



City of Detroit

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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 2011-2012 Proposed Budget. Our purpose is to provide this Honorable Body with the information to perform its own due diligence of the Proposed Budget. Our analysis focuses on whether projected expenditures can be financed by the resources that are reasonably expected to be realized in the coming year, which is the definition of a balanced budget. The Mayor stated in his budget address that we must find savings of \$200 million in this fiscal year to present a balanced budget. We agree with the Mayor, we must find savings in this fiscal year to have a balanced budget.

The Mayor's Proposed Budget projects a \$5 million deficit at the end of fiscal year 2011-2012, but also projects a \$203 million deficit deferral to be eliminated over a five-year period. Based on our analysis, the accumulated deficit will be approximately \$223 million by the end of the current fiscal year. We project the accumulated deficit will increase, without significant revision, an additional \$101 million to approximately \$324 million by the end of fiscal year 2011-2012.

The Proposed Budget includes revenue from the Utility Users Tax in the amount of \$49 million and \$244 million in Municipal Income Tax, which are contingent upon swift action by our state legislators in the proposed budget year. Included in the Proposed Budget is \$205 million in Property Tax revenue. We have determined that this is overly optimistic. It also includes several nonrecurring revenues with insufficient support to consider them as probable in the proposed year.

On the appropriation side, we have projected, based on current trends, actual overtime is likely to exceed budgeted overtime by nearly \$30 million in the current fiscal year and is likely to exceed the budget by a similar amount in fiscal 2011-2012. While we determined that the Mayor's Proposed Budget for employee benefits of \$349 million excluding pensions is reasonable, hospitalization cost for active civilian and uniform employees increased by more than \$1,600 per employee. The proposed budget for pensions of \$189 million is contingent on deferring accrued liability payments totaling \$65.0 million by entering into payment agreements with the Board of Trustees of the General Retirement System and the Police and Fire Retirement System. Our calculation of the total pension obligation in the proposed year, using current actuarial rates, is \$106 million more than the amount included in the Proposed Budget.

The Mayor stated that the state made it clear that any city that fails to address its financial issues on its own will have an emergency financial manager appointed. Has this city addressed its financial issues on its own? Does the current proposed budget, which includes a five-year plan to eliminate our deficit, suffice to proclaim that we have addressed our financial issues on our own? In our opinion, it does not. Despite the Mayor being encouraged that his five-year plan has the support of the Snyder Administration, we are not privy to any written or verbal assurances from the state that supports the Mayor's five-year plan to eliminate the City's deficit.

The Auditor General and Fiscal Analyst were invited by the Administration to view the Mayor's five-year plan but were not provided with copies of the plan. We were encouraged to discover that the Mayor's five-year plan eliminates the deficit with several sound initiatives that are likely to produce significant savings over the next five years. We were disappointed that the Administration was not willing to share the plan publicly and allow us to analyze the plan in detail. It is unreasonable, in our view, to present a one-year budget supported by a five-year plan but not allow this Honorable Body to perform a sufficient review of the details and consider the feasibility of the plan. We encourage the Administration to be transparent and forthcoming with all information required for this Honorable Body to make informed decisions regarding the proposed budget and deficit elimination plan.

In closing, I must emphasize that this Honorable Body cannot afford to wait on the Administration to find additional savings in the current and proposed years. Opportunities are available for savings in the present that this Honorable Body should consider. Our analysis points out that there are more than 250 vacant positions in the proposed budget for public safety and general services that could represent an additional savings of approximately \$27 million in salaries and benefits in the general fund. A reduction in subsidies and other savings should also be considered.

We agree with the Administration that the City's structural deficit cannot be resolved in one fiscal year. It will require a sensible flexible plan as well as the willingness and determination of all interested parties to significantly improve our capital structure and ongoing operations.

I would like to thank my staff for its pursuit of excellence in the preparation of this analysis, the Fiscal Analysis Division for the sharing of timely and pertinent information, the Budget Department, as well as the Chief Operating Officer and Group Executive of the Finance Department for their cooperation with the gathering of information needed to perform this analysis.

Respectfully submitted,



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Auditor General