



CITY OF PONTIAC
EMERGENCY FINANCIAL MANAGER
MICHAEL L. STAMPFLER

47450 Woodward Avenue
Pontiac, Michigan 48342
Telephone: (248) 758-3136
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September 1, 2010

Robert J. Kleine, State Treasurer and Chair
Emergency Financial Assistance Loan Board
Michigan Department of Treasury
430 W. Allegan St.
Lansing, MI 48522

Re: City of Pontiac / Amended Financial Plan

Dear Treasurer Kleine:

Attached is the Amended Financial Plan for the City of Pontiac to comport with the provisions of Section 20 of Public Act 72 of 1990, including:

1. Amended Financial Plan Rationale;
2. Enumeration of Amended Financial Plan Action Steps;
3. Report to the EFM Regarding the Current Status of the State Approved Deficit Elimination Plan (DEP) Status Report dated August 8, 2010;
4. Updated Deficit Elimination Plan (DEP) by Plante & Moran dated August 30, 2010; and
5. EFM Plan to Align 2010-2011 Projected Deficit to 2007 DEP dated September 1, 2010.

Sincerely,

Michael L. Stampfler
Emergency Financial Manager

Attachment

cc: Valdemar Washington, Deputy State Treasurer for Local Government Services
Frederick Headen, Director, Bureau of Local Government Services

City of Pontiac
Amended Financial Plan
September 1, 2010

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Amended Financial Plan Rationale

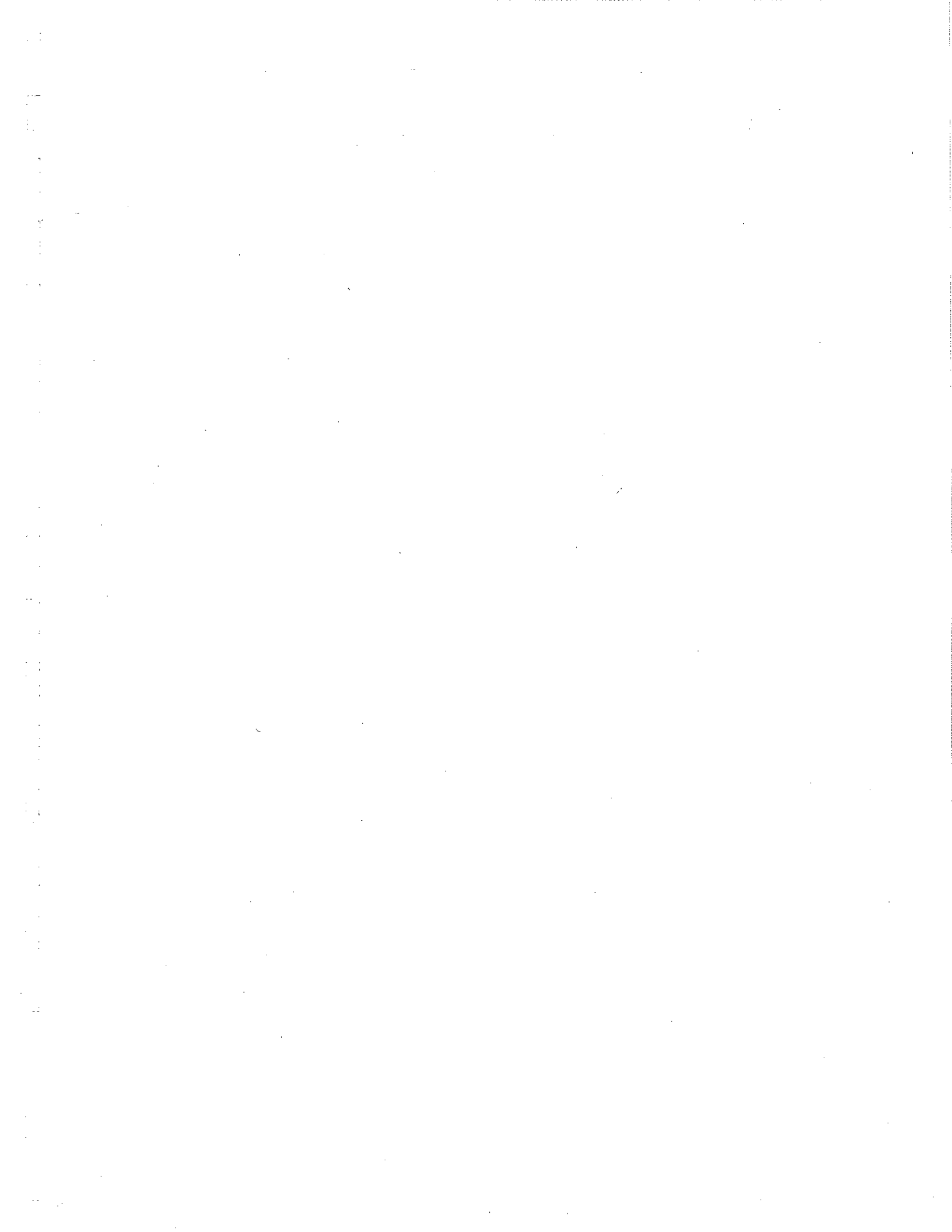
Amended Financial Plan Rationale

(Revision to FY 2010-11 Submission by EFM Leeb Plan of 6/25/10)

Necessary Because:

1. GERS/VEBA contributions of \$3,800,000 included in 2010-11 budget issued on 6/30/10.
 - a. May require up to 9 months into the fiscal year to accomplish (request was made on 8/9/10 to request funds of GERS/VEBA Boards to receive these funds).
 - b. Possibility exists that these requests may not be granted by these Boards.
2. The significant tax appeals by General Motors Corporation and MLC (Motors Liquidation Corp.) in Winter/Spring 2010 were not taken into account as to the potential effect on the City property tax.
 - a. Possible exposure in excess of \$2,083,906 for refund for 2009 taxes.
 - b. Possibly in excess of \$1,875,727 uncollected/taxes for 2010. A partial payment of \$780,945.99 to the City was received by the City from MLC for some properties on 7/30/10. This has, in effect, shorted the City General Fund alone by approximately \$700,000 in anticipated 2010-11 tax revenue from this source.
 - c. Potential financial exposure to the City has not been booked in past years or noted by Plante & Moran or the City Audit firm for past or current year budgets through it should have been noted as per standard accounting practices.
 - d. These tax appeal exposures must be taken into account in the budget in that these tax funds will not be available to the City.

3. Probability of a greater reduction (making a total reduction of 10%) than anticipated in State shared revenue is considered possible before the end of the 2010-11 fiscal year.
4. Collection of revenues due the City is poor, creating significant cash flow/revenue problems.
 - a. Property tax collections by the City are at 70% or \$4 million in arrears (delinquencies at 30%) as of an 8/9/10 update (Plante & Moran).
 - b. Water/sewer collections are at 84% (or 16% delinquencies) or \$3.3 million in arrears per Plante & Moran/DPW Directive as of August, 2010.
 - c. City advances money for retiree health care and retirement system payroll but is not reimbursed for 1½ years – totaling approximately \$5.5 million at this time.
5. Delaying action will only require more severe adjustments as the fiscal year progresses.
6. Full financial ramifications of the financial condition of the TIFA/DDA districts upon the General Fund of the City of Pontiac were not incorporated within the present budget (including potential effects of General Motors Corporation's significant tax appeals made in years 2008, 2009, 2010 to these districts).
7. Refinement of the five year Deficit Elimination Plan (DEP) approved for the fiscal year ended 2007 was undertaken at my instruction. The revision to the DEP indicates clearly that the City is headed toward more severe deficits in the future than contemplated in 2007. This fuller, more complete picture must now be accounted for in financial planning for the City of Pontiac.



Enumeration of Amended Financial Plan Action Steps

SPECIFIC ACTIONS

<u>Action</u>	<u>Description/Task(s)</u>	<u>Date</u>
Action 1.	Request meeting to be held on 8/18/10 with Mayor and City Council.	Friday 8/13/2010
Action 2.	Communications re: Retirement Systems	
	a. Letter of Request to GERS	Monday 8/9/2010
	b. Letter of Request to VEBA	Monday 8/9/2010
	(1) Request emergency meeting of Board on "concept" during week of 8/9.	Monday 8/9/2010
	(2) Request emergency follow-up meeting of Board after receipt of Actuarial Report during week of 9/13.	Monday 9/13/2010
	<ul style="list-style-type: none"> • Actuarial Report has been requested by City at City expense through Attorneys Keller Thoma to be completed by 8/31/2010. 	
	(3) Action by Boards requested for week of September 13 th .	Monday 9/13/2010
Action 3.	Notify public of (special) meeting to be held on 8/18/2010.	Friday 8/13/2010
Action 4.	Meeting with City Council and public in special session at 4 pm to brief as to financial situation.	Wednesday 8/18/2010
Action 5.	Send completed revised financial plan to:	Wednesday 9/1/2010
	a. State of Michigan Treasurer/Deputy Treasurer; and	
	b. Media (put on web).	

<u>Action</u>	<u>Description/Task(s)</u>	<u>Date</u>
	<ul style="list-style-type: none"> a. Necessary to ensure that building permits /processes are streamlined for eventual attraction of businesses to area. b. Necessary to ensure proper/ appropriate revenues are collected. c. Estimated savings of \$250,000. 	
Action 10.	<p>Begin investigation re: cost/benefit of transfer of Police/Fire Dispatch to Oakland County.</p> <ul style="list-style-type: none"> a. Necessary to minimize cost/maximize service. b. Necessary to minimize liability to City. c. Necessary to maximize cooperation/ coordination with County. d. Necessary to ensure protocols are in place to provide for excellent service to Pontiac residents. e. Estimated savings to General Fund of \$500,000. 	Wednesday 8/18/2010
Action 11.	<p>Begin investigation re: contracting for police services with County Sheriff.</p> <ul style="list-style-type: none"> a. Necessary to minimize cost/ maximize service. b. Necessary to minimize liability to City. c. Necessary to maximize cooperation/ coordination with County. d. Necessary to ensure protocols are in place to provide for excellent service to Pontiac residents. 	Wednesday 8/18/2010

<u>Action</u>	<u>Description/Task(s)</u>	<u>Date</u>
	e. Estimated savings of \$1.5 million.	
Action 12.	Issue instructions to spread judgments against the City on the tax rolls.	Monday 8/9/2010
	a. Necessary to avoid lawsuit settlements from removing funds from General Fund.	
	b. Estimated savings to General Fund of \$1.5 million.	
Action 13.	Enforce contract provision as applicable to implement reduction of Veolia Contract Payments to align payments consistent with reduction in number of City households.	Monday 8/9/2010
	a. Estimated savings to general Fund of \$150,000.	
Action 14.	Begin investigation of privatizing collection of delinquent water/sewer bills (estimated to be approximately \$3,000,000).	Monday 8/2/2010
Action 15.	Begin investigation of privatizing collection of delinquent income tax owed to City (estimated to be approximately \$250,000 -- forthcoming from Plante & Moran).	Monday 8/9/2010
Action 16.	Remove Retirement System employees from City payroll.	Monday 9/20/2010
	a. Estimate significant improvement to cash flow.	
Action 17.	Instruct Plante & Moran to update Deficit Elimination Plan (DEP) to accurately and fully reflect financial situation, including all financial liabilities previously not noted or previously unknown.	7/4/10 – 8/30/10

<u>Action</u>	<u>Description/Task(s)</u>	<u>Date</u>
	<ul style="list-style-type: none"> a. Instruction to Plante & Moran to thoroughly document financial liabilities and amend footnote explaining situation for each event to DEP. b. Review revised DEP with MFCI, Plunkett Cooney. 	
Action 18.	<p>Advise State Treasurer of non-compliance with Deficit Elimination Plan (DEP) as originally issued in 2007.</p> <ul style="list-style-type: none"> a. Act to bring FY 2010-11 budget into compliance with plan. b. Advise of significantly larger deficit than original DEP contemplated for 2012 (and 2013). 	9/1/10

**Report to the EFM Regarding the Current Status
of the State Approved Deficit Elimination Plan (DEP) Status Report
Dated August 8, 2010**



CITY OF PONTIAC
EMERGENCY FINANCIAL MANAGER
MICHAEL L. STAMPFLER

47450 Woodward Avenue
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September 1, 2010

Robert J. Kleine, State Treasurer and Chair
Emergency Financial Assistance Loan Board
Michigan Department of Treasury
430 W. Allegan St.
Lansing, MI 48522

Re: City of Pontiac / Deficit Elimination Plan

Dear Treasurer Kleine:

I have instructed Plante & Moran to provide a report on the current status of the State-approved Deficit Elimination Plan (DEP) based upon facts that have become known over the last two months.

Attached please find the aforementioned report dated August 8, 2010 by Plante & Moran with appropriate footnotes noting actions to be taken to bring the 2010-11 situation within the parameters earlier planned in the original DEP for this year. A second report from Plante & Moran is dated August 30, 2010.

The 2011-12 fiscal year, however, indicates a significantly greater deficit than contemplated in the original DEP. The 2012-13 deficit is also significant.

Thank you for your consideration in this matter.

Sincerely,

Michael L. Stampfler
Emergency Financial Manager

Attachment



City of Pontiac, Michigan

Department of Finance

To: Michael L. Stampfler, Emergency Financial Manager (EFM)
From: Carl Johnson, Controller's Office
Date: August 8, 2010
RE: Report to the EFM Regarding the Current Status of the State approved Deficit Elimination Plan (DEP)

During our meeting on August 2, 2010, I was asked by you as the Emergency Financial Manager to provide an update on the actual status of the approved DEP on file with the State. As you are aware, the State of Michigan Department of Treasury requires all City's that have a deficit in any fund file a formal DEP (as required by the Uniform Budget and Accounting Act, MCLA 141.421). The DEP must show in detail how the annual operating budget is balanced and how the cumulative deficit will be eliminated in no more than five years. The City's plan on file with the State was for the fiscal year ended June 30, 2007 (approved by the State on June 23, 2008) and had not been updated since that time since the City had successfully reduced the cumulative deficit by amounts equal or greater than the 2007 plan.

I have attached a copy of the detailed spreadsheet for the General Fund as it originally filed as part of the 2007 DEP. After several meetings with you and members of the Plunkett Cooney Law Firm to discuss the current status of the financial condition of the General Fund, I have prepared the attached updated spreadsheet of the 2007 plan updated for the actual results through the 2009 year. The attached spreadsheet also includes the projected 2010 final results and incorporates the 2011 budget approved by the former EFM. The 2011 through 2013 projections were updated based on projections to date at current revenue and expenditure levels and do not include any plans you may have regarding revenue enhancements or expenditure reductions.

The updated spreadsheet for the General Fund DEP shows the fiscal year ending June 30, 2011 (the current fiscal year) is projected to have an operating shortfall of approximately \$5.965 million increasing the cumulative deficit to approximately \$10.447 million. The General Fund's cumulative deficit in 2007 resulted in the fund running out of cash and required the borrowing of cash from other funds of the City (which is usually not allowed under the Uniform Budget and Accounting Act, MCLA 141.421 and was one of the factors leading to the appointment of an EFM). The reduction in the cumulative deficit over the past two years has allowed the General Fund to repay almost half the money borrowed from other funds in 2007. If the operating shortfall for 2011 is not resolved, the General Fund will again run out of money during January 2011.

Original DEP
Approved 6/23/08

City of Pontiac: GENERAL FUND
Estimated Revenue and Expenditures
July 1, 2008 through June 30, 2018

Prepared: 6/09/2008	Actual	Adopted	Amended	Estimated	Budgeted	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
6/30/07	FY2008	FY2008	FY2009	6/30/08	6/30/08	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14	6/30/15	6/30/16	6/30/17
Revenue													
Property Taxes	\$12,990,694	\$13,590,000	\$13,590,000	\$14,891,900	\$15,202,530	\$13,202,550	\$13,202,550	\$13,202,550	\$13,202,550	\$13,202,550	\$13,202,550	\$13,202,550	\$13,202,550
Income Taxes	13,305,335	13,375,000	13,300,000	13,300,000	13,000,000	13,130,000	13,261,300	13,395,815	13,527,852	13,659,815	13,791,852	13,923,889	14,055,926
Penalties & Interest on Taxes	934,514	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000
State Revenue Sharing	12,547,802	12,427,173	12,041,810	12,041,810	12,041,756	12,041,786	12,041,756	12,041,756	12,041,756	12,041,756	12,041,756	12,041,756	12,041,756
Fees/Charges/Misc.	1,075,256	3,134,885	3,134,885	6,800,590	2,910,832	3,938,940	2,968,340	2,998,033	3,028,023	3,058,013	3,088,003	3,118,003	3,148,003
Licenses & Permits	2,521,360	2,025,000	2,225,000	2,225,000	2,137,000	2,176,570	2,200,356	2,222,359	2,244,358	2,266,357	2,288,356	2,310,355	2,332,354
Interest Earned	\$608,863	100,000	-100,000	-100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Admin Charges	3,892,514	3,450,881	3,450,881	3,520,560	3,539,580	3,539,580	3,539,580	3,539,580	3,539,580	3,539,580	3,539,580	3,539,580	3,539,580
Transfers from Other Funds	4,327,858	1,880,059	3,620,846	2,304,887	2,298,439	1,800,000	1,900,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
Contributors from other Sources	6,750	315,699	315,699	350,000	282,250	285,175	288,124	301,105	304,117	307,129	310,141	313,153	316,165
Miscellaneous & Other	1,086,080	\$1,082,413	\$1,081,868	\$1,400,000	1,038,313	1,038,313	1,038,313	1,038,313	1,038,313	1,038,313	1,038,313	1,038,313	1,038,313
Fed/State Grants & Other	214,896	567,230	300,000	300,000	195,063	198,024	200,004	202,004	204,024	206,044	208,064	210,084	212,104
Total Revenue	54,172,122	52,226,110	54,450,217	54,806,857	51,451,783	51,238,905	51,426,323	51,613,814	51,801,305	51,988,796	52,176,287	52,363,778	52,551,269
Expenditures													
Salaries & Wages	\$19,011,496	17,382,420	14,761,809	17,332,607	17,387,430	17,571,404	17,747,118	17,922,830	18,103,835	18,278,840	18,453,845	18,628,850	18,803,855
Fringe Benefits	\$15,642,469	16,763,950	16,865,503	18,762,208	13,314,022	13,447,182	13,581,094	13,714,960	13,848,872	13,982,784	14,116,696	14,250,608	14,384,520
Retirement General	\$222,388	171,000	171,000	194,925	165,539	155,538	155,538	155,538	155,538	155,538	155,538	155,538	155,538
Retirement Police & Fire	\$4,084,335	4,789,112	4,852,112	5,071,845	4,330,879	4,244,358	4,158,471	4,072,582	3,986,695	3,900,808	3,814,921	3,729,034	3,643,147
Supplies	\$942,438	840,968	884,843	870,000	987,486	957,821	948,243	938,760	929,273	919,786	910,300	900,813	891,326
Services	\$4,845,700	5,425,708	4,728,560	4,742,000	4,441,513	4,352,883	4,266,628	4,180,317	4,094,006	4,007,695	3,921,384	3,835,073	3,748,762
Professional Services	\$2,320,282	2,150,794	2,286,874	2,797,262	2,587,262	2,519,344	2,443,764	2,370,451	2,295,937	2,221,416	2,146,895	2,072,374	2,000,000
Capital Outlays	\$188,637	3,882	321,287	4,000	3,482	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Miscellaneous & Administrative charges	\$572,265	355,385	4,548,008	573,400	691,536	635,505	625,735	615,220	604,705	594,190	583,675	573,160	562,645
Bond Debt Service	\$1,200,917	2,158,812	2,158,812	2,158,812	2,158,713	2,158,713	2,158,713	2,158,713	2,158,713	2,158,713	2,158,713	2,158,713	2,158,713
Transfer to Other Funds	\$3,108,202	2,161,339	2,161,339	3,321,000	3,688,079	3,585,697	3,523,783	3,461,868	3,399,953	3,338,038	3,276,123	3,214,208	3,152,293
CONTINGENCIES													
Yearly Expenditures	56,137,158	52,226,110	54,450,217	59,825,580	50,351,753	49,873,814	50,006,323	49,888,814	49,771,305	49,653,796	49,536,287	49,418,778	49,301,269
Excess Revenue over Expenditures	-1,965,037	1,000,000	1,000,000	1,000,000	1,100,000	1,264,992	1,420,000	1,625,000	1,751,892	1,878,791	2,005,694	2,132,599	2,259,504
DEFICIT REDUCTION													
Fund balance (Deficit) - Beginning	-4,177,203	-6,142,240	-7,161,743	-8,181,246	-9,200,749	-10,220,252	-11,239,755	-12,259,258	-13,278,761	-14,298,264	-15,317,767	-16,337,270	-17,356,773
Fund balance (Deficit) - Ending	-6,142,240	-7,161,743	-8,181,246	-9,200,749	-10,220,252	-11,239,755	-12,259,258	-13,278,761	-14,298,264	-15,317,767	-16,337,270	-17,356,773	-18,376,276

Yearly Expenditures
Excess Revenue over Expenditures
DEFICIT REDUCTION
Fund balance (Deficit) - Beginning
Fund balance (Deficit) - Ending

City of Pontiac: GENERAL FUND
Projected Revenue and Expenditures July 1, 2009 through June 30, 2013

	Actual 2007	Actual 2008	Actual 2009	Estimated 2010	Budget 2011	Revised 2011	Projected 2012	Projected 2013
Revenue								
Property taxes	\$ 12,950,694	\$ 14,011,187	\$ 14,706,707	\$ 12,705,979	\$ 11,812,764	\$ 10,862,764	\$ 10,581,147	\$ 9,483,008
Income taxes	13,305,335	11,778,940	11,011,408	9,742,727	8,100,000	8,700,000	7,830,000	7,047,000
Penalties & interest on taxes	934,514	842,429	862,196	959,322	900,000	900,000	900,000	900,000
State Revenue Sharing	12,347,902	12,041,756	11,777,281	10,328,522	9,500,000	9,295,670	8,366,103	7,529,493
Fees/Charges/Misc	1,975,256	3,248,204	2,603,193	2,578,290	2,259,700	2,259,700	2,259,700	2,259,700
Licenses & Permits	2,521,360	3,356,365	2,221,643	1,955,943	1,564,396	1,564,396	1,564,396	1,564,396
Interest Earned	608,863	(64,382)	(159,925)	443,173				
Admin Charges	3,892,514	3,522,212	3,654,713	3,811,176	4,180,757	4,180,757	4,180,757	4,180,757
Transfers from other funds	4,327,858	2,401,857	709,121	499,775				
Contributions from other sources	6,750	4,300	135,080	120,913	168,000	168,000	168,000	168,000
Miscellaneous & Other	1,086,080	970,606	2,672,236	3,284,408	504,332	504,332	504,332	504,332
Fed/State Grants & Other	214,996	722,385	10,500	54,497	8000	8000	8000	8000
Total Revenue	\$ 54,172,122	\$ 52,835,858	\$ 50,204,152	\$ 46,124,725	\$ 38,997,949	\$ 38,443,619	\$ 36,362,435	\$ 33,644,686
Expenditures								
Salaries & Wages	\$ 19,011,496	\$ 19,789,694	\$ 17,857,540	\$ 15,787,415	\$ 14,366,799	\$ 15,966,799	\$ 15,966,799	\$ 15,966,799
Fringe Benefits	18,642,459	13,899,867	12,865,636	15,409,858	12,177,631	15,989,038	15,788,490	17,627,914
Retirement General	222,398	259,459	193,577	157,006	120,794	120,794	120,794	120,794
Retirement Police & Fire	5,084,335	5,752,605	4,457,636	1,434,410	156,166	156,166	156,166	156,166
Supplies	942,438	1,283,198	751,305	707,951	859,809	859,809	859,809	859,809
Services	4,845,700	3,987,251	3,788,231	3,466,181	3,882,323	3,882,323	3,882,323	3,882,323
Professional Services	2,320,282	2,424,168	2,221,815	1,676,653	1,736,170	1,736,170	1,736,170	1,736,170
Capital Outlay	188,637							
Miscellaneous & Administrative charges	572,295	583,625	430,241	1,064,771	665,617	665,617	665,617	665,617
Bond Debt Service	1,200,917	2,156,913	2,154,713	2,154,713	2,154,813	2,154,813	2,154,813	2,154,813
Transfers to Other Funds	3,106,202	3,628,796	4,081,139	3,957,648	2,877,827	2,877,827	2,877,827	2,877,827
Contingencies								
Total Expenditures	\$ 56,137,159	\$ 53,765,576	\$ 48,803,833	\$ 45,816,606	\$ 36,997,949	\$ 44,409,356	\$ 45,208,808	\$ 46,048,232
Excess: Revenue over Expenditures	(1,965,037)	(929,717)	1,400,319	308,119	(4,481,958)	(5,965,737)	(8,846,373)	(12,403,547)
Fund balance (Deficit) - Beginning	(4,113,203)	(6,078,240)	(7,007,957)	(5,607,639)	(4,481,958)	(4,481,958)	(10,447,695)	(19,294,068)
Prior Period Adjustment				817,562.00				
Fund balance (Deficit) - Ending	\$ (6,078,240)	\$ (7,007,957)	\$ (5,607,639)	\$ (4,481,958)	\$ (4,481,958)	\$ (10,447,695)	\$ (19,294,068)	\$ (31,697,614)

City of Pontiac
Assumptions for Updated Deficit Elimination Plan

Significant one time revenue sources and or expenditure reductions by fiscal year:

2007

- 1) City transferred available fund balance from the Refuse Fund to the General Fund totaling \$2,699,810 (primarily from transfer station agreement) and \$109,282 from the Growth Group Admin Fund
- 3) NOMC defaulted on their operating agreement with the City which required an annual payment of \$1M to the General Fund. City received \$660,000 which was included in interest (accounting rule require the long-term lease payment to be broken down between principal and interest)

2008

- 2) General Fund received a credit enhancement fee for pledging the full faith and credit of the City for the refinanced debt for TIFA 2, 3 and 4 totalling \$2,301,857
- 4) NOMC defaulted on their operating agreement with the City which required an annual payment of \$1M to the General Fund during 2007. No payments received.

2009

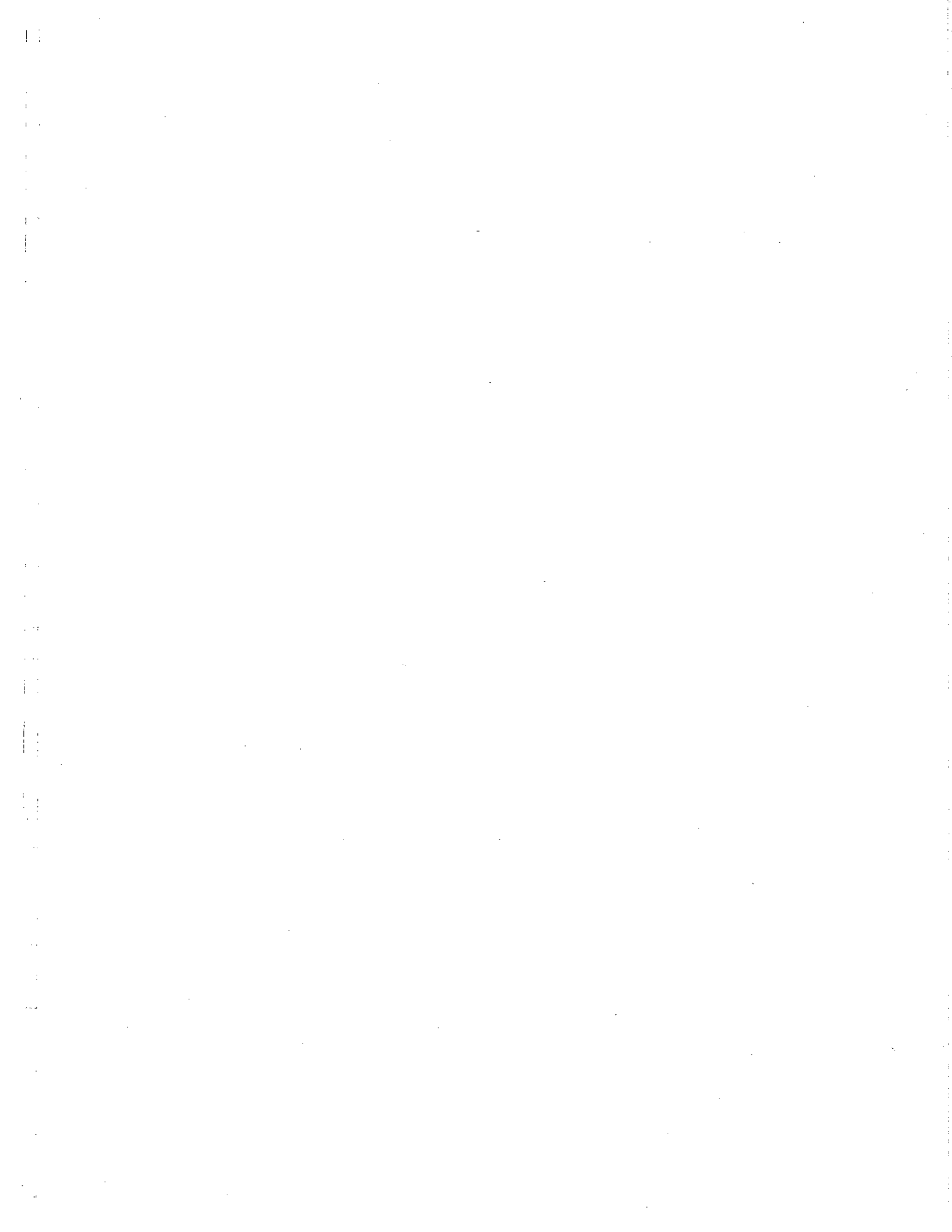
- 5) City transferred available fund balance from the Sale of Land Fund to the General Fund totalling \$537,126 and \$171,995 from the Neighborhood Revitalization Fund completely closing both funds
- 6) The General Fund received \$2M as final settlement of the NOMC bankruptcy related to the operating agreement. City received additional settlement in 2010 related to medical malpractice reserves

2010

- 7) The City transferred the available fund balance in the 911 PA 48 Telecommunication Fund totalling \$499,775 to the General Fund closing the fund
- 8) The General Fund received \$2,212,460 as final settlement of the NOMC bankruptcy related to medical malpractice reserves
- 9) The General received \$641,543 from the sale of the Holland Center building
- 10) The City sold stock that was previously unrecorded in the City records. The sale resulted in net proceeds of \$1,260,661 - \$817,562 as a prior period and \$443,099 as gain on sale of securities
- 12) Property tax revenue was reduced by \$750,000 to record possible refund liability due on GM tax appeal cases (based on GM claim)
The 2011 approved budget passed by the former EFM was adjusted as follows:
- 11) Property tax revenue was reduced by \$200K to increase the estimated uncollectable taxes from chargeback's from \$600K to \$800K
- 12) Property tax revenue was reduced by \$750,000 to record possible refund liability due on GM tax appeal cases (based on GM claim)
- 13) Income tax revenue was increased by \$600K to adjust the budget for the assumed 10% decrease during the current year (2010 actual better than anticipated)
- 14) Revenue sharing was reduced by \$204K to adjust the budget for the assumed 10% decrease during the current year (2010 actual less than anticipated)
- 15) Fire overtime expense was increased by \$1.6M to bring 11 budget equal to 10 actual (2011 budget was \$500k, 2010 actual \$2.1M)
- 16) Reimbursement of healthcare costs from the GERS of \$3.811M was removed until City gets formal approval from the retirement board
- 17) Budget assumes that HUD will ultimately approve the admin plan and the City will be allowed to charge the \$400k already budgeted

Significant assumptions for 2012 and 2013:

- 18) Property tax revenue will continue to decline at the rate of 2011 which was 11.5%
- 19) Income tax revenue will continue to decline at a rate of 10% per year. The amount of compliance work performed within the department has decreased significantly over the past few fiscal years. Future income tax revenues could increase as much as \$250,000 to \$500,000 annually if the City implemented strict compliance procedures. No amounts have been included for new compliance efforts.
- 20) Revenue sharing revenue will continue to decline at a rate of 10% per year
- 21) All other revenues will remain constant
- 22) No salary increases and all expenditures except fringe benefits will remain consistent
- 23) Fringe benefit costs will increase 5% annually (10% increase in healthcare and 3% or constant for the other fringe benefits)



Updated Deficit Elimination Plan (DEP)

by Plante & Moran

Dated August 30, 2010



City of Pontiac, Michigan

Department of Finance

To: Michael L. Stampfler, Emergency Financial Manager (EFM)
From: Carl Johnson, Controller's Office
Date: August 30, 2010
RE: Updated Deficit Elimination Plan (DEP)

Attached is the updated DEP (original dated August 8, 2010) which was updated for the following items:

- MFCI's estimate of the subsidy required to TIFA 2 for GM tax appeal refunds
- Subsidy required for the Parking Fund to eliminate the cumulative deficit and fund the annual operating deficit

The above items were discussed with you, members of the Plunkett and Cooney law firm and members of the consulting firm MFCI during the past couple weeks. Let me know if you have any additional questions or need any additional information

City of Pontiac: GENERAL FUND
Projected Revenue and Expenditures July 1, 2009 through June 30, 2013

	Actual 2007	Actual 2008	Actual 2009	Estimated 2010	Budget 2011	Revised 2011	Projected 2012	Projected 2013
Revenue								
Property taxes	\$ 12,950,694	\$ 14,011,187	\$ 14,706,707	\$ 12,705,979	\$ 11,812,764	\$ 10,862,764	\$ 10,581,147	\$ 9,483,008
Income taxes	13,305,335	11,778,940	11,011,408	9,742,727	8,100,000	8,700,000	7,830,000	7,047,000
Penalties & interest on taxes	934,514	842,429	862,196	959,322	900,000	900,000	900,000	900,000
State Revenue Sharing	12,347,902	12,041,756	11,777,281	10,328,522	9,500,000	9,295,670	8,366,103	7,529,493
Fees/Charges/Misc	1,975,256	3,248,204	2,603,193	2,578,290	2,259,700	2,259,700	2,259,700	2,259,700
Licenses & Permits	2,521,360	3,356,365	2,221,643	1,595,943	1,564,396	1,564,396	1,564,396	1,564,396
Interest Earned	608,863	(64,382)	(159,925)	443,173	(10)	-	-	-
Admin Charges	3,892,514	3,522,212	3,654,713	3,811,176	4,180,757	4,180,757	4,180,757	4,180,757
Transfers from other funds	4,327,858	2,401,857	709,121	499,775	(7)	-	-	-
Contributions from other sources	6,750	4,300	135,080	120,913	168,000	168,000	168,000	168,000
Miscellaneous & Other	1,086,080	970,606	2,672,236	3,284,408	504,332	504,332	504,332	504,332
Fed/State Grants & Other	214,996	722,385	30,500	54,497	8000	8000	8000	8000
Total Revenue	\$ 54,172,122	\$ 52,835,858	\$ 50,204,152	\$ 46,124,725	\$ 38,997,949	\$ 38,443,619	\$ 36,362,435	\$ 33,644,686
Expenditures								
Salaries & Wages	\$ 19,011,496	\$ 19,789,694	\$ 17,857,540	\$ 15,787,415	\$ 14,366,799	\$ 15,966,799	\$ 15,966,799	\$ 15,966,799
Fringe Benefits	18,642,459	13,899,867	12,865,636	15,409,858	12,177,631	15,989,038	16,788,490	17,627,914
Retirement General	222,398	259,459	193,577	157,006	120,794	120,794	120,794	120,794
Retirement Police & Fire	5,084,335	5,752,605	4,457,636	1,434,410	156,166	156,166	156,166	156,166
Supplies	947,438	1,283,198	751,305	707,951	859,809	859,809	859,809	859,809
Services	4,845,700	3,987,251	3,788,231	3,466,181	3,882,323	3,882,323	3,882,323	3,882,323
Professional Services	2,320,282	2,424,168	2,221,815	1,676,653	1,736,170	1,736,170	1,736,170	1,736,170
Capital Outlay	188,637	-	-	-	-	-	-	-
Miscellaneous & Administrative charges	572,295	583,625	430,241	1,064,771	665,617	665,617	665,617	665,617
Bond Debt Service	1,200,917	2,156,913	2,156,713	2,154,713	2,154,813	2,154,813	2,154,813	2,154,813
Transfers to Other Funds	3,106,202	3,628,796	4,081,139	3,957,648	2,877,827	3,680,827	3,680,827	3,680,827
Contingencies	-	-	-	-	-	2,018,000	-	-
Total Expenditures	\$ 56,137,159	\$ 53,765,576	\$ 48,803,833	\$ 45,816,606	\$ 38,997,949	\$ 47,230,356	\$ 46,011,808	\$ 46,851,232
Excess: Revenue over Expenditures	(1,965,037)	(929,717)	1,400,319	308,119	(8,786,737)	(8,786,737)	(9,649,373)	(13,206,547)
Fund balance (Deficit) - Beginning	(4,113,203)	(6,078,240)	(7,007,957)	(5,607,639)	(4,481,958)	(4,481,958)	(13,268,695)	(22,918,068)
Prior Period Adjustment	-	-	-	817,562.00	-	-	-	-
Fund balance (Deficit) - Ending	\$ (6,078,240)	\$ (7,007,957)	\$ (5,607,639)	\$ (4,481,958)	\$ (4,481,958)	\$ (13,268,695)	\$ (22,918,068)	\$ (36,124,614)

City of Pontiac
Assumptions for Updated Deficit Elimination Plan

Significant one time revenue sources and or expenditure reductions by fiscal year:

2007

- 1) City transferred available fund balance from the Refuse Fund to the General Fund totaling \$2,599,810 (primarily from transfer station agreement) and \$109,282 from the Growth Group Admin Fund
- 3) NOMC defaulted on their operating agreement with the City which required an annual payment of \$1M to the General Fund. City received \$660,000 which was included in interest (accounting rule require the long-term lease payment to be broken down between principal and interest)

2008

- 2) General Fund received a credit enhancement fee for pledging the full faith and credit of the City for the refinanced debt for TIFA 2, 3 and 4 totaling \$2,301,857
- 4) NOMC defaulted on their operating agreement with the City which required an annual payment of \$1M to the General Fund during 2007. No payments received.

2009

- 5) City transferred available fund balance from the Sale of Land Fund to the General Fund totaling \$537,126 and \$171,995 from the Neighborhood Revitalization Fund completely closing both funds
- 6) The General Fund received \$2M as final settlement of the NOMC bankruptcy related to the operating agreement. City received additional settlement in 2010 related to medical malpractice reserves

2010

- 7) The City transferred the available fund balance in the 911 PA 48 Telecommunication Fund totaling \$499,775 to the General Fund closing the fund
- 8) The General Fund received \$2,212,460 as final settlement of the NOMC bankruptcy related to medical malpractice reserves
- 9) The General received \$641,543 from the sale of the Holland Center building
- 10) The City sold stock that was previously unrecorded in the City records. The sale resulted in net proceeds of \$1,260,661 - \$817,562 as a prior period and \$443,099 as gain on sale of securities

- 12) Property tax revenue was reduced by \$750,000 to record possible refund liability due on GM tax appeal cases (based on GM claim)

The 2011 approved budget passed by the former EFM was adjusted as follows:

- 11) Property tax revenue was reduced by \$200K to increase the estimated uncollectable taxes from chargeback's from \$600K to \$800K
- 12) Property tax revenue was reduced by \$750,000 to record possible refund liability due on GM tax appeal cases (based on GM claim)
- 13) Income tax revenue was increased by \$600K to adjust the budget for the assumed 10% decrease during the current year (2010 actual better than anticipated)
- 14) Revenue sharing was reduced by \$204K to adjust the budget for the assumed 10% decrease during the current year (2010 actual less than anticipated)
- 15) Fire overtime expense was increased by \$1.6M to bring 11 budget equal to 10 actual (2011 budget was \$500k, 2010 actual \$2.1M)
- 16) The 2010/2011 budget included a new reimbursement from the GEAS VEBA for retiree healthcare cost totaling \$3,811,407. The City is working with the VEBA board to determine if they will authorize reimbursement for eligible costs.
- 17) Budget assumes that HUD will ultimately approve the admin plan and the City will be allowed to charge the \$400k already budgeted
- 24) The parking fund deficit continues to grow and is not in compliance with the State approved DEP. The General Fund will need to transfer approximately \$803,000 in 2011 to eliminate the cumulative deficit.
- 26) One of the City largest taxpayers, GM, has appealed their property tax assessments for the 2008, 2009 and 2010 tax years. The tax appeals, if successful, would significantly effect the property tax revenue of the General and TIFA Funds. Based on estimates provided by consultants at MFCL, if GM were successful the TIFA 2 Fund's loss of tax revenue and related refunds from prior year would result in the fund requiring a contribution from the General Fund to eliminate their deficit of approximately \$2,018,000.

Significant assumptions for 2012 and 2013:

- 18) Property tax revenue will continue to decline at the rate of 2011 which was 11.5%
- 19) Income tax revenue will continue to decline at a rate of 10% per year. The amount of compliance work performed within the department has decreased significantly over the past few fiscal years. Future income tax revenues could increase as much as \$250,000 to \$500,000 annually if the City implemented strict compliance procedures. No amounts have been included for new compliance efforts.
- 20) Revenue sharing revenue will continue to decline at a rate of 10% per year
- 21) All other revenues will remain constant
- 22) No salary increases and all expenditures except fringe benefits will remain consistent
- 23) Fringe benefit costs will increase 5% annually (10% increase in healthcare and 3% or constant for the other fringe benefits)
- 25) Assumes the annual operating subsidies to other funds will remain constant for all fund in addition to a new contribution to the parking fund to eliminate the funds annual operating shortfall of approximately \$150,000

EFM Plan to Align 2010-2011 Projected Deficit to 2007 DEP

Dated September 1, 2010

<u>Action</u>	<u>Description/Task(s)</u>	<u>Date</u>
Action 6.	Publish Plan – Amended Financial Plan	Thursday 9/2/2010
Action 7.	Begin legal process preparation for layoff procedures. <ul style="list-style-type: none"> a. To achieve \$5 million savings b. Estimated 70-90 reduction in workforce. 	Friday 8/13/2010
Action 8.	Begin investigation re: action to privatize management/operation of the Water/ Sewer Utility. <ul style="list-style-type: none"> a. Necessary to ensure that the City will meet pending Administrative Consent Order requirements. b. Necessary to ensure proper and concerted collection of delinquent water/sewer bills totaling in excess of \$3 million. c. Necessary to ensure best practices are utilized throughout the system. d. Necessary to ensure public health safety and welfare issues. e. Necessary to make appropriate water/ sewer rates and provision of quality utilities possible for eventual attraction of business to the area. f. Estimated savings of \$3 million to Water/Sewer Fund. 	Friday 8/20/2010
Action 9.	Begin investigation re: action to privatize management/operation of Building Services.	Friday 9/3/2010