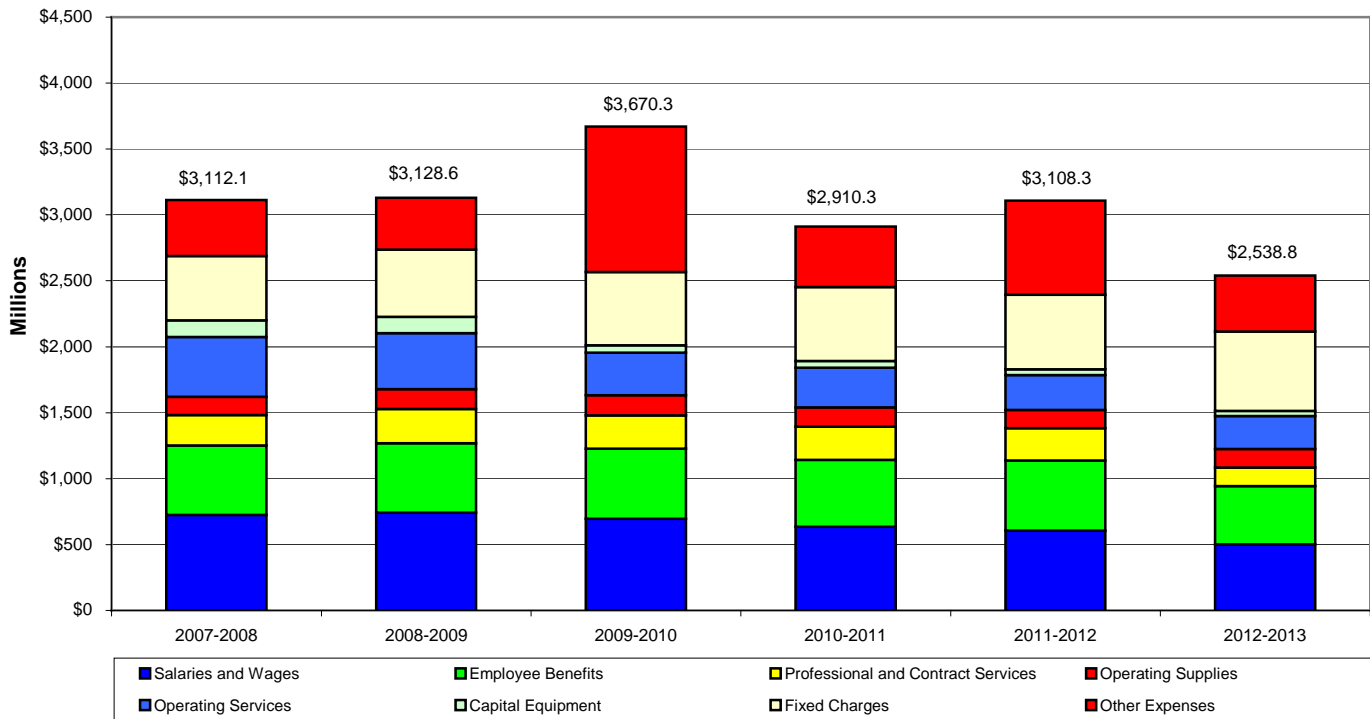


**CITY OF DETROIT
APPROPRIATIONS BY MAJOR OBJECT
FOR FISCAL YEAR 2007-2008 THROUGH FISCAL YEAR 2012-2013**

The following chart and schedule compare the total budgeted appropriations over five fiscal years from 2007-2008 through 2011-2012 and total appropriations in the Mayor’s 2012-2013 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 |
|---------------|--------------------|-------------------|------------------------------------|--------------------|--------------------|-------------------|---------------|----------------|---------|
| 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 | 607.1 | 530.8 | 245.1 | 137.2 | 264.3 | 44.2 | 566.6 | 713.0 | 3,108.3 |
| 2012-2013 (A) | 502.8 | 439.8 | 142.3 | 140.9 | 250.0 | 38.8 | 600.5 | 423.7 | 2,538.8 |

(A) Mayor’s 2012-2013 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of appropriations in the Mayor’s 2012-2013 Proposed Budget and a comparison to appropriations in the fiscal year 2011-2012 budget including salaries and wages and employee benefits (excluding pensions), pensions, and other appropriations.

SALARIES AND WAGES

Conclusion

The proposed amount budgeted for Salaries and Wages for fiscal year 2012-2013 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 2012-2013 Proposed Budget includes \$502.8 million for Salaries and Wages, a decrease of \$104.3 million or 17.2% from the fiscal year's 2011-2012 adopted budget of \$607.1 million. The \$104.3 million decrease in Salaries and Wages is the net effect of a decrease of 2,566 positions. The following comparative schedule shows the amount of Salaries and Wages included in the Mayor's 2012-2013 Proposed Budget and fiscal year 2011-2012 Budget:

| In Millions | | | |
|-----------------------------|--|---------------------|------------------------|
| | Mayor's 2012-2013 Proposed Budget | 2011-2012 Budget | Increase (Decrease) |
| Civilian | \$ 258.3 | \$ 314.8 | \$ (56.5) |
| Uniform Police | 166.1 | 201.4 | (35.3) |
| Uniform Fire | 78.4 | 90.9 | (12.5) |
| Total Salaries and Wages | \$ 502.8 | \$ 607.1 | \$ (104.3) |

The schedule below compares budgeted Salaries and Wages to actual Salaries and Wages for Civilian and Uniform employees for the fiscal years 2007-2008 through 2010-2011, estimated Salaries and Wages for fiscal year 2011-2012, and the proposed fiscal year 2012-2013 Salaries and Wages:

| In Millions | | | | | | | | | |
|----------------|----------|--------|---------------------------|-------------------------|--------|---------------------------|----------|--------|---------------------------|
| Fiscal Year | Civilian | | | Uniform Police and Fire | | | Total | | |
| | Budgeted | Actual | Over (Under) Budget | Budgeted | Actual | Over (Under) Budget | Budgeted | Actual | Over (Under) Budget |
| 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 | 151.1 | 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 | 26.9 | 635.3 | 839.2 | 203.9 |
| 2011-2012 (A) | 351.7 | 337.1 | (14.6) | 255.4 | 266.5 | 11.1 | 607.1 | 603.6 | (3.5) |
| 2012-2013 (B) | 297.5 | N/A | N/A | 205.4 | N/A | N/A | 502.9 | N/A | N/A |

(A) The actual amounts shown for fiscal year 2011-2012 are estimates based on actual amounts through March 31, 2012.

(B) Actual Salaries and Wages for fiscal year 2012-2013 are not available and are indicated with a N/A.

Overtime

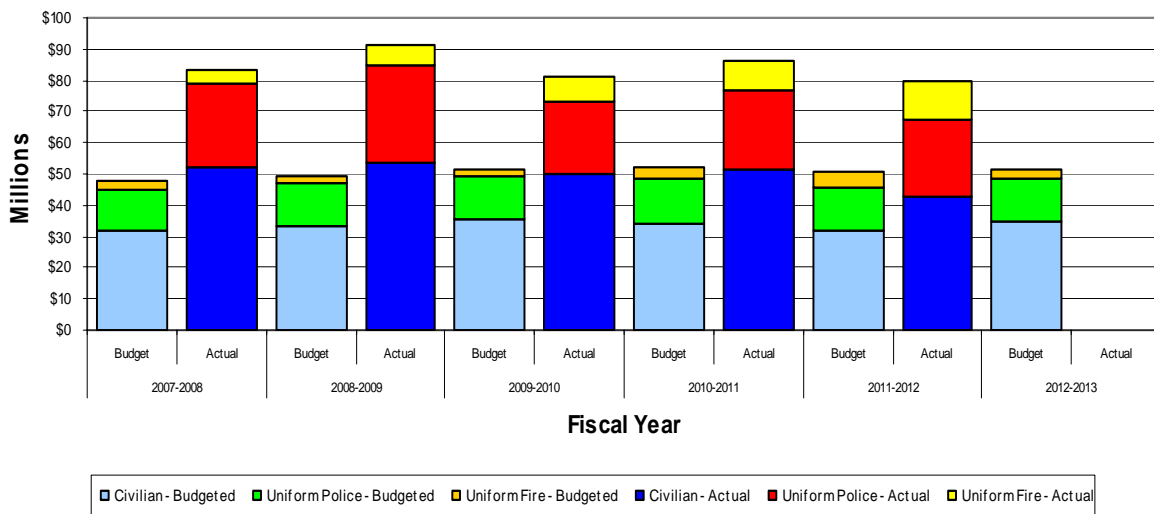
Salaries and Wages include \$51.4 million in citywide overtime, an increase of \$1.0 million or 2.0% from the fiscal year 2011-2012 budgeted amount of \$50.4 million. Historically, actual overtime exceeds budgeted overtime citywide. The current fiscal year, 2011-2012, is no exception. Based on 9-month year-to-date actual figures, it is projected that total overtime will exceed budgeted overtime by \$29.3 million or 58.1% for fiscal year 2011-2012. Uniform Police will exceed budgeted overtime by \$10.5 million or 75.3%, Uniform Fire will exceed budgeted overtime by \$7.5 million or 152.7%, and civilian employees will exceed budgeted overtime by \$11.2 million or 35.6% in fiscal year 2011-2012. The schedule below compares budgeted overtime to actual overtime for fiscal years 2007-2008 through 2010-2011, budgeted and estimated overtime for fiscal year 2011-2012, and the Mayor's 2012-2013 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 |
| 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 | 34.3 | 51.2 | 16.9 | 18.2 | 35.2 | 17.0 | 52.5 | 86.4 | 33.9 |
| 2011-2012 (A) | 31.5 | 42.7 | 11.2 | 18.9 | 37.0 | 18.1 | 50.4 | 79.7 | 29.3 |
| 2012-2013 (B) | 34.9 | N/A | N/A | 16.5 | N/A | N/A | 51.4 | N/A | N/A |

(A) The actual amounts shown for fiscal year 2010-2011 are estimates based on actual amounts through March 31, 2012.

(B) Actual Salaries and Wages for fiscal year 2012-2013 are not available and are indicated with a N/A.

The chart below compares budgeted overtime to actual overtime expenditures for fiscal years 2007-2008 to 2010-2011, budgeted and estimated overtime for fiscal year 2011-2012 and the Mayor's 2012-2013 Proposed Budget amount:



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

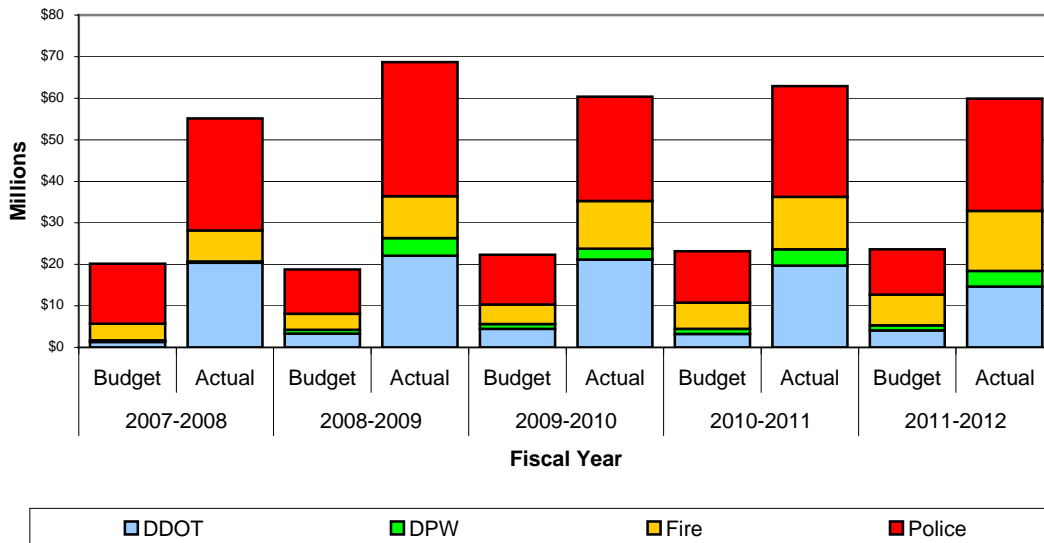
- In fiscal year 2010-2011, actual overtime in four departments, Department of Transportation (DDOT), Department of Public Works (DPW), Fire (uniformed and civilian), and Police (uniformed and civilian) were approximately \$62.9 million. These four departments comprised approximately 72.8% of the total City overtime amount of \$86.4 million for fiscal year 2010-2011.
- Based on our analysis, for fiscal year 2011-2012, it is projected that Police (uniformed and civilian) will exceed budgeted overtime by \$16.1 million or 147.7%, Fire (uniformed and civilian) will exceed budgeted overtime by \$7.1 or 95.9%, DDOT will exceed budgeted overtime by \$10.5 million or 256.1%, and DPW will exceed budgeted overtime by \$2.6 million or 216.7%.

The schedule below compares budgeted to actual overtime for DDOT, DPW, Fire, and Police for fiscal years 2007-2008 to 2010-2011 and budgeted and estimated overtime for fiscal year 2011-2012.

| Fiscal Year | In Millions | | | | | | | |
|---------------|-------------|---------|----------|--------|----------|--------|----------|---------|
| | DDOT | | DPW | | Fire | | Police | |
| | Budgeted | Actual | Budgeted | Actual | Budgeted | Actual | Budgeted | Actual |
| 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 | 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 (A) | 4.1 | 14.6 | 1.2 | 3.8 | 7.4 | 14.5 | 10.9 | 27.0 |

(A) The actual amounts shown for fiscal year 2011-2012 are estimates based on actual amounts through March 31, 2012.

The chart below compares budgeted to actual overtime for four major City departments (DDOT, DPW, Fire, and Police) for fiscal years 2007-2008 to 2010-2011 and budgeted and estimated overtime for fiscal year 2011-2012.



Reduction in Budgeted Positions

There are 2,566 fewer budgeted positions in the Mayor's 2012-2013 Proposed Budget compared to the 2011-2012 Budget.

Number of Budgeted Positions

The following schedule shows the total number of positions in the Mayor's 2012-2013 Proposed Budget and the budget for fiscal year 2011-2012.

| | Mayor's 2012-2013 Proposed Budget | 2011-2012 Budget | Increase (Decrease) |
|---------------------------------------|--|---------------------|------------------------|
| Civilian Positions | 6,637 | 8,662 | (2,025) |
| Uniform Police | 2,539 | 2,901 | (362) |
| Uniform Fire | 922 | 1,101 | (179) |
| Total Uniform Positions | <u>3,461</u> | <u>4,002</u> | <u>(541)</u> |
| Total Number of Budgeted Positions | <u>10,098</u> | <u>12,664</u> | <u>(2,566)</u> |

Net Elimination of Positions

The Mayor's 2012-2013 Proposed Budget reflects a net elimination of 2,566 positions in various City agencies. The net elimination of budgeted positions includes the following:

| Department | Mayor's 2012-2013 Proposed Net Elimination of Personal Services |
|--|--|
| Detroit Police Department | 353 |
| Fire Department | 162 |
| Detroit Department of Transportation | 300 |
| Health and Wellness Promotion | 271 |
| Department of Human Services | 110 |
| Detroit Workforce Development Department | 104 |
| General Services Department | 98 |
| Department of Public Works | 71 |
| Law Department | 62 |
| Human Resources Department | 61 |
| Recreation Department | 54 |
| Mayor's Office | 37 |
| Finance Department | 36 |
| Planning and Development Department | 24 |
| Department of Election's | 23 |
| City Council | 22 |

Turnover Savings

The Mayor's 2012-2013 does not include any Turnover Savings.

EMPLOYEE BENEFITS (Excluding Pensions)

Conclusion

The proposed amount budgeted for employee benefits in the Mayor's 2012-2013 Proposed Budget is reasonable if the City reduces fringe benefit cost as stated in the Financial Stability Agreement and implements the key budget assumptions relating to medical benefits. The proposed employee benefit budget (excluding pensions) includes a decrease of \$99.0 million due primarily to a decrease in hospitalization cost.

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 2012-2013 Proposed Budget includes \$240.0 million for employee benefits (excluding pensions), which is a \$99.0 million decrease from the fiscal year 2011-2012 budget. This decrease is mainly in hospitalization cost and a proposed 80/20 cost share (employer/employee) for all medical plans. Shown below is a trend analysis of total budgeted employee benefit (excluding pensions) appropriations for fiscal years 2007-2008 to 2011-2012, and the proposed appropriation for fiscal year 2012-2013.

| <u>Fiscal Year</u> | <u>Employee Benefits (In Millions)</u> | <u>Percentage Increase/(Decrease) From Prior Year</u> |
|------------------------|--|---|
| 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 | 339.0 | 8.8 |
| 2012-2013 | 240.0 | (29.2) |

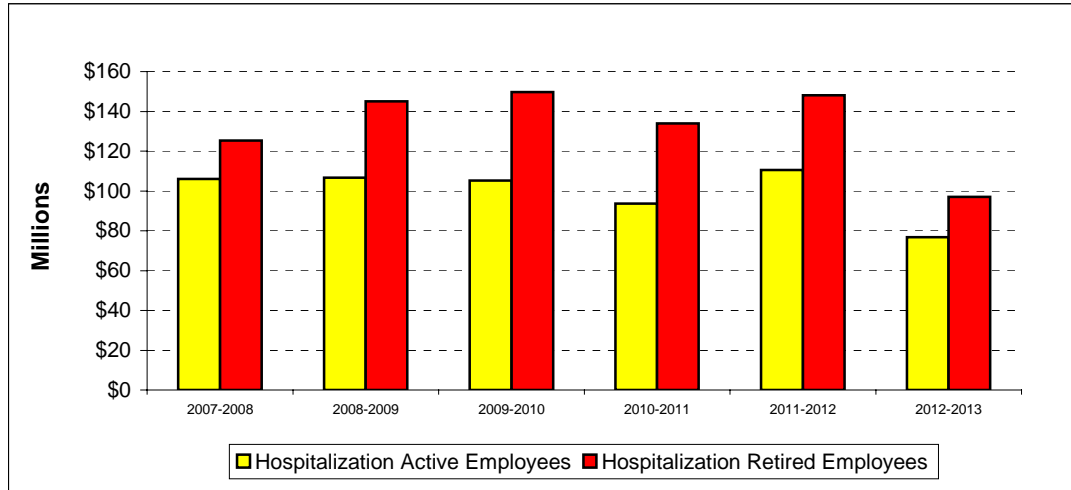
Hospitalization

The projected rates for fiscal year 2012-2013 from the City's health care providers will increase 5% to 9% over 2011-2012 fiscal year rates. Employee contributions will change to an 80/20 premium cost share for all medical plans. There will also be 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 that contains 65-70% of the active and retired employees. To reduce the City's sky rocketing health care costs, the Mayor is proposing that the City change its medical benefits.

The budgeted expenditures for hospitalization decreased 32.9% from fiscal year 2011-2012. A total of \$174.0 million (\$77.0 million for active employees and \$97.0 million for retired employees) is budgeted for fiscal year 2012-2013 compared to \$259.0 million

(\$111.0 million for active employees and \$148.0 million for retired employees) in the fiscal year 2011-2012 budget.

Shown below is an analysis of budgeted hospitalization appropriations for fiscal years 2007-2008 to 2011-2012, and proposed appropriation for 2012-13. The City's budgeted hospitalization appropriation has increased steadily from the fiscal year 2007-2008 through the fiscal year 2011-2012, due to rising health care costs. The budget hospitalization appropriation is reduced in FY 2012-2013 due to an 80/20 cost share and proposed changes to employee medical benefits.



| Dollars In Millions | | | | | |
|---------------------|----------------------------------|-----------------------------------|-----------------------|-------------------------------------|--|
| Fiscal Year | Hospitalization Active Employees | Hospitalization Retired Employees | Total Hospitalization | Increase (Decrease) From Prior Year | Percentage Increase (Decrease) From Prior Year |
| 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 | 1.4 |
| 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 | 77.0 | 97.0 | 174.0 | (84.5) | (32.7) |

The following chart compares budgeted hospitalization costs per employee for fiscal years 2009-2010, 2010-2011, 2011-2012 and fiscal year 2012-2013 to the actual cost per employee.

Hospitalization Cost for Active Civilian and Uniform Employees

| Fiscal Year | Budgeted Cost Per Employee | Actual Cost Per Employee | Variance | Variance % |
|-------------|----------------------------|--------------------------|------------|------------|
| 2009-2010 | \$7,239.59 | \$7,971.53 | \$(731.94) | (10)% |
| 2010-2011 | \$7,129.72 | \$8,926.55 | (1796.55) | (25) |
| 2011-2012 | \$8,725.04 | N/A | N/A | N/A |
| 2012-2013 | \$7,604.64 | N/A | N/A | N/A |

Social Security (FICA)

The Mayor's 2012-2013 Proposed Budget includes a decrease of \$5.0 million for social security taxes, which total \$25.0 million compared to \$30.0 million in the fiscal year 2011-2012 budget. The decrease in social security taxes is due to proposed decrease in budget wages.

Unemployment Compensation and Workers' Compensation

The Mayor's 2012-2013 Proposed Budget includes \$18.6 million for unemployment and workers' compensation (\$4.4 million for unemployment compensation and \$14.2 million for workers' compensation). The fiscal year 2011-2012 budget included \$20.1 million for unemployment and workers' compensation (\$5.8 million for unemployment and \$14.3 million for workers' compensation). There is a \$1.5 million reduction in unemployment compensation and workers' compensation in the 2012-13 Mayor's Proposed Budget from the 2011-12 budget.

PENSIONS

Conclusion

Based on our analysis, the projection for pension costs of \$199.8 million for fiscal year 2012-2013, included in the Mayor's 2012-2013 Proposed Budget is questionable as they are not based on actuarially determined contribution rates.

Analysis of Pensions

The Mayor's 2012-2013 Proposed Budget for Pension Costs of \$199.8 million is \$8.1 million greater than the amount budgeted for fiscal year 2011-2012. The following table is a comparison of the Mayor's 2012-2013 Proposed Budget to the 2011-2012 Budget for appropriations that cover the costs of employees' pensions:

| <u>Employee Category</u> | <u>In Millions</u> | | |
|---|--|-----------------------------|--------------------------------|
| | <u>Mayor's 2012-2013 Proposed Budget</u> | <u>2011-2012 Budget</u> | <u>Increase (Decrease)</u> |
| General Retirement System (GRS) Employees | \$ 108.9 | \$ 96.4 | \$ 12.5 |
| Police and Fire Retirement System (PFRS) Employees | 90.9 | 95.3 | (4.4) |
| Total | <u>\$ 199.8</u> | <u>\$ 191.7</u> | <u>\$ 8.1</u> |

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 a stated time period. Ideally, the City's actuarial rate when applied as a level percent-of-payroll generates sufficient contributions that provide for normal pension costs plus amortization of the unfunded actuarial accrued liability.

Funding Status

The following table shows that the GRS had an under-funded status eight of the previous nine years, and the PFRS four of the previous nine years:

| In Millions | | | |
|-------------|--|---|--|
| Fiscal Year | 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) |

Note: Fiscal Year 2010-2011 information is not yet available from the Actuaries.

Trends in Contributions

The following table shows the City's annual contributions to the GRS and to the PFRS for the past ten fiscal years through June 30, 2011; and includes the proceeds of the Pension Obligation Certificates (POCs) in 2006:

| In Millions | | | |
|-------------|---------|--------|------------------------|
| Fiscal Year | GRS | PFRS | Total Contributions |
| 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 |
| POCs | 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

As of March 31, 2012, for fiscal year 2011-2012, the City has paid \$22.3 million of the \$26.6 million required contributions to the GRS. Of the \$4.3 million balance due, 60% or \$2.6 million is the General Fund's obligation. The City also has a balance due from

the previous fiscal year 2010-2011 of \$12.1 million, of which \$2.3 is the General Fund obligation.

Employer required normal contributions to PFRS for fiscal year 2010-2011 total \$81.6 million including interest. This payment is due at the end of fiscal year 2011-2012. Also, based on year to date salaries as of March 31, 2012, employer required contributions for fiscal year 2011-2012, are \$37.4 million, computed using the latest approved actuarial rate.

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 employer contributions. This is due to less funding to the pension funds to maintain pension benefits because there are less employees participating in annuity savings plans of their retirement systems. 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 voluntarily contributing to the annuity saving plan under the General Retirement System at rates 0%, 3%, 5%, or 7% of their pay. Proposed budget layoffs and reductions in the City’s workforce through attrition, early retirement incentives, and other measures will further erode the balance between members contributing to the systems and members receiving benefits from the systems.

The following tables show the trends in membership composition of both retirement systems based on fiscal year 2009-2010 data:

| <u>General Retirement System</u> | | | | | |
|----------------------------------|-------------------|----------------|--------------|-------------------|----------------|
| <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 |
| 2008-2009 | 8,599 | 11,407 | 20,006 | 43.0 | 57.0 |
| 2009-2010 | 8,072 | 11,539 | 19,611 | 41.2 | 58.8 |

Police and Fire Retirement System

| Fiscal Year | Membership | | | Percentage | |
|-------------|------------|---------|--------|------------|---------|
| | Active | Retired | Total | Active | Retired |
| 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 |

Analysis of Pensions (General Funds Only)

The Mayor's 2012-2013 Proposed Budget includes pension contribution payments that are not based on actuarially determined rates:

- Contributions to the General Retirement System were based on the 72nd Annual Actuarial Valuation Revised Report rate as of June 30, 2010, reduced by a factor of twenty percent to reflect market conditions and the anticipated rate in the June 30, 2011 study not yet received from the actuaries.
- Contributions to the Police and Fire Retirement Systems were based on the Preliminary 69th Annual Actuarial Valuation Report rate as of June 30, 2010, reduced by a factor of one-half percent to reflect current market conditions and the anticipated rate in the June 30, 2011 study not yet received from the actuaries.

Based on our analysis using actuarially determined rates for both GRS and PRFS, we estimate a \$1.8 million shortfall in contributions for 2012-2013 General Fund employees. The following table compares the Mayor's 2012-2013 Proposed Budget for pension costs to OAG's estimates which are based on the above actuarial reports without the proposed reductions in rates:

| <u>Employee Category</u> <u>(General Fund Only)</u> | In Millions | | |
|--|--|------------------------------|---------------------------|
| | Mayor's 2012-2013 Proposed Budget | OAG Computed 2012-2013 | Estimated Over/(Under) |
| GRS | \$ 49.7 | \$ 51.0 | \$ (1.3) |
| PFRS | 90.9 | 91.4 | (.5) |
| Total | <u>\$ 140.6</u> | <u>\$ 142.4</u> | <u>\$ (1.8)</u> |

A further analysis by OAG based on projected employer pension contributions rates for fiscal year 2012-2013 (simplified actuarially determined), resulted in a potential shortfall of \$9.1 million, \$5.3 million in GRS and potentially \$3.8 million in PFRS. The following table shows the rates used in both our analysis, versus the contribution rates used in the Mayor's 2012-2013 Proposed Budget:

| Employee Category (General Fund Only) | Mayor's 2012-2013 Proposed Budget | Rates Based Approved Actuarial Valuation Studies | Rates Based on PFRS Preliminary Actuarial Valuation Study | Rates Based on Projected Simplified Actuarial Study ^(D) |
|--|--|---|--|--|
| GRS | 12.21% | 15.26% ^(A) | 15.26% ^(A) | 18.26% |
| PFRS | 22.50% | 23.02% ^(B) | 23.14% ^(C) | 24.79% |

- (A) GRS Employer Contribution Rates are from the 72nd Annual Actuarial Valuation Report, June 30, 2010 for fiscal year ending 2011-2012. The valuation study as of June 30, 2011 has not been received from the Actuaries.
- (B) PRFS Employer Contribution Rates are from the 69th Annual Actuarial Valuation Report – 2nd Revision (Reflects New Contracts), June 30, 2010 for fiscal year ending 2012.
- (C) PRFS Employer Contribution Rates are from the Preliminary 70th Annual Actuarial Valuation Report, June 30, 2011 for fiscal year ending 2013. The final valuation study as of June 30, 2011 has not been received from the Actuaries.
- (D) Project Employer Contribution Rates from a simplified actuarial projection, March 30, 2012.

Estimate of Pensions (General Fund Only) for Fiscal Year 2011-2012

The Mayor's 2012-2013 Proposed Budget includes Pension cost for the General Fund in the current fiscal year 2011-2012 of \$147.2 million. Based on our analysis and applying the approved actuarially determined employer contribution rates to OAG's projection of salaries, we estimate under funding of the normal required pension contributions of \$2.1 million to GRS and \$2.6 million to PFRS.

OTHER EXPENSES

Conclusion

Due to inconsistency of some of the types of expense items and wide fluctuations of dollar amounts of items included in Other Expenses budgets over the years, determining the reasonableness of other expense is difficult. As an example of inconsistency of items included in other expenses, the current fiscal year (2011-2012) budget includes \$300.0 million in appropriation for improvements to the water system; however, no amount is included in the 2012-2013 proposed budget. Another example is \$38.0 million is contained in the 2012-2013 proposed budget for restructuring City agencies. This is the first time an amount for restructuring City agencies has been included in a budget. Over the past four completed fiscal years (2007-2008 through 2010-2011), the City as a whole has not been accurate at budgeting for Other Expenses. During this period, actual amounts for Other Expenses were either significantly under or over budget amounts. Using historical actual data to determine the reasonableness of the Mayor's 2012-2013 Budget for Other Expenses is not an effective approach due to inconsistency of actual amounts.

Prior Years Deficit amount is included in the budget for Other Expenses. Analysis of Prior Years Deficit is not performed under Other Expenses. The analysis is conducted under the General Fund Estimated Surplus/(Deficit) section.

Comparing the Mayor's 2012-2013 Proposed Budget for Other Expenses to the 2011-2012 budget and considering the Budget Department's rationale for the difference between the two budgets, the \$423.7 million budget for Other Expenses appears reasonable.

Analysis of Other Expenses

The \$423.7 million proposed budget for Other Expenses is a \$289.6 million decrease from the \$713.3 million current year budget. The decrease mainly results from a \$38.9 reduction in training and a \$267.2 million decline in miscellaneous costs partially offset by a \$19.8 net increase in prior years deficit.

The Office of the Auditor General divided Other Expenses as included in the Mayor's 2012-2013 Proposed Budget into eight subcategories, and compared the budget to the current year budget in the following table:

| In Millions | | | | | |
|--|--|---------------------|----------------------------------|--------------------------------------|---|
| | Mayor's 2012-2013 Proposed Budget | 2011-2012 Budget | Dollar Increase (Decrease) | Percentage Increase (Decrease) | |
| Travel and Training Costs | \$ 1.7 | \$ 40.6 | \$ (38.9) | (95.8) | % |
| Miscellaneous Costs | 159.9 | 427.1 | (267.2) | (62.6) | |
| Redevelopment Projects Costs | 23.0 | 25.3 | (2.3) | (9.1) | |
| Litigation and Claims Costs | 2.3 | 2.3 | 0.0 | 0.0 | |
| Taxes and Remediation Costs | 0.6 | 0.5 | 0.1 | 20.0 | |
| Net Prior Years' Deficit | 75.0 | 55.2 | 19.8 | 35.9 | |
| Non-cash Charges | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other Financial Uses and Transfer Costs | 161.2 | 162.3 | (1.1) | (0.7) | |
| Total Other Expenses | \$ <u>423.7</u> | \$ <u>713.3</u> | \$ <u>(289.6)</u> | <u>(40.6)</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 (subsidies), property taxes belonging to other organizations, and transfers to other funds.

Travel and Training Costs

The proposed 2012-2013 budget for travel and training is \$1.7 million, which is a \$38.9 million decrease compared to the \$40.6 million budget for the current fiscal year (2011-2012). The Administration attributes \$27.1 million of the reduction to a decrease in training cost due to the elimination of the Detroit Workforce Development and Human Services Departments and \$0.5 million to a decrease in training cost for the Water and Sewerage Department. The Administration did not explain the remaining amount of the decrease. From fiscal years 2007-2008 through 2010-2011, budget and actual amounts for travel were close. Over the same period, budget and actual amounts for training have

varied from each other significantly. The range of the variances was \$6.4 million to \$41.1 million. Actual training expense for fiscal year 2007-2008 was \$6.4 million less than budget. All other fiscal years actual expense exceeded budget.

Miscellaneous Costs

The recommended 2012-2013 budget for miscellaneous costs is \$159.9, which is a \$267.2 million decrease from the \$427.1 million current year budget. The decrease results mainly from \$300.0 million in appropriations in relation to proceeds from bond sales by the Water Agency being included in the 2011-2012 budget. The reduction is partially offset by \$39.0 million for restructuring of City agencies and costs related to the Financial Advisory Board. In each fiscal year from 2007-2008 through 2010-2011, actual miscellaneous expense was significantly less than budget. The range that budget amounts exceeded actual amounts was \$47.7 million to \$552.5 million.

Redevelopment Projects Costs

The proposed 2012-2013 budget includes \$23.0 million for redevelopment projects costs, which is \$2.3 million less than the \$25.3 million current year budget. Actual amounts in redevelopment projects costs exceeded budget amounts substantially from fiscal year 2007-2008 through fiscal year 2010-2011. The range was from \$16.5 million to \$39.9 million.

Litigation and Claims Costs

The recommended 2012-2013 budget for litigation and claims costs is \$2.3 million, which is the same amount for 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. From fiscal year 2007-2008 through fiscal year 2010-2011, when including the budget for the Claims Fund, budgets and actual amounts were proximate, except for fiscal year 2009-2010. The actual amount was less than budget by \$15.6 million in fiscal year 2009-2010.

Taxes and Pollution Remediation Costs

Pollution remediation is not a frequent or yearly recurring activity and 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 2012-2013 budget for taxes is \$0.6 million, \$0.1 million more than the current year \$0.5 million budget. Budget and actual amounts for taxes and pollution remediation costs varied from \$0.2 million to \$1.5 million over fiscal year 2007-2008 through fiscal year 2010-2011. Actual expenses over this period were \$1.9 million, \$2.3 million, \$3.2 million, and \$1.9 million.

Non-cash Charges

The recommended 2012-2013 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 2012-2013 budget for other financial uses and transfer costs is \$161.2 million, which is a \$1.1 million decrease from the \$162.3 million current year budget. Actual amount for other financial uses and transfer costs substantially exceeded budget amount in each fiscal year from 2007-2008 through 2010-2011. The variances were \$30.8 million, \$228.4 million, \$152.4 million, and \$226.7 million in consecutive year order.

The following table compares budget and actual amounts for Other Expenses by subcategories developed by the Office of the Auditor General for fiscal year 2007-2008 through fiscal year 2010-2011:

| | In Millions | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|
| | 2007-2008 | | 2008-2009 | | 2009-2010 | | 2010-2011 | |
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| Travel and Training Costs | \$ 37.7 | \$ 31.4 | \$ 33.3 | \$ 55.0 | \$ 38.5 | \$ 79.4 | \$ 43.0 | \$ 55.4 |
| Miscellaneous Costs | 73.1 | 1.7 | 71.4 | 23.7 | 565.8 | 13.3 | 104.9 | 31.6 |
| Redevelopment Projects Costs | 41.0 | 68.5 | 34.2 | 50.7 | 32.3 | 56.0 | 31.6 | 71.5 |
| Litigation and Claims Costs | 4.0 | 68.5 | 4.1 | 57.2 | 4.1 | 61.2 | 2.5 | 66.8 |
| Taxes and Pollution Remediation Costs | 3.2 | 1.9 | 1.8 | 2.3 | 1.7 | 3.2 | 1.7 | 1.9 |
| Prior Years Deficit | 90.7 | 0.0 | 78.0 | 0.0 | 280.0 | 0.0 | 117.4 | 0.0 |
| Non-cash Charges | 12.0 | 0.1 | 12.0 | 0.3 | 8.0 | 36.2 | 10.0 | 11.1 |
| Other Financial uses and Transfer Costs | 162.2 | 193.0 | 156.4 | 384.8 | 172.3 | 324.7 | 147.5 | 374.2 |
| TOTAL | \$ 423.9 | \$ 365.1 | \$ 391.2 | \$ 574.0 | \$ 1,102.7 | \$ 574.0 | \$ 458.6 | \$ 612.5 |

NOTE: Actual amounts for fiscal years 2011-2012 and 2012-2013 are not available.

The following table shows budget and actual Other Expenses for each fiscal year from 2007-2008 through 2010-2011, and for the fiscal year 2011-2012 budget and the Mayor's 2012-2013 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 | | |
| 2007-2008 | \$ 423.9 | \$ 365.1 | \$ (58.8) | (13.9)% | \$ (0.1) | (0.0)% |
| 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 (A) | 713.3 | N/A | N/A | N/A | N/A | N/A |
| 2012-2013 (A) | 423.7 | 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.