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AUDITOR GENERAL

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To the Honorable City Council:

The information contained within this report represents the Office of the Auditor General's analysis of the Mayor's 2010-2011 Proposed Budget. Our analysis focuses on the reasonableness of whether or not projected expenditures for fiscal year 2010-2011 can be financed by the resources that are concurrently available. Our purpose is to provide this Honorable Body with information it needs to perform its own analysis and due diligence of the Mayor's 2010-2011 Proposed Budget.

These are challenging times for the City of Detroit and its operations. The resources to finance the City's services have been steadily declining over several years, which are clearly reflected in an accumulated deficit of \$330 million as of June 30, 2009. The projected deficit as of June 30, 2010 includes the issuance of an additional \$250.0 million in bonds to bring the projected accumulated deficit down to \$85.5 million. Unfortunately, the issuance of bonds as revenue is only a temporary fix that merely defers the debt into the future, and adds to the service on the debt.

The City is in the midst of a structural deficit. A structural deficit occurs when temporary differences in available resources evolve into permanent differences, and projected expenditures can no longer be financed by the resources currently available. In other words, ongoing expenditures exceed ongoing revenues. Evidence that the deficit is more than temporary is persistent budget deficits over the past six years, numerous one-time solutions in order to balance the budget, and budget underfunding in various funds including overtime pay.

It is common for any Administration to present financial information in a positive light, to hope and expect the best during the most difficult of times. However, as the Auditor General, I remain professionally skeptical of the optimistic projections included in the 2010-2011 proposed budget. The Office of the Auditor General projects that the accumulated deficit as of June 30, 2010 will be \$133.5 million or more.

Many factors have contributed to the City's accumulated deficit. It is clear that the downturn of the auto industry and the slumping economy as a whole have had a ripple effect in the decline of the City's major revenue sources including property taxes, income tax, and state revenue sharing. However, I submit to you that in order to tackle this structural deficit we must become more fiscally responsible. Being fiscally responsible includes managing the budget throughout the year and not waiting until the end of the year to alter the budget.



I am certain that the preparation of the Proposed Budget for Fiscal Year 2010-2011 was a challenging task. We are witnessing one of the most fiscally challenging periods in Detroit's history. A time when Detroit is in need of leadership to make the tough decisions to get the City back to a fiscally stable position. We must all share in the responsibility of getting City operations back on track, but I submit to you that the Mayor's proposed budget for Fiscal Year 2010-2011 is overly optimistic. It does not go far enough to restore the City to a fiscally stable position. It includes too many one time revenues, overly optimistic revenue projections, and under funded budgets.

Before appropriate remedies to the City's structural deficit can be developed, we must first have a clear vision of our City's future, a vision that must include the community at large. Public input and community participation is critical in order to draw upon different viewpoints and ideas, and to ensure that all stakeholders are represented and supportive of the eventual course of action. We must restore adequate funding of core services and programs, but we must be honest with the community about what they can expect given the available resources. A clear understanding of the tradeoffs is essential. Solutions should be broad and structural in nature. Short-term fixes will not resolve the structural imbalance. A significant increase in ongoing revenues, or significant decrease in ongoing expenditures, or some combination thereof will remedy the structural imbalance. However, expenditure reductions should be targeted and focused, not haphazard or arbitrary. Across-the-board reductions may be appropriate for temporary deficits, but it lacks vision, and strategic planning that is necessary for resolving a structural deficit. There are currently too many needs competing for limited resources, and the community will have to determine which services are deemed critical and desirable, and determine the means by which those services will be provided.

In closing I would like to thank my staff for their due diligence, hard work and professionalism in preparing this analysis. Also, I would like to thank the Fiscal Analysis Division for their assistance, and the Administration for their cooperation with the gathering of information needed to perform this analysis.

Respectfully yours,

Loren E. Monroe, CPA
Auditor General