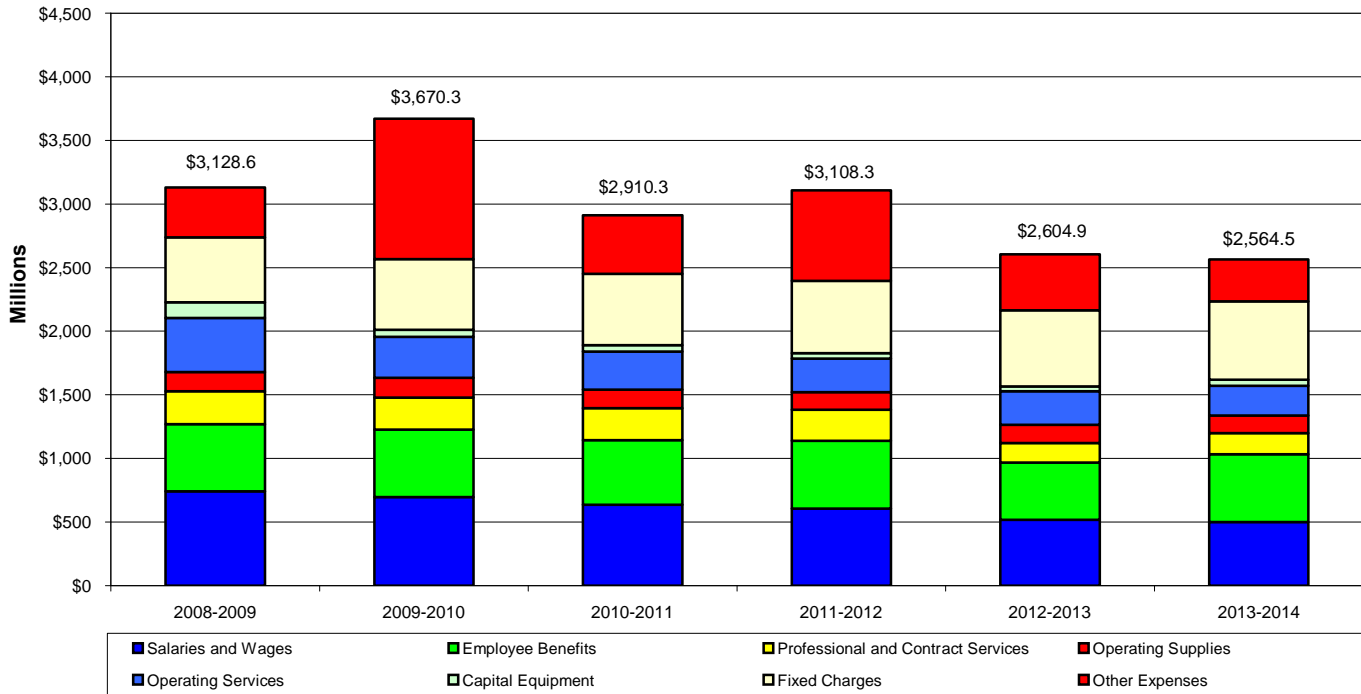


**CITY OF DETROIT
APPROPRIATIONS BY MAJOR OBJECT
FOR FISCAL YEAR 2008-2009 THROUGH FISCAL YEAR 2013-2014**

The following chart and schedule compares the total budgeted appropriations over five fiscal years from 2008-2009 through 2012-2013 and total appropriations in the Mayor’s 2013-2014 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
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	607.1	530.8	245.1	137.2	264.3	44.2	566.6	713.0	3,108.3
2012-2013	517.0	451.7	153.3	141.6	264.3	38.8	597.0	441.2	2,604.9
2013-2014 (A)	500.0	534.5	165.6	138.2	234.1	45.8	615.6	330.7	2,564.5

(A) Mayor’s 2013-2014 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of appropriations in the Mayor’s 2013-2014 Proposed Budget and a comparison to appropriations in the fiscal year 2012-2013 budget including salaries and wages, employee benefits (excluding pensions), pensions, and other appropriations.

SALARIES AND WAGES

Conclusion

The amount budgeted for Salaries and Wages for fiscal year 2013-2014 appears reasonable except for the overtime portion. The assumption that actual overtime will not exceed budgeted overtime is inconsistent with the City's actual overtime costs for the past five years.

Analysis of Salaries And Wages

The Mayor's 2013-2014 Proposed Budget includes \$500.0 million for Salaries and Wages, a decrease of \$17.0 million or 3.3% from the fiscal year's 2012-2013 adopted budget of \$517.0 million. The \$17.0 million decrease in Salaries and Wages is the net effect of a decrease of 509 positions from 10,437 budgeted positions in fiscal year 2012-2013 to 9,928 proposed positions for fiscal year 2013-2014. The following comparative schedule shows the amount of Salaries and Wages included in the Mayor's 2013-2014 Proposed Budget and fiscal year 2012-2013 Budget:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Civilian	\$ 257.2	\$ 311.5	\$ (54.3)
Uniform Police	165.0	147.1	17.9
Uniform Fire	77.8	58.4	19.4
Total Salaries and Wages	\$ 500.0	\$ 517.0	\$ (17.0)

The schedule below compares budgeted Salaries and Wages to actual Salaries and Wages for Civilian and Uniform employees for the fiscal years 2008-2009 through 2011-2012, estimated Salaries and Wages for fiscal year 2012-2013, and the proposed fiscal year 2013-2014 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
2008-2009		\$466.9	\$618.4	\$151.1	\$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		374.5	551.5	177.0	260.8	287.7	27.1	635.3	839.2	203.9
2011-2012		351.6	482.0	130.4	255.4	274.9	19.5	607.0	756.9	149.9
2012-2013	(A)	311.5	477.1	165.6	205.5	207.8	2.3	517.0	684.9	167.9
2013-2014	(B)	292.2	N/A	N/A	207.8	N/A	N/A	500.0	N/A	N/A

(A) The actual amounts shown for fiscal year 2012-2013 are estimates based on actual amounts through March 31, 2013.

(B) Actual Salaries and Wages for fiscal year 2013-2014 are not available and are indicated with a N/A.

Overtime

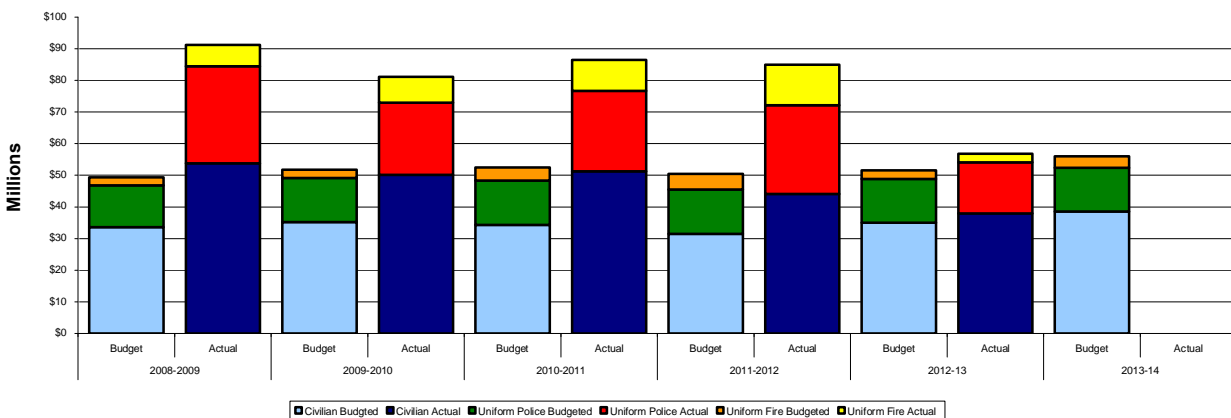
Salaries and Wages include \$56.0 million in citywide overtime, an increase of \$4.4 million or 8.6% from the fiscal year 2012-2013 budgeted amount of \$51.5 million. Historically, actual overtime exceeds budgeted overtime citywide. The current fiscal year, 2012-2013, is no exception. Based on 9-month year-to-date actual figures, it is projected that total overtime will exceed budgeted overtime by \$5.3 million or 10.2% for fiscal year 2012-2013. Uniform Police will exceed budgeted overtime by \$2.3 million or 16.6%, Uniform Fire will exceed budgeted overtime by \$.3 million or 1.2%, and civilian employees will exceed budgeted overtime by \$2.9 million or 8.3% in fiscal year 2012-2013. The schedule below compares budgeted overtime to actual overtime for fiscal years 2008-2009 through 2011-2012, budgeted and estimated overtime for fiscal year 2012-2013, and the Mayor's 2013-2014 Proposed Budget amount.

Fiscal Year	In Millions								
	Civilian			Uniform Police and Fire			Total		
	Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget
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	34.3	51.2	16.9	18.2	35.2	17.0	52.5	86.4	33.9
2011-2012	31.5	44.1	12.6	18.9	40.9	22.0	50.4	85.0	34.6
2012-2013 (A)	34.9	37.9	3.0	16.5	18.8	2.3	51.4	56.7	5.3
2013-2014 (B)	38.5	N/A	N/A	17.5	N/A	N/A	56.0	N/A	N/A

(A) The actual amounts shown for fiscal year 2012-2013 are estimates based on actual amounts through March 31, 2013.

(B) Actual Salaries and Wages for fiscal year 2013-2014 are not available and are indicated with a N/A.

The chart below compares budgeted overtime to actual overtime expenditures for fiscal years 2008-2009 to 2011-2012, budgeted and estimated overtime for fiscal year 2012-2013 and the Mayor's 2013-2014 Proposed Budget amount:



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

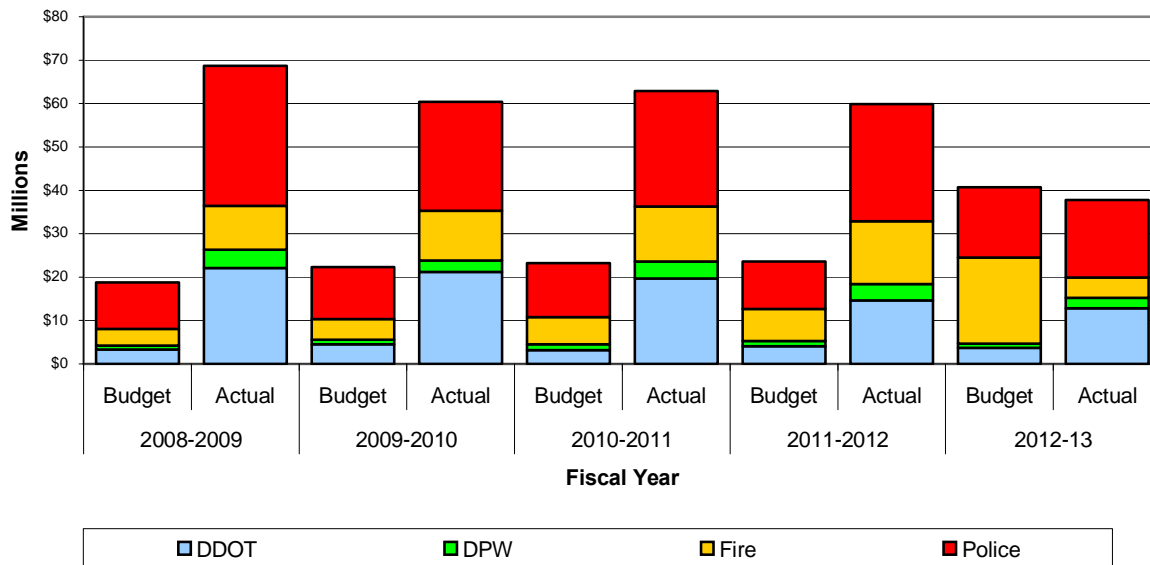
- In fiscal year 2011-2012, actual overtime in four departments, Department of Transportation (DDOT), Department of Public Works (DPW), Fire (uniformed and civilian), and Police (uniformed and civilian) was approximately \$60.6 million. These four departments comprised approximately 71.3% of the total City overtime amount of \$85.0 million for fiscal year 2011-2012.
- Based on our analysis, for fiscal year 2012-2013, it is projected that Police (uniformed and civilian) will exceed budgeted overtime by \$1.6 million or 10.1%, Fire (uniformed and civilian) will not exceed budgeted overtime, DDOT will exceed budgeted overtime by \$9.1 million or 242.7%, and DPW will exceed budgeted overtime by \$1.4 million or 148.8%.

The schedule below compares budgeted to actual overtime for DDOT, DPW, Fire, and Police for fiscal years 2007-2008 to 2011-2012 and budgeted and estimated overtime for fiscal year 2012-2013.

Fiscal Year	In Millions							
	DDOT		DPW		Fire		Police	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2008-2009	\$ 3.3	\$ 22.1	\$ 0.9	\$ 4.2	\$ 3.9	\$ 10.1	\$ 10.8	\$ 32.3
2009-2010	4.5	21.2	1.1	2.6	4.7	11.5	12.0	25.1
2010-2011	3.3	19.7	1.3	4.0	6.3	12.7	12.4	26.6
2011-2012	4.1	14.6	1.2	3.8	7.4	14.5	10.9	27.0
2012-2013 (A)	3.7	12.8	1.0	2.4	19.8	4.7	16.2	17.9

(A) The actual amounts shown for fiscal year 2012-2013 are estimates based on actual amounts through March 31, 2013.

The chart below compares budgeted to actual overtime for four major City departments (DDOT, DPW, Fire, and Police) for fiscal years 2008-2009 to 2011-2012 and budgeted and estimated overtime for fiscal year 2012-2013.



Reduction in Budgeted Positions

There are 509 fewer budgeted positions in the Mayor's 2013-2014 Proposed Budget compared to the 2012-2013 Budget.

Number of Budgeted Positions

The following schedule shows the total number of positions in the Mayor's 2013-2014 Proposed Budget and the budget for fiscal year 2012-2013.

	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Civilian Positions	5,717	6,176	(459)
Uniform Police	2,954	2,969	(15)
Uniform Fire	1,257	1,292	(35)
Total Uniform Positions	3,311	4,261	(50)
Total Number of Budgeted Positions	9,928	10,437	(509)

Net Elimination of Positions

The Mayor's 2013-2014 Proposed Budget reflects a net elimination of 509 positions in various City agencies. The net elimination of budgeted positions includes the following:

Department	Mayor's 2013-2014 Proposed Net Elimination of Personal Services
D.W.S.D Water Supply	(292)
D.W.S.D Sewage Disposal	(108)
Department of Health and Wellness Promotion	(99)
Department of Human Services	(67)
Detroit Workforce Development Department	(56)
Finance Department	(24)
Building & Safety Engineering	(11)
General Services Department	(8)
Public Lighting	(6)
Planning and Development Department	(5)
Department of Elections	(5)
City Council	(3)
Human Rights	(2)
Municipal Parking Department	(2)
Ombudsman	4
Inspector General	5
Human Resources Department	8
Department of Public Works	9
Detroit Police Department	15
Detroit Department of Transportation	18
Recreation Department	28
Fire Department	35
Non-Departments	57

Turnover Savings

The Mayor's 2013-2014 Proposed Budget does not include any recommended Turnover Savings.

EMPLOYEE BENEFITS (Excluding Pensions)

Conclusion

The proposed amount budgeted for employee benefits in the Mayor's 2013-2014 Proposed Budget is reasonable if the City implements employee benefits reforms as stipulated in the Financial Stability Agreement.

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 Budget Department did not provide any of the assumptions used to compute the employee benefits (excluding pensions) for fiscal year 2013-2014 in time for our analysis.

The Mayor's 2013-2014 Proposed Budget includes \$278.8 million for employee benefits (excluding pensions), which is a \$30.5 million increase from the fiscal year 2012-2013 budget. This increase is mainly in hospitalization costs. Shown below is a trend analysis of total budgeted employee benefit (excluding pensions) appropriations for fiscal years 2008-2009 to 2012-2013, and the proposed appropriation for fiscal year 2013-2014.

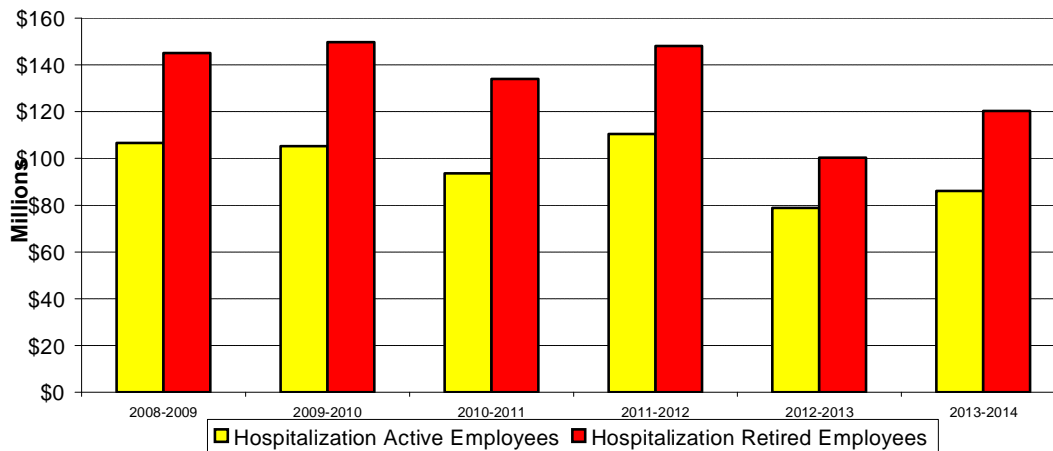
<u>Fiscal Year</u>	<u>Employee Benefits (In Millions)</u>	<u>Increase (Decrease) From Prior Year</u>	<u>Percentage Increase/(Decrease) From Prior Year</u>
2008-2009	\$ 346.8	\$ 18.2	5.5%
2009-2010	347.0	0.2	0.1
2010-2011	311.7	(35.3)	(10.2)
2011-2012	339.0	27.3	8.8
2012-2013	248.3	(90.7)	(26.8)
2013-2014	278.8	30.5	12.3

Hospitalization

For fiscal year 2012-2013, employee contributions changed to an 80/20 premium cost share for all medical plans. There was also an increase in employee co-pays and deductibles. 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. To reduce the City's sky rocketing health care costs, the Mayor is proposing that the City change its medical benefits. Presently, the City is negotiating with its various carriers for fiscal year 2013-2014.

The budgeted expenditures for hospitalization increased 15.2% from fiscal year 2012-2013. A total of \$206.4 million (\$86.1 million for active employees and \$120.3 million for retired employees) is proposed for fiscal year 2013-2014 compared to \$179.1 million (\$78.9 million for active employees and \$100.3 million for retired employees) in the fiscal year 2012-2013 budget.

Shown below is an analysis of budgeted hospitalization appropriations for fiscal years 2008-2009 to 2012-2013, and proposed appropriation for 2013-2014. Since fiscal year 2008-2009, budgeted retiree hospitalization costs have exceeded the budgeted active hospitalization costs. The budget hospitalization appropriation is increased in fiscal year 2013-2014.



Dollars In Millions

Fiscal Year	Hospitalization Active Employees	Hospitalization Retired Employees	Total Hospitalization	Increase (Decrease) From Prior Year	Percentage Increase (Decrease) From Prior Year
2008-2009	\$ 106.6	\$ 145.1	\$ 251.7	\$ 20.3	8.8%
2009-2010	105.3	149.8	255.1	3.4	1.4
2010-2011	93.7	133.9	227.6	(27.5)	(10.8)
2011-2012	110.5	148.0	258.5	30.9	13.6
2012-2013	78.9	100.3	179.2	(79.3)	(30.7)
2013-2014	86.1	120.3	206.4	27.2	15.2

The following chart compares budgeted and actual hospitalization costs per employee for fiscal years 2010-2011, and 2011-2012 and budgeted hospitalization costs per employee fiscal years 2012-2013 and 2013-2014.

Hospitalization Cost for Active Civilian and Uniform Employees

Fiscal Year	Budgeted Cost Per Employee	Actual Cost Per Employee	Variance	Variance %
2010-2011	\$ 7,130.41	\$ 7,635.08	\$ (504.67)	(7.1)%
2011-2012	8,725.04	7,822.94	902.10	10.3
2012-2013	7,604.64	N/A	N/A	N/A
2013-2014	7,557.80	N/A	N/A	N/A

Social Security (FICA)

The Mayor's 2013-2014 Proposed Budget includes a decrease of \$1.6 million for social security taxes, which total \$24.4 million compared to \$26.0 million in the fiscal year 2012-2013 budget. The decrease in social security taxes is due to proposed decrease in budget wages.

Unemployment Compensation and Workers' Compensation

The Mayor's 2013-2014 Proposed Budget includes \$20.6 million for unemployment and workers' compensation (\$5.2 million for unemployment compensation and \$15.4 million for workers' compensation). The fiscal year 2012-2013 budget included \$19.8 million for unemployment and workers' compensation (\$4.8 million for unemployment and \$15.0 million for workers' compensation). There is a \$0.8 million increase in unemployment compensation and workers' compensation in the Mayor's 2013-2014 Proposed Budget from the 2012-2013 budget.

PENSIONS

Conclusion

The \$255.6 million for pension costs included in the Mayor's 2013-2014 Proposed Budget is reasonable, except for the exclusion of pension contributions for certain employees of the Department of Transportation.

The following table is a comparison of the Mayor's 2013-2014 Proposed Budget to the 2012-2013 Budget for appropriations that cover the costs of employees' pensions:

<u>Employee Category</u>	<u>In Millions</u>		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
GRS Employees	\$ 147.1	\$ 112.4	\$ 34.7
PFRS Employees	108.5	90.9	17.6
Total	<u>\$ 255.6</u>	<u>\$ 203.3</u>	<u>\$ 52.3</u>

Note: The significant increases in pension costs are due to increases in actuarial rates.

The following table compares the Mayor's 2013-2014 Proposed Budget for pension costs to the Office of the Auditor General's (OAG) estimates computed by applying rates in the draft actuarial reports dated April 2013 for the General Retirement System (GRS) and March 2013 for the Police and Fire Retirement System (PFRS) to specific salaries and wages accounts in the budget and using the amounts in the debt service requirements schedule for Pension Obligation Certificates (POC):

<u>Employee Category</u>	<u>In Millions</u>		
	Mayor's 2013-2014 Proposed Budget	OAG Computed 2013-2014	Variance
GRS	\$ 86.9	\$ 89.0	\$ (2.1)
PFRS	56.5	56.4	0.1
POC Debt Service	112.2	112.6	(0.4)
Total	<u>\$ 255.6</u>	<u>\$ 258.0</u>	<u>\$ (2.4)</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 cost 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 normal costs 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 costs plus amortization of the unfunded actuarial accrued liability.

The Mayor's 2013-2014 Proposed Budget for pensions is reasonable except it excludes pension contributions for employees of the Department of Transportation (DDOT) who perform preventative maintenance duties. The Budget Department excluded budgeted wages for the employees from its calculation of pension contributions because DDOT is reimbursed by a grant for the costs of wages and benefits for the employees. The failure of the Budget Department to include the wages in the calculation results in budgeted pension contributions for the GRS to be underestimated \$3.3 million for DDOT, which is partially offset \$1.0 million in overestimation of pension contributions for general city employees. Although DDOT will be or maybe reimbursed for pension costs for the employees, for the purpose of estimating pension contributions their wages should be included in pension calculations and the calculated amount should be paid to the GRS. The exclusion and overestimation of pension contributions for general city employees by the Budget Department are the main differences between the estimates for pensions by the OAG and by the Budget Department.

Funding Status

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

Fiscal Year	In Millions		
	GRS Excess/(Under) Funding Amount	PFRS Excess/(Under) Funding Amount	Total Excess/(Under) Funding Amount
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	(481.5)	85.9	(395.6)
2010-2011	(639.9)	(3.8)	(643.7)
2011-2012	(829.7)	(147.2)	(976.9)

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, 2011, and the proceeds of the Pension Obligation Certificates (POCs) in 2006:

Fiscal Year	In Millions		
	GRS	PFRS	Total Contribution
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
2010-2011	43.0	81.6	124.6

Status of Required Contributions

GRS Contributions for 2012-2013

The City owes the General Retirement System \$26.0 million in pension contributions for fiscal year 2012-2013 of which \$7.9 million is due to the estimated rates used in computing pension contributions being less than actuarial rates. The City paid \$22.2 million in pension contributions as of March 31, 2013.

GRS Contributions for 2011-2012

As of January 3, 2013 the City paid \$14.0 million in pension contributions to the GRS for the UAAL including \$3.1 million related to general city. The City still owes the GRS \$4.0 million in contributions pertaining to general city. On January 9, 2013 the City and the Board of Trustees of the GRS agreed to a revised payment plan whereby the City will pay the \$4.0 million remaining balance due in installment payments starting July 31, 2013.

As of March 31, 2013 the City still owed the GRS \$11.9 million in pension contributions excluding the \$4.0 million related to general city UAAL.

PFRS Contributions for 2012-2013

The 2012-2013 pension payment for the PFRS is due July 1, 2013. The amount due will be estimated by the Pension Division in June 2013.

PFRS Contributions for 2011-2012

The City owes the PFRS \$29.8 million in pension contributions for fiscal year 2011-2012. Under an installment payment plan, the City paid the PFRS \$22.1 million in pension contributions for fiscal year 2011-2012 as of March 31, 2013.

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 decline 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 of 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 2010-2011.

General Retirement System

<u>Fiscal Year</u>	<u>Membership</u>			<u>Percentage</u>	
	<u>Active</u>	<u>Retired</u>	<u>Total</u>	<u>Active</u>	<u>Retired</u>
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
2008-2009	8,599	11,407	20,006	43.0	57.0
2009-2010	8,072	11,539	19,611	41.2	58.8
2010-2011	7,250	11,555	18,805	38.6	61.4

Police and Fire Retirement System

<u>Fiscal Year</u>	<u>Membership</u>			<u>Percentage</u>	
	<u>Active</u>	<u>Retired</u>	<u>Total</u>	<u>Active</u>	<u>Retired</u>
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
2008-2009	4,037	8,424	12,461	32.4	67.6
2009-2010	3,992	8,356	12,348	32.3	67.7
2010-2011	3,816	8,379	12,195	31.3	68.7

OTHER EXPENSES

Conclusion

The Office of the Auditor General (OAG) could not conclude on the reasonableness of the Mayor's 2013-2014 Proposed Budget for Other Expenses due to a lack of information, the changing composition of budget items included in Other Expenses and significant variances in actual amounts over the most recent completed four fiscal years (2008-2009 to 2011-2012).

Overview

The composition of budget items in the Other Expenses category changes from year to year due to the inclusion of unique items. Some items are one-time items and some are specific to a one-time project. For example, for fiscal year 2009-2010 \$35.8 million was included in the budget to transfer the operation of Cobo Hall to a regional authority. For fiscal year 2011-2012, \$300.0 million, a one-time appropriation, was included in the budget for improvements to the City's water system. For fiscal year 2012-2013, \$28.4 million was included in the budget for restructuring City operations. In 2009-2010, no amount was budgeted for pollution remediation. However, the City spent \$1.6 million to remediate emission of pollution. The \$1.6 million was charged to Other Expenses. In all subcategories of Other Expenses established by the OAG, actual amounts varied widely over the years, except for litigation and claims costs. Other Expenses budget and actual amounts varied by large amounts. The City has not been precise in estimating Other Expenses over the past recent years. Without a detailed assessment of budget items included in Other Expenses, to conclude on the reasonableness of the items is difficult, if not impossible. Other Expenses are not suitable to an analysis of determining their reasonableness by comparing budget amounts to historical actuals for the reasons mentioned.

The Budget Department did not answer any questions about Other Expenses.

The OAG questions the completion of budget items in the other expense category and the legality of the budget. The budget does not include an amount for prior year's deficit. Section 8-204 of the Charter of the City of Detroit states: "The budget shall set forth estimated revenues from all sources and all appropriations. Any surplus or deficit during the fiscal year preceding that covered by the budget shall be entered as an item in the budget." Michigan Compiled Law 141.436, Section 16. (7) of the Uniform Budgeting and Accounting Act, Act 2 of 1968 states: Except as otherwise permitted by section 102 of the state school aid act of 1979, 1979 PA 94, MCL 388.1702, or by other law, the legislative body shall not adopt a general appropriations act or an amendment to that act which causes estimated total expenditures, including an accrued deficit, to exceed total estimated revenue.

The budget includes \$336,000 for property taxes and \$83,703 for municipal income tax. Government agencies are exempt from paying taxes. The OAG questioned the Budget Department about their inclusion in the budget but received no response.

Analysis of Other Expenses

The \$330.7 million proposed budget for Other Expenses is a \$110.5 million decrease from the \$441.2 million in the current year's budget.

The OAG divided Other Expenses as included in the Mayor's 2013-2014 Proposed Budget into eight subcategories, and compared the budget to the current year budget in the following table:

	Dollars In Millions			
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)	Percentage Increase (Decrease)
Travel and Training Costs	\$ 2.0	\$ 36.7	\$ (34.7)	(94.6)%
Miscellaneous Costs	127.3	152.0	(24.7)	(16.3)
Redevelopment Projects Costs	25.8	22.8	3.0	13.2
Litigation and Claims Costs	2.3	2.3	0.0	0.0
Taxes and Remediation Costs	0.4	0.6	(0.2)	(33.3)
Net Prior Years' Deficit	0.0	78.5	(78.5)	(100.0)
Non-cash Charges	0.0	0.0	0.0	0.0
Other Financial Uses and Transfer Costs	172.9	148.3	24.6	16.6
Total Other Expenses	<u>\$ 330.7</u>	<u>\$ 441.2</u>	<u>\$ (110.5)</u>	<u>(25.0)%</u>

The following is a brief description of the subcategories of Other Expenses that are not self-explanatory:

- Miscellaneous costs are budget amounts that do not fit any other classification.
- Redevelopment Projects Costs are budget amounts for land (site) and residential improvements.
- Prior Years Deficit is the incurrence of un-liquidated obligations in excess of revenue over a period(s).
- Non-cash Charges are expenses that do not involve cash, such as depreciation expense associated with an asset, bad debt expense relative to uncollectible accounts.
- Other Financial Uses and Transfer Costs are budget amounts for contributions for operations (subsidiaries), property taxes belonging to other organizations, and transfers to other funds.

Travel and Training Costs

The proposed 2013-2014 budget for travel and training is \$2.0 million, which is a \$34.7 million decrease compared to the \$36.7 million budget for the current fiscal year. In the OAG's opinion, the 2012-2013 budget (\$36.3 million) for training is an error and includes training costs related to the former Detroit Workforce Development

Department. The OAG did not receive any response about the budget for training from the Budget Department. The OAG compiled budgeted training costs by agency for fiscal years 2013-2014 and 2012-2013. The results of the compilation are training costs of \$1.7 million for fiscal 2013-2014 and \$1.4 million for fiscal 2012-2013, a difference of \$0.4 million. From fiscal years 2008-2009 through 2011-2012, budget and actual amounts for travel were close. Over the same period, budget and actual amounts for training have varied from each other significantly, except for fiscal year 2011-2012. The range of the variances is \$1.7 million to \$78.8 million. All fiscal years actual expense exceeded budget. This historical data is not useful in determining the reasonableness of the budget for training because a high percentage of the training costs relate to the former Detroit Workforce Development Department.

Miscellaneous Costs

The recommended 2013-2014 budget for miscellaneous costs is \$127.3 million, which is a \$24.7 million decrease from the \$152.0 million current year budget. In each fiscal year from 2008-2009 through 2011-2012, actual miscellaneous expense was significantly less than budget. The range that budget amounts exceeded actual amounts is \$47.7 million to \$1.1 billion.

Redevelopment Projects Costs

The proposed 2013-2014 budget includes \$25.8 million for redevelopment projects costs, which is \$3.0 million more than the \$22.8 million current year budget. Actual amounts in redevelopment projects costs exceeded budget amounts substantially from fiscal year 2008-2009 through fiscal year 2011-2012. The range is from \$16.5 million to \$42.3 million.

Litigation and Claims Costs

The recommended 2013-2014 budget for litigation and claims costs is \$2.3 million, which is the same amount included in the current year budget. The Administration includes only damage claims in Other Expense budgets. Budgets for other litigation and claims costs are included in the Claims Fund in the Non-departmental Budget. Actual litigation and claims expenses are charged to agencies that incurred them and are recorded in Other Expenses accounts associated with the agencies. For total litigation and claims costs, from fiscal year 2008-2009 through fiscal year 2011-2012, budget amount exceeded actual amount in fiscal years 2009 (\$5.3 million), 2010 (\$15.6 million), and 2012 (\$10.8 million). Actual amount exceeded budget \$1.1 million in fiscal year 2011. The 2013-2014 budget for litigations and claims costs is \$35.4 million, which is not reasonable based on actual costs noted in fiscal years 2008-2009 through 2011-2012. Actual costs in sequential order were \$57.2 million (2008-2009), \$61.2 million (2009-2010), \$68.8 million (2010-2011), and \$59.6 million (2011-2012).

Taxes and Pollution Remediation Costs

Pollution remediation is not a frequent or yearly recurring activity. It is the treatment of a site to reduce emission of pollution to a level that is acceptable by a governmental standard. The budget does not include an amount for pollution remediation cost.

The proposed 2013-2014 budget for taxes is \$0.4 million, \$0.2 million less than the current year \$0.6 million budget. Budget and actual amounts for taxes and pollution remediation costs varied from \$0.2 million to \$1.5 million over fiscal year 2008-2009 through fiscal year 2011-2012. Actual expenses over this period were \$2.3 million, \$3.2 million, \$1.9 million, and \$0.8 million.

Prior Years Deficit

The 2013-2014 budget does not include an amount for prior years deficit. The current year includes \$78.5 million for prior years deficit. It is required by City Charter and the State of Michigan Uniform Budgeting and Accounting Act to include a deficit in a budget.

Non-cash Charges

The recommended 2013-2014 budget or the current year budget does not include amounts for non-cash charges. The City will recognize depreciation expense on assets and incur bad debt expense on uncollectible accounts in its enterprise funds. The budget should include amounts for these expenses because they are components of an enterprise fund's net profit or loss.

Other Financial Uses and Transfer Costs

The proposed 2013-2014 budget for other financial uses and transfer costs is \$172.9 million, which is a \$24.6 million increase from the \$148.3 million current year budget. Actual amount for other financial uses and transfer costs substantially exceeded budget amount in each fiscal year from 2008-2009 through 2011-2012. The variances were \$228.4 million, \$152.4 million, \$226.7 million, and \$108.9 million in consecutive year order.

The following table compares budget and actual amounts for Other Expenses by subcategories developed by the OAG for fiscal year 2008-2009 through fiscal year 2011-2012:

	In Millions							
	2008-2009		2009-2010		2010-2011		2011-2012	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Travel and Training Costs	\$ 3.33	\$ 55.0	\$ 38.5	79.4	\$ 43.0	\$ 55.4	\$ 40.6	\$ 42.2
Miscellaneous Costs	71.4	23.7	565.8	13.3	104.9	31.6	1,078.5	10.1
Redevelopment Projects Costs	34.2	50.7	32.3	56.0	31.6	71.5	25.3	67.6
Litigation and Claims Costs	62.5	57.2	76.8	61.2	65.7	66.8	70.4	59.6
Taxes and Pollution Remediation Costs	1.8	2.3	1.7	3.2	1.7	1.9	0.5	0.8
Prior Years Deficit	78.0	0.0	280.0	0.0	117.4	0.0	55.2	0.0
Non-cash Charges	12.0	0.3	8.0	36.2	10.0	11.1	0.0	0.6
Other Financial uses and Transfer Costs	156.4	384.8	172.3	324.7	147.5	374.2	162.3	271.2
TOTAL	\$ 391.2	\$ 365.1	\$ 1,102.7	\$ 574.0	\$ 458.6	\$ 612.5	\$ 1,432.8	\$ 452.1

NOTE: Actual amounts for fiscal years 2012-2013 and 2013-2014 are not available.

The following table shows budget and actual Other Expenses for each fiscal year from 2008-2009 through 2011-2012, and for the fiscal year 2012-2013 budget and the Mayor's 2013-2014 Proposed Budget:

Fiscal Year	In Millions					
	Budgeted Other Expenses	Actual Other Expenses	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Other Expenses From Prior Year	
			Amount	Percentage	Amount	Percentage
2008-2009	\$ 391.2	\$ 574.0	\$ 182.8	46.7 %	\$ 208.9	57.2 %
2009-2010	1,102.7	574.0	(528.7)	(47.9)%	0.0	0.0 %
2010-2011	458.6	612.5	153.9	33.6 %	38.5	6.7 %
2011-2012	713.3	452.1	(261.2)	(36.6)%	(160.4)	(21.2)%
2012-2013 (A)	441.2	N/A	N/A	N/A	N/A	N/A
2013-2014 (A)	330.7	N/A	N/A	N/A	N/A	N/A

(A) Actual Amounts are not available.

The table above depicts consistent variances in both budget and actual expenses.