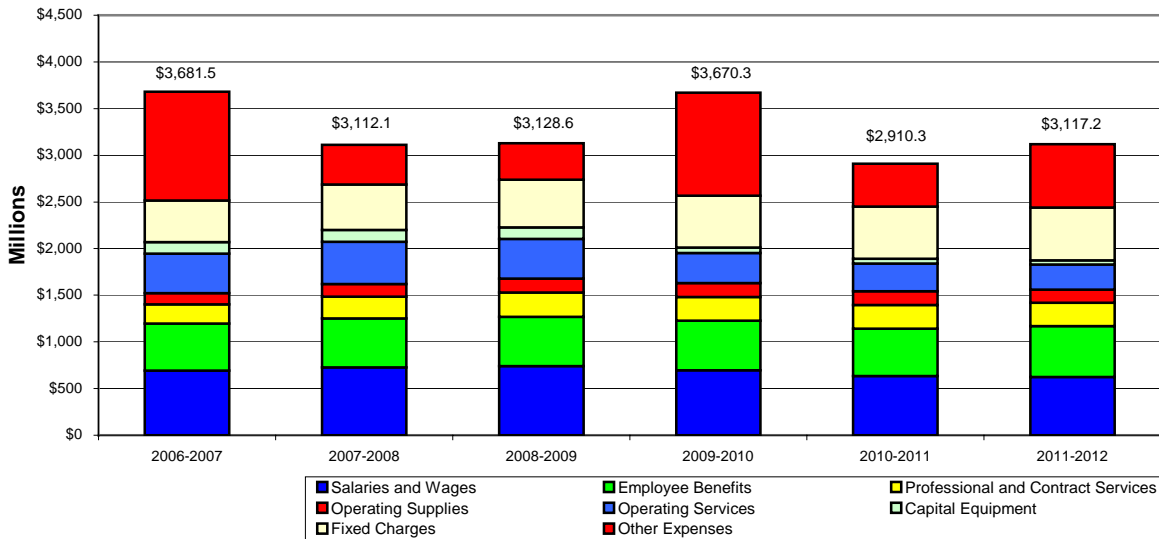


**CITY OF DETROIT
 APPROPRIATIONS BY MAJOR OBJECT
 FOR FISCAL YEAR 2006-2007 THROUGH FISCAL YEAR 2011-2012**

The following chart and schedule compares the total budgeted appropriations over five fiscal years from 2006-2007 through 2010-2011 and total appropriations in the Mayor’s 2011-2012 Proposed Budget.



In Millions

Fiscal Year	Salaries and Wages	Employee Benefits	Professional and Contract Services	Operating Supplies	Operating Services	Capital Equipment	Fixed Charges	Other Expenses	Total
2006-2007	692.8	502.4	207.5	119.1	424.5	122.5	447.3	1,165.4	3,681.5
2007-2008	725.0	527.0	230.6	138.9	452.7	127.2	486.8	423.9	3,112.1
2008-2009	741.2	527.8	259.9	149.6	424.8	123.2	510.9	391.2	3,128.6
2009-2010	697.4	529.7	252.3	153.6	322.0	57.1	555.5	1,102.7	3,670.3
2010-2011	635.3	507.5	252.1	145.7	299.6	50.8	560.7	458.6	2,910.3
2011-2012 (A)	624.2	543.1	250.7	139.9	271.8	44.2	567.7	675.6	3,117.2

(A) Mayor’s 2011-2012 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of appropriations in the Mayor’s 2011-2012 Proposed Budget and a comparison to appropriations in the fiscal year 2010-2011 budget including salaries and wages and employee benefits (excluding pensions), pensions, and other appropriations.

SALARIES AND WAGES

Conclusion

The amount budgeted for Salaries and Wages for fiscal year 2011-2012 appears unreasonable because overtime will exceed the budget. The assumption that actual overtime will exceed budgeted overtime is consistent with the City's actual overtime costs. Included in the Mayor's 2011-2012 Proposed Budget are cost savings from a reduction in stipends for appointees.

Analysis of Salaries And Wages

The Mayor's 2011-2012 Proposed Budget includes \$624.2 million for Salaries and Wages, a decrease of \$11.1 million or 1.7% from the fiscal year's 2010-2011 adopted budget of \$635.3 million. The \$11.1 million decrease in Salaries and Wages is the net effect of a decrease of 192 positions. The following comparative schedule shows the amount of Salaries and Wages included in the Mayor's 2011-2012 Proposed Budget and fiscal year 2010-2011 adopted budget:

	In Millions		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
Civilian	\$ 324.5	\$ 344.1	\$ (19.6)
Uniform Police	206.3	202.8	3.5
Uniform Fire	93.4	88.4	5.0
Total Salaries and Wages	\$ 624.2	\$ 635.3	\$ (11.1)

The schedule below compares budgeted Salaries and Wages to actual Salaries and Wages for Civilian and Uniform employees for the fiscal years 2006-2007 through 2009-2010 budgeted Salaries and Wages, to estimated Salaries and Wages for fiscal year 2010-2011, and the proposed fiscal year 2011-2012 Salaries and Wages:

		In Millions								
		Civilian			Uniform Police and Fire			Total		
Fiscal Year		Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget
2006-2007		433.6	421.0	(12.6)	259.2	260.7	1.5	692.8	681.8	(11.0)
2007-2008		448.1	440.0	(8.1)	276.8	270.1	(6.7)	724.9	710.1	(14.8)
2008-2009		466.9	618.4	151.5	274.3	286.4	12.1	741.2	904.8	163.6
2009-2010		428.4	574.4	146.0	269.0	270.7	1.7	697.4	845.1	147.7
2010-2011 (A)		344.1	368.6	24.5	291.2	279.4	(11.8)	635.3	648.0	12.7
2011-2012 (B)		324.6	N/A	N/A	299.6	N/A	N/A	624.2	N/A	N/A

(A) The actual amounts shown for fiscal year 2010-2011 are estimates based on actual amounts through March 31, 2011.

(B) Actual Salaries and Wages for fiscal year 2011-2012 are not available and are indicated with a N/A.

Budget Amendment

Mayor and City Council amended the 2010-2011 Adopted Budget by adding 189 positions at a cost of \$12.1 million.

Overtime

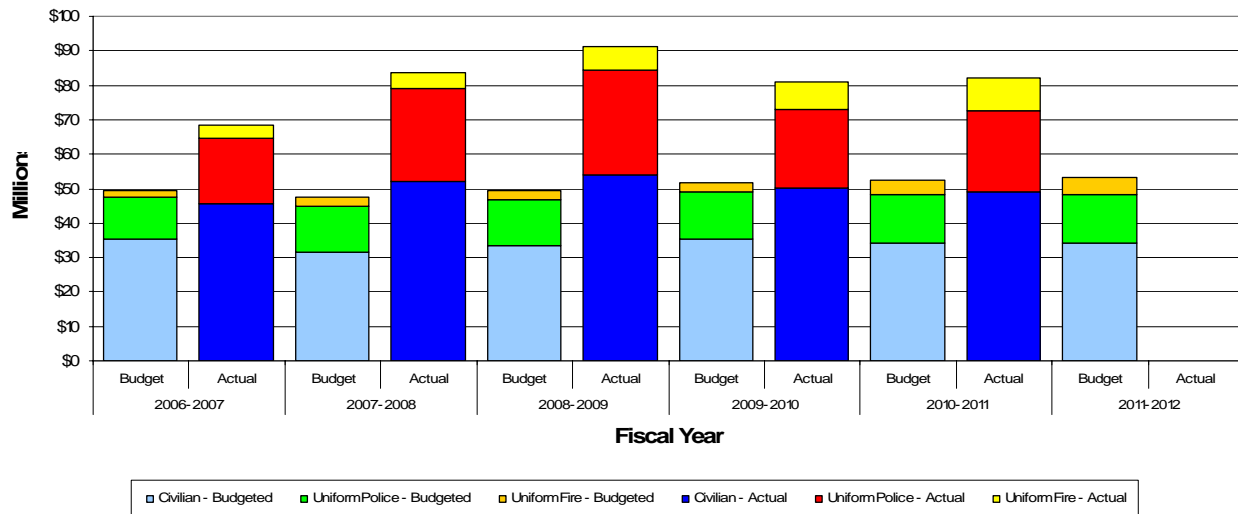
Salaries and Wages include \$53.1 million in citywide overtime, an increase of \$0.6 million or 1.1% from the fiscal year 2010-2011 budgeted amount of \$52.5 million. Historically, actual overtime exceeds budgeted overtime citywide. The current fiscal year, 2010-2011, is no exception. Based on 9-month year-to-date actual figures, it is projected that total overtime will exceed budgeted overtime by \$29.7 million or 56.6% for fiscal year 2010-2011. Uniform Police will exceed budgeted overtime by \$9.6 million or 68.6%, Uniform Fire will exceed budgeted overtime by \$5.6 million or 134.1%, and civilian employees will exceed budgeted overtime by \$14.5 million or 85.1% in fiscal year 2010-2011. The schedule below compares budgeted overtime to actual overtime for fiscal years 2006-2007 through 2009-2010, budgeted and estimated overtime for fiscal year 2010-2011, and the Mayor's 2011-2012 Proposed Budget amount.

Fiscal Year	In Millions								
	Civilian			Uniform Police and Fire			Total		
	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
2006-2007	35.4	45.6	10.2	14.2	22.9	8.7	49.6	68.5	18.9
2007-2008	31.7	52.3	20.6	15.9	31.3	15.4	47.6	83.6	36.0
2008-2009	33.6	53.8	20.2	15.7	37.4	21.7	49.3	91.2	41.9
2009-2010	35.2	50.1	14.9	16.5	31.0	14.5	51.7	81.1	29.4
2010-2011 (A)	34.4	48.9	14.5	18.1	33.3	15.2	52.5	82.2	29.7
2011-2012 (B)	34.2	N/A	N/A	18.9	N/A	N/A	53.1	N/A	N/A

(A) The actual amounts shown for fiscal year 2010-2011 are estimates based on actual amounts through March 31, 2011.

(B) Actual Salaries and Wages for fiscal year 2011-2012 are not available and are indicated with a N/A.

The chart below compares budgeted overtime to actual overtime expenditures for fiscal years 2006-2007 to 2009-2010, budgeted and estimated overtime for fiscal year 2010-2011 and the Mayor's 2011-2012 Proposed Budget amount.



An analysis of overtime at the City department level revealed the following:

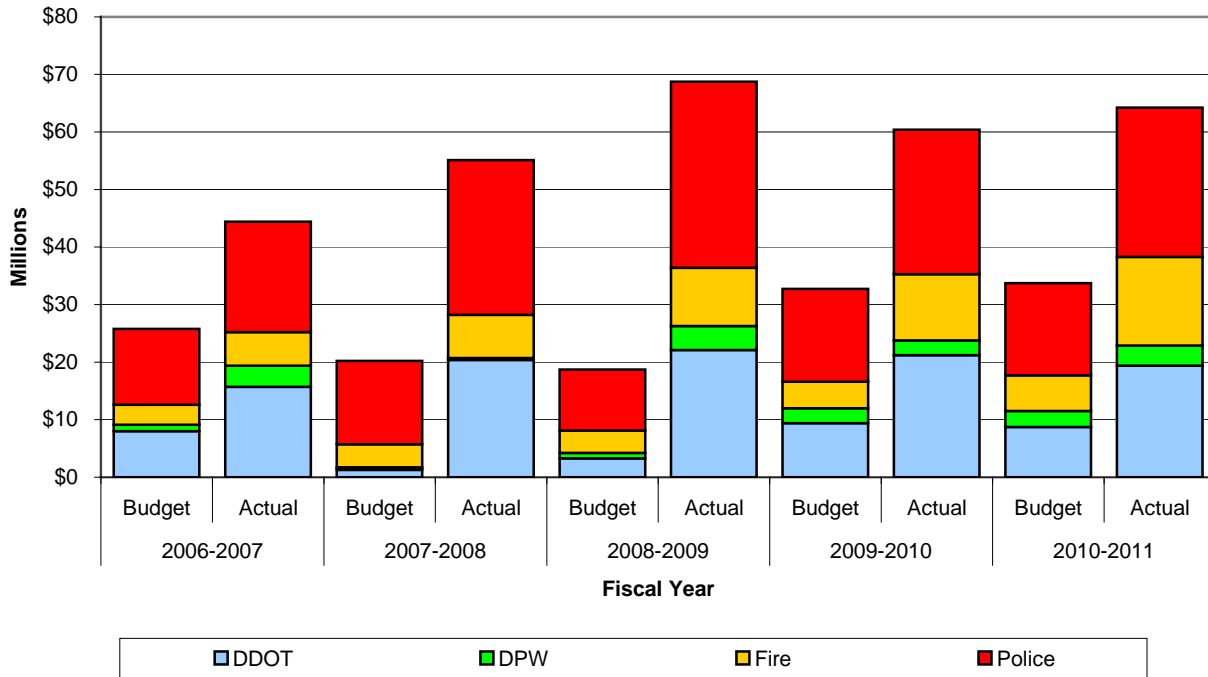
- In fiscal year 2009-2010, actual overtime in four departments, Department of Transportation (DDOT), Department of Public Works (DPW), Fire (uniformed and civilian), and Police (uniformed and civilian) were approximately \$60.4 million. These four departments comprised approximately 74.5% of the total City overtime amount of \$81.1 million for fiscal year 2009-2010.
- Based on our analysis, for fiscal year 2010-2011, it is projected that Police will exceed budgeted overtime by \$13.5 million or 209.2%, Fire will exceed budgeted overtime by \$9.2 million or 245.5%, DDOT will exceed budgeted overtime by \$16.4 million or 650.0%, and DPW will exceed budgeted overtime by \$2.2 million or 271.8%.

The schedule below compares budgeted to actual overtime for DDOT, DPW, Fire, and Police for fiscal years 2006-2007 to 2009-2010 and budgeted and estimated overtime for fiscal year 2010-2011.

Fiscal Year	In Millions							
	DDOT		DPW		Fire		Police	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2006-2007	\$ 8.0	\$ 15.7	\$ 1.1	\$ 3.7	\$ 3.5	\$ 5.8	\$ 13.2	\$ 19.2
2007-2008	1.3	20.4	0.4	0.3	4.0	7.5	14.5	26.9
2008-2009	3.3	22.1	0.9	4.2	3.9	10.1	10.8	32.3
2009-2010	9.4	21.2	2.6	2.6	4.6	11.5	16.1	25.1
2010-2011 (A)	8.7	19.4	2.8	3.5	6.2	15.4	16.0	25.9

(A) The actual amounts shown for fiscal year 2010-2011 are estimates based on actual amounts through March 31, 2011.

The chart below compares budgeted to actual overtime for four major City departments, (DDOT, DPW, Fire, and Police) for fiscal years 2006-2007 to 2009-2010 and budgeted and estimated overtime for fiscal year 2010-2011.



Reduction in Budgeted Positions

There are 192 fewer budgeted positions in the Mayor's 2011-2012 Proposed Budget compared to the 2010-2011 Budget.

Number of Budgeted Positions

The following schedule shows the total number of positions in the Mayor's 2011-2012 Proposed Budget and the budget for fiscal year 2010-2011.

	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
Civilian Positions	8,824	9,024	(200)
Uniform Police	2,981	2,949	32
Uniform Fire	1,139	1,163	(24)
Total Uniform Positions	4,120	4,112	8
Total Number of Budgeted Positions	12,944	13,136	(192)

The net total decrease of 192 in the number of positions reflects the elimination of 454 budgeted positions and the addition of 262 positions. The 262 positions are comprised of 189 positions from the budget amendment and 73 positions added from the 2011-2012 Mayor's Proposed Budget.

Net Elimination of Vacant Positions

The Mayor's 2011-2012 Proposed Budget reflects a net decrease of 192 positions in various City agencies. The net decrease of budgeted positions includes 74 positions in the Department of Transportation, 39 positions in the Department of Health and Wellness Promotion, 44 in the Buildings and Safety Engineering Environmental Department, 38 positions in the General Services Department, 30 positions in the Department of Public Works, 25 positions in City Council, 20 positions in the Detroit Workforce Development Department, 18 positions in the Finance Department, and 10 positions in the Planning and Development Department and Information and Technology Services. The Police Department added a net of 60 positions, the Fire Department added a net of 43 positions and the Recreation Department added a net of 10 positions, and a net increase of 3 in various city departments.

Turnover Savings

The Mayor's 2011-2012 Recommended Budget Turnover Savings is \$7.7 million. The savings was developed in the following manner: Fire \$5.1 million and Police \$2.6 million.

Layoffs

The Mayor's 2011-2012 Proposed Budget does not reflect any layoffs.

EMPLOYEE BENEFITS (Excluding Pensions)

Conclusion

The amount budgeted for employee benefits in the Mayor's 2011-2012 Proposed Budget is reasonable. The proposed employee benefit budget (excluding pensions) includes an increase of \$37.1 million due to rising costs of hospitalization and dental.

Analysis of Employee Benefits (Excluding Pensions)

The City provides nonnegotiable and negotiable employee benefits to both civilian and uniform employees, as well as to retired employees. Nonnegotiable employee benefits are those benefits regulated by either Federal or State law.

The Mayor's 2011-2012 Proposed Budget includes \$348.8 million for employee benefits (excluding pensions), which is a \$37.1 million increase from the fiscal year 2010-2011 budget. This increase is mainly in hospitalization and dental, with reductions in longevity. Shown below is a trend analysis of total budgeted employee benefits (excluding pensions) appropriations for fiscal years 2006-2007 to 2010-2011, and the proposed appropriation for fiscal year 2011-2012.

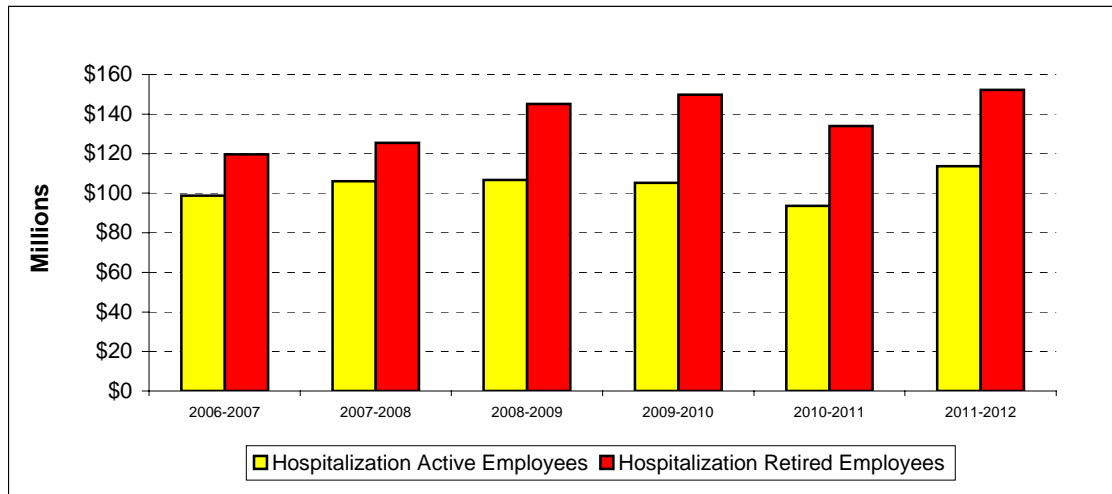
<u>Fiscal Year</u>	<u>Employee Benefits (In Millions)</u>	<u>Percentage Increase/(Decrease) From Prior Year</u>
2006-2007	\$ 312.0	13.4%
2007-2008	328.6	5.3
2008-2009	346.8	5.5
2009-2010	347.0	0.1
2010-2011	311.7	(10.2)
2011-2012	348.8	11.9

Hospitalization

The projected rates for fiscal year 2011-2012 from the City's health care providers will increase 5% to 14% from 2010-2011 fiscal year. Employee contributions will change proportionately with any hospitalization rate changes. Employees are currently responsible for 20% cost sharing in some plans and 10% cost sharing in the Blue Cross Blue Shield of Michigan PPO plan that contains 65-70% of the active and retired employees. To reduce City's sky rocketing health care costs, the Mayor is proposing that the City will reduce its contribution to medical plans by 20%. Deep cuts to employee health care and fringe benefits will be included in the Mayor's five-year deficit elimination plan.

The budgeted expenditures for hospitalization increased 16.8% from fiscal year 2010-2011. A total of \$266.0 million (\$113.7 million for active employees and \$152.3 million for retired employees) is budgeted for fiscal year 2011-2012 compared to \$227.6 million (\$93.7 million for active employees and \$133.9 million for retired employees) in the fiscal year 2010-2011 budget.

Shown below is an analysis of budgeted hospitalization appropriations for fiscal years 2006-2007 to 2011-2012. The City's budgeted hospitalization appropriation has increased steadily from the fiscal year 2006-2007 budget to fiscal year 2011-2012 budget, due to rising health care costs.



Dollars In Millions					
Fiscal Year	Hospitalization Active Employees	Hospitalization Retired Employees	Total Hospitalization	Increase (Decrease) From Prior Year	Percentage Increase (Decrease) From Prior Year
2006-2007	\$ 98.8	\$ 119.6	\$ 218.4	\$ 33.7	18.2%
2007-2008	106.1	125.3	231.4	13.0	6.0
2008-2009	106.6	145.1	251.7	20.3	8.8
2009-2010	105.3	149.8	255.1	3.4	1.0
2010-2011	93.7	133.9	227.6	(27.5)	(12)
2011-2012	113.7	152.3	266.0	38.3	16.8

An analysis of fiscal year 2009-2010 actual healthcare costs to Mayor's 2011-2012 Proposed Budget healthcare costs revealed that total hospitalization costs increased \$22.0 million or 9% (from \$243.9 million in 2009-2010 to \$265.9 million in 2011-2012), which include an increase of \$12.3 million or 12% for active employees and an increase of \$9.7 million or 7% for retired employees. Dental costs increased \$2.7 million or 21% (from \$12.8 million in 2009-2010 to \$15.4 million in 2011-2012), which include an increase of \$3.3 million or 67% for active employees and a decrease of \$0.6 million or 7% for retired employees. Eye care costs increased \$0.5 million or 14% (from \$3.5 million in 2009-2010 to \$4.0 million in 2011-2012), which include an increase of \$0.5 million or 37% for retired employees and a minimal change for active employees.

The following chart compares budgeted hospitalization costs per employee for fiscal years 2008-2009, 2009-2010, 2010-2011 and fiscal year 2011-2012 to the actual cost per employee.

Hospitalization Cost for Active Civilian and Uniform Employees

<u>Fiscal Year</u>	<u>Budgeted Cost Per Employee</u>	<u>Actual Cost Per Employee</u>	<u>Variance</u>	<u>Variance %</u>
2008-2009	\$6,956.09	\$6,326.55	\$ 629.54	9%
2009-2010	\$7,239.59	\$7,971.53	\$(731.94)	(10)%
2010-2011	\$7,129.72	N/A	N/A	N/A
2011-2012	\$8,780.30	N/A	N/A	N/A

Social Security (FICA)

The Mayor's 2011-2012 Proposed Budget includes a decrease of \$0.5 million for social security taxes, which total \$30.4 million compared to \$30.9 million in the fiscal year 2010-2011 budget. The decrease in social security taxes is due to a decrease in budgeted wages.

Unemployment Compensation and Workers' Compensation

The Mayor's 2011-2012 Proposed Budget includes \$20.8 million for unemployment and workers' compensation (\$6.0 million for unemployment compensation and \$14.8 million for workers' compensation). The fiscal year 2010-2011 budget included \$18.2 million for unemployment and workers' compensation (\$3.1 million for unemployment and \$15.1 million for workers' compensation).

PENSIONS

Conclusion

The \$189.4 million for pension costs included in the Mayor's 2011-2012 Proposed Budget is not reasonable.

The following table is a comparison of the Mayor's 2011-2012 Proposed Budget to the 2010-2011 Budget for appropriations that cover the costs of employees' pensions:

<u>Employee Category</u>	<u>In Millions</u>		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
GRS Employees	\$ 92.7	\$ 87.9	\$ 4.8
PFRS Employees	96.7	103.9	(7.2)
Total Paid by the City	\$ 189.4	\$ 191.8	\$ (2.4)
36 th District Employees*	4.9	4.0	0.9
Total	<u>\$ 194.3</u>	<u>\$ 195.8</u>	<u>\$ (1.5)</u>

*Note: The City of Detroit does not provide pensions for employees of the 36th District Court, therefore pension costs relative to the court are excluded from this analysis.

The following table compares the Mayor's 2011-2012 Proposed Budget for pension costs to the OAG's estimates:

<u>Employee Category</u>	<u>In Millions</u>		
	Mayor's 2011-2012 Proposed Budget	OAG Computed 2011-2012	Variance
GRS	\$ 38.2	\$ 83.1	\$ (44.9)
PFRS	50.1	111.4	(61.3)
POC Debt Service	101.1	100.8	0.3
Total	<u>\$ 189.4</u>	<u>\$ 295.3</u>	<u>\$ (105.9)</u>

Analysis of Pensions

The City's pension plans are known as defined benefit plans, which are plans in which benefits to be received by employees are defined. Under a defined benefit plan, normal cost is the cost attributed to benefits earned by employees in a year. This cost is the amount the plan should be setting aside to have sufficient money to pay benefits when employees are expected to retire. There is a second costing consideration, which is the status of the pension fund relative to benefits earned. An actuary must compare the

current value of assets in a pension fund to the value of benefits earned. If the value of assets exceeds the value of the benefits earned, the pension fund is over-funded. Similarly, if the pension fund has fewer assets than are required to pay the normal cost of benefits earned, it is under-funded.

The cost of funding an unfunded liability is amortized over some time period. A level percent-of-payroll contribution requires the City's actuarial rate provide for normal cost plus amortization of the unfunded actuarial accrued liability.

The Mayor's 2011-2012 Budget for pension contributions assumes postponement of unfunded actuarial accrued liability payments of \$11.0 million for the General Retirement System (GRS) and \$54.0 million for the Police and Fire Retirement System (PFRS). The Administration plans to enter into payment agreements with the Board of Trustees of both retirement systems, at a negotiated interest rate, to defer the payments to the systems. The budget includes \$8.0 million in savings in contribution to the PFRS due to a recent 312 Arbitration Award in which the arbitrator ruled in favor of the City in reducing pension multiplier from 2.5 to 2.1 for lieutenants and sergeants. Based on actuarial reports submitted to the arbitrator, the reduction in multiplier would reduce the City's annual contribution to the PFRS by 3.1% of payroll costs. The OAG estimates \$7.2 million in savings in fiscal year 2011-2012 due to the award.

The budget for pension for the GRS is based on a 10% reduction in salaries and wages due to cuts in employees' pay. Ordinance No. 12-09 indicates that for nonunion employees that pay cuts shall not be a factor for purposes of pension computations. A key employee in the Pension Division indicates that pay cuts are not a factor in pension computations. The OAG estimates shortcoming in contribution of \$8.5 million due to calculation of the contribution based on pay cuts.

Present retirees of the PFRS receive an annual increase (referred to as escalator) of 2.25% in their pension payments. The arbitrator ruled in favor of the City to eliminate escalator payments for lieutenants and sergeants. The pension budget for the PFRS includes savings from the elimination of cost of living adjustments from future payments to the PFRS for lieutenants and sergeants. The Budget Department does not have a calculated amount for the savings. The Arbitration Award indicates that eliminating the escalator factor would reduce the amount the City pays annually to the PFRS by approximately 4%. The amount in savings would have to be actuarially determined.

The budget for the pension contribution payments assumes reducing the pension multipliers for all City employees. The reduced payments to both retirement systems would have to be determined actuarially.

Funding Status

The following table shows that the GRS had an under-funded status nine of the ten years and the PFRS five of the ten years.

Fiscal Year	In Millions		
	GRS Excess/(Under) Funding Amount	PFRS Excess/(Under) Funding Amount	Total Excess/(Under) Funding Amount
2000-2001	\$ (267.5)	\$ 436.8	\$ 169.3
2001-2002	(489.3)	3.1	(486.2)
2002-2003	(732.9)	(516.1)	(1,249.0)
2003-2004	(913.7)	(783.0)	(1,696.7)
2004-2005	(125.0)	(22.5)	(147.5)
2005-2006	(60.6)	171.3	110.7
2006-2007	(42.6)	410.4	367.8
2007-2008	31.6	245.2	276.8
2008-2009	(276.7)	(276.1)	(552.8)
2009-2010	(724.0)	(767.3)	(1,491.3)

Trends in Contributions

The following table shows the annual City contributions to the GRS and to the PFRS for the past ten fiscal years through June 30, 2010, and the proceeds of the pension obligation certificates (POC) in 2006:

Fiscal Year	In Millions		
	GRS	PFRS	Total Contribution
2000-2001	\$ 68.1	\$ 14.4	\$ 82.5
2001-2002	67.8	8.4	76.2
2002-2003	72.9	66.8	139.7
2003-2004	95.9	69.5	165.4
2004-2005	41.7	51.6	93.3
2005-2006	58.2	57.8	116.0
POC	739.8	630.8	1,370.6
2006-2007	41.4	57.4	98.8
2007-2008	43.2	33.9	77.1
2008-2009	41.3	32.9	74.2
2009-2010	37.3	32.8	70.1

Status of Required Contributions

As of April 20, 2011, the City has paid \$23.8 million of the \$35.7 million required 2010-2011 contribution to the GRS. The 2010-2011 contribution to the PFRS is not due until June 30, 2011. The 2009-2010 City contribution for the PFRS of \$32.8 million plus interest is being paid on a monthly basis. As of April 20, 2011, the City owes \$2.4 million plus interest to the PFRS.

Membership Composition

Both pension systems have experienced a shift in the composition of their membership. Membership composition is significant because, as the number of active employees paying into the system through payroll deductions under annuity savings plans declines relative to the number of retired members receiving benefits, the City may be forced to further increase contributions, due to less funding from employees participating in annuity savings plans of their retirement systems, to the pension funds to maintain pension benefits. Uniform police and fire personnel are required to contribute to their annuity saving plan for 25 years at a rate of 5% of their pay. After 25 years, contributions to the plan for these employees cease. Civilian employees have the option of contributing to the annuity saving plan under the General Retirement System at rates 3%, 5%, or 7% of their pay. The following tables show the composition of both retirement systems. The latest data available is for fiscal year 2008-2009.

Fiscal Year	<u>General Retirement System</u>			Percentage	
	Membership			Active	Retired
	Active	Retired	Total		
1976-1977	17,508	9,511	27,019	64.8%	35.2%
1986-1987	13,640	11,800	25,440	53.6	46.4
1996-1997	12,369	12,199	24,568	50.3	49.7
2006-2007	8,971	11,478	20,449	43.9	56.1
2007-2008	9,361	11,517	20,878	44.8	55.2
2008-2009	8,599	11,407	20,006	43.0	57.0

Fiscal Year	<u>Police and Fire Retirement System</u>			Percentage	
	Membership			Active	Retired
	Active	Retired	Total		
1976-1977	6,728	5,576	12,304	54.7%	45.3%
1986-1987	6,545	6,264	12,809	51.1	48.9
1996-1997	5,420	7,743	13,163	41.2	58.8
2006-2007	4,212	8,498	12,710	33.1	66.9
2007-2008	4,078	8,442	12,520	32.6	67.4
2008-2009	4,037	8,424	12,461	32.4	67.6

OTHER EXPENSES

Conclusion

The \$675.5 million in Other Expenses included in the Mayor's 2011-2012 Proposed Budget is unreasonable primarily due to the deferral of the prior year deficit of \$203 million without a deficit elimination plan expressly supported by the State. Items budgeted in Other Expenses should be carefully reviewed each year due to a variety of charges included in this category.

Analysis of Other Expenses

The Mayor's 2011-2012 Proposed Budget for Other Expenses of \$675.6 million is a \$217.0 million increase from the 2010-2011 budget of \$458.6 million. The budgeted increase in Other Expenses is primarily due to \$300.0 million in interest to be paid on bonds.

As part of our analysis we have divided the Other Expenses' category included in the Mayor's 2011-2012 Proposed Budget into eight sub-categories, and compared the categories to the fiscal 2010-2011 Budget in the following schedule:

	In Millions			
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Prior Years Deficit	\$ 5.2	\$ 117.4	\$ (112.2)	(95.6) %
Risk Management Cost	2.3	2.5	(0.2)	(8.0)
Operating Cost	149.2	124.8	24.4	19.6
Urban Development Cost	28.1	28.1	0.0	0.0
Grant Activity Cost	22.6	24.6	(2.0)	(8.1)
Training Cost	40.0	42.1	(2.1)	(5.0)
Other Cost	1.9	15.3	(13.4)	(87.6)
Miscellaneous Cost	426.3	103.8	322.5	310.7
Total Other Expenses	\$ 675.6	\$ 458.6	\$ 217.0	47.3 %

The following is a brief description of the types of expenditures that are included in each sub-category:

- *Prior Years Deficit* – This is the budgeted deficit from the prior year.
- *Risk Management Cost* – This category includes expenditures related to the Risk Management Fund such as damage claims, litigation, and worker's compensation.
- *Operating Cost* – These costs are related to contributions for operations (subsidies) paid to departments, and transfer of monies between funds.
- *Urban Development Cost* – This category includes items associated with urban development such as Block Grant monies used by community groups to repair houses and other dwellings in neighborhoods, street improvements, site preparation,

acquisition and disposal of real estate and other items associated with improving the City.

- *Grant Activity Costs* – These costs are items such as in-kind subsidies and matching funds for grant activities.
- *Training Cost* – Training costs are training expenses the City expects to incur. The training includes both in-house and external.
- *Other Cost* – Travel, bank service charges and contingencies are examples of items included in this category.
- *Miscellaneous Cost* – Miscellaneous Expense is the only object code included in this category.

Prior years deficit included in the Mayor's 2011-2012 Proposed Budget of \$5.2 includes actual deficit for fiscal year 2009-2010 of \$155.7 million and a projected deficit of \$52.6 million for fiscal year 2010-2011. The projected accumulated deficit in the Mayor's Proposed 2011-2012 budget is \$208.3 million. However, \$203.7 million is reflected as being deferred over a five-year period. Section 8-204 of the City's Municipal Code states that "the total proposed expenditures shall not exceed the total of estimated revenues." Section 15 of the Michigan Department of Treasury's Uniform Budget Manual for Local Units of Government states that "the total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations."

Risk Management Cost in the Other Expenses category only budgets for damage claims and workers compensation Fire (uniform). The actual damage claims and workers compensation for the past four fiscal years were \$4.9 million for 2006-2007, \$2.6 million for 2007-2008, and \$4.6 and \$8.4 million for fiscal years 2008-2009 and 2009-2010 respectively. Based on our analysis, if we isolate the budgeted cost for damage claims and workers compensation and compare it to the actual damage claims and workers compensation for the fiscal years reviewed, the Mayor's Proposed Budget is unreasonable. Moreover, actual expenditures charged to this category include litigation cost, workman's compensation and miscellaneous cost. The Mayor's Proposed Budget includes \$92.2 million for the actual Risk Management Fund, which is not reflected in the Other Expenses category of the budget.

Operating Costs in the Mayor's 2011-2012 Proposed Budget have increased \$24.4 million (or 19.5%) from the 2010-2011 budget due primarily to an increase in Transfers to Other Funds of \$7.8 million, Contribution to Operations of \$5.8 million and \$11.3 million in the Expense Clearing Account. Overall Operating Activities cost are fairly consistent.

Grant Activities are cost associated with a subsidy to agencies. The expense of grant activities has a matching contra Revenue Account that gives a net effect of zero on the budget.

The Mayor's 2011-2012 Proposed Budget for Other Cost is expected to be \$13.4 million less than the 2010-2011 Budget. The decrease is due primarily to a reduction in bad debt from the 2010-2011 budgeted amount of \$10.0 million to a \$0.0 budget for 2011-2012. Fiscal Year 2009-2010 included a one-time charge to Other Cost of \$35.8 million to account for the transfer of Cobo Hall debt and related assets to the new regional authority and post activity prior to the effective date of September 15, 2010.

The following schedule compares the budgeted and actual amounts according to the sub-categories for fiscal year 2006-2007 through fiscal year 2009-2010.

	In Millions							
	2006-2007		2007-2008		2008-2009		2009-2010	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Prior Years Deficit	\$ 67.1	\$ 0.0	\$ 90.7	\$ 0.0	\$ 78.0	\$ 0.0	\$ 280.0	\$ 0.0
Risk Management Cost	4.5	40.5	4.0	68.5	4.1	57.2	4.1	61.2
Operating Activities	98.8	158.1	125.4	136.1	123.4	323.0	146.0	251.9
Urban Development Cost	48.3	34.3	41.2	25.4	38.0	19.7	39.2	80.9
Grant Activities	28.0	85.4	34.1	101.5	23.8	89.3	16.3	38.5
Training	40.7	38.7	36.9	30.5	32.5	54.2	13.7	79.4
Other Cost	9.7	3.9	18.6	2.3	20.2	245.5	37.7	52.3
Miscellaneous Cost	93.3	4.3	72.8	1.2	71.3	23.0	56.4	11.8
TOTAL	\$ 390.4	\$ 365.2	\$ 423.7	\$ 365.5	\$ 391.3	\$ 811.9	\$ 593.4	\$ 576.0

NOTE: Actual amounts for fiscal years 2010-2011 and 2011-2012 are not available.

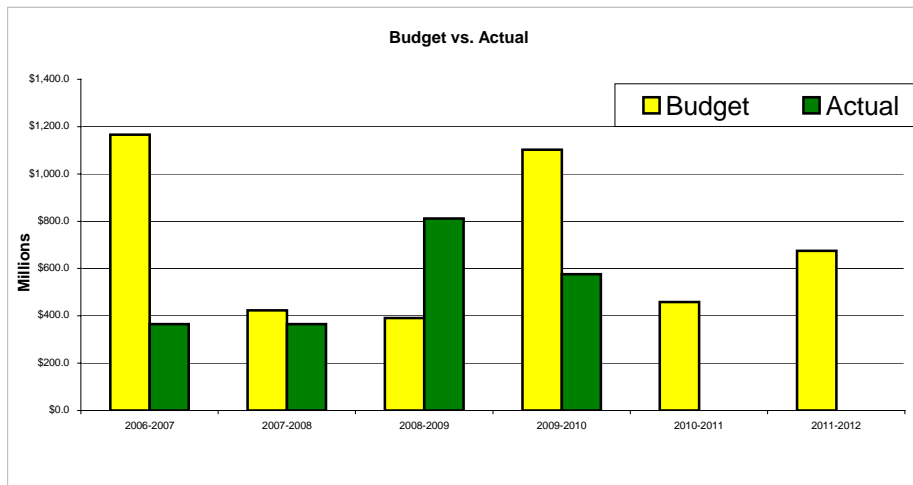
The following table shows budgeted and actual Other Expenses for each fiscal year from 2006-2007 through 2009-2010. The table also includes budgeted Other Expenses for fiscal year 2010-2011, and Other Expenses as shown in the Mayor's 2011-2012 Proposed Budget.

Fiscal Year	In Millions				Increase/(Decrease) in Actual Other Expenses From Prior Year	
	Budgeted Other Expenses	Actual Other Expenses	Actual Over/(Under) Budget		Amount	Percentage
			Amount	Percentage		
2006-2007	\$ 390.4	\$ 365.3	\$ (25.1)	(6.4) %	\$ 632.7	(184.6)%
2007-2008	423.9	365.5	(58.4)	(13.8)	0.2	0.1
2008-2009	391.2	811.9	420.7	107.5	446.4	122.1
2009-2010	593.4	576.0	(17.4)	(2.9)	(235.9)	(29.1)
2010-2011 (A)	458.6	N/A	N/A	N/A	N/A	N/A
2011-2012 (A)	375.5	N/A	N/A	N/A	N/A	N/A

* The total for revenue bonds was removed from the budgeted total for the fiscal year.

The schedule above depicts consistent variances in both budgeted and actual expenses. This fluctuation occurs because of the inconsistent grouping of items charged to the Other Expenses category each year; both in budgeted and actual appropriations.

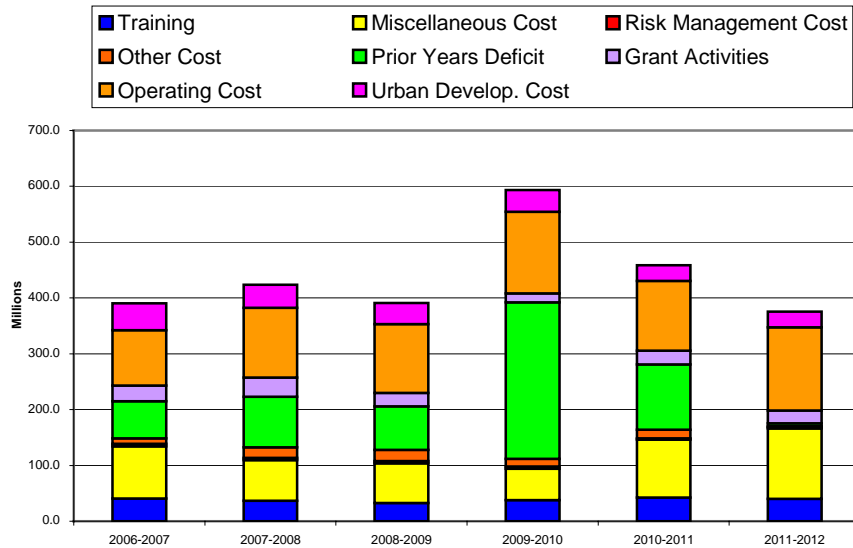
The following chart compares budgeted Other Expenses to actual Other Expenses for fiscal year 2006-2007 through 2009-2010. The chart also includes budgeted amounts for fiscal years 2010-2011 and 2011-2012. Actual amounts are not available for these years.



When comparing budgeted expenses to actual expenditures there is a continuous disparity between the two. The variety of items expensed to this category does not allow for a reasonable budget based on individual line items; Other Expenses tends to be a catch all category. However, when Other Expenses is viewed as a whole in relationship to the Mayor's 2011-2012 Proposed Budget the amount takes into consideration anticipated charges and has been increased to accommodate all known expenditures.

The following chart compares the budgeted amounts for each sub-category for fiscal year 2006-2007 through fiscal year 2011-2012.

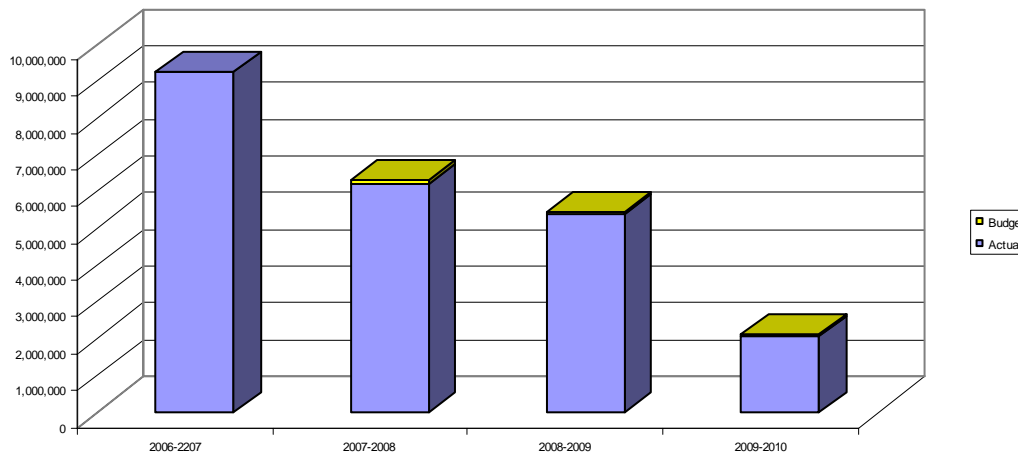
Budget to Budget FY 2006-2007 through FY 2011-2012



NOTE: Revenue bonds were removed from the Miscellaneous Cost in the above chart for fiscal years 2006-2007, 2009-2010 and 2011-2012.

The chart below isolates the Rehabilitation Payments included in the Urban Development Cost. This object code has had actual cost since fiscal year 2006-2007; however, the budgeted amounts do not cover the actual expenditures. This is an example of the disparity between the budget and actual expenditures included in the Other Expenses categories.

Rehabilitation Payments-100%



The table below shows additional items included in Other Expenses that are not being properly budgeted based on actual expenditures.

	In Millions					
	Miscellaneous Cost			Street Improvement Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
2006-2007	\$ 93.3	\$ 4.3	\$ (89.0)	\$ 0.2	\$ 2.5	\$ 2.3
2007-2008	72.8	1.2	(71.6)	7.5	0.7	(6.8)
2008-2009	71.3	23.0	(48.3)	0.0	0.7	0.7
2009-2010	56.4	11.8	(44.6)	0.0	0.3	0.3
2010-2011	103.8	N/A	N/A	N/A	N/A	N/A
2011-2012	\$ 126.3	N/A	N/A	N/A	N/A	N/A

NOTE: Revenue bonds were removed from the Miscellaneous Cost in the above chart for fiscal years 2006-2007, 2009-2010 and 2011-2012

In the schedule above each year actual Miscellaneous Cost has been over budgeted and Street Improvements Fund has varied from being under budgeted in fiscal year 2006-2007; over budgeted in fiscal year 2007-2008; and not budgeted in fiscal years 2008-2009 and 2009-2010.

The following chart depicts another example of actual cost exceeding the budgeted amount in the Economic Development object code included in Other Expenses.

