

The following plan is submitted in accordance with Public Act 4 of 2011 and replaces all other financial and operating plans on file.

City of Pontiac Financial and Operating Plan, October 24, 2011

Financial Condition of the City of Pontiac

As of June 30, 2011, the City of Pontiac is projected to have completed the 2010-2011 with a positive fund balance of approximately \$1.7 million, thus having met its Deficit Elimination Plan target two years ahead of schedule. This was accomplished primarily by failing to make the City's contributions of approximately \$4.0 million to the various pension and VEBA funds. The City also chose not to set aside nearly \$1.9 million to pay General Motors a property tax refund. Although the City chose not to pay or recognize these financial obligations for the fiscal year ended June 30, 2011, the City still is responsible for paying these obligations in the near future.

Adopted Budget for Fiscal Year 2011-12

In June of 2011, the former Emergency Manager adopted a budget assuming that the contributions to the pension and VEBA funds would be made and that the City would set aside the funds for the General Motors property tax refund. However, that budget would have resulted in a projected budget deficit of \$12,501,037 if significant changes were not made. That budget also assumed that as of June 30, 2013, the City of Pontiac was projected to have an accumulated General Fund deficit of \$24,206,902 based on current revenue and expenditure projections, if significant changes were not made.

Because of the decision not to contribute to the pension and VEBA funds and not to set aside the money for the General Motors property tax refund, the 2011-12 budget projects a deficit of \$9.1 million as of June 30, 2012 if significant changes are not made.

Causes of the Financial Emergency

The City has several conditions beyond its control that effect revenue.

- A. **Decrease in Property Taxes.** The single largest impact on the City's revenues is a decrease in property taxes. On May 9, 2011, the City was notified by Oakland County Equalization of a 21.4% decrease in taxable value of property throughout the City from 2010, resulting in an annual \$2.6 million loss in property taxes. A related property tax problem facing the City is the high level of delinquent property taxes. For the 2012-13 fiscal year, estimates from Oakland County Equalization as of September 30, 2011 estimates a decrease in property taxes of 14%; this estimate is subject to change as sales studies continue to be evaluated.

- B. **Decrease in Statutory State Revenue Sharing.** The second largest impact on decreasing revenues resulted from a \$1.6 million, or 32.0%, decrease in State Revenue Sharing payments anticipated for the 2011-12 fiscal year. The City was notified of by the State of Michigan of this decrease on May 27, 2011.

- C. **Decrease in Constitutional State Revenue Sharing.** On March 22, 2011, the United States Census Bureau announced that the population of the City of Pontiac decreased by 6,822 residents (10.3%), resulting in an annual loss of \$473,714 in Constitutional State Revenue Sharing for each of the next ten years (\$4,737,140 total).

- D. **City Assumption of TIFA Debt.** Oakland County Equalization notified the City on May 9, 2011 that the taxable value of Tax Increment Financing Authority District Number Two (TIFA#2) dropped 80% from fiscal year 2010-11 to 2011-12, resulting in a loss in tax collections of \$1,668,174. In 1997, the TIFA board began issuing debt, with the City Council agreeing to pledge the City's full faith and credit to cover any deficits as a part of the 2006 debt refinancing with Oakland County. TIFA#2 has only \$216,115 in tax collections anticipated for the 2011-12 fiscal year to make bond payments of \$2,655,774 for the Phoenix Center, Marriott Hotel, and General Motors in Centerpoint, requiring a General Fund subsidy of \$2,439,659 because of the pledge of the full faith and credit of the City for these bonds. However, because of the defeasance of one of the bond issues, the City has realized enough savings to delay this general fund subsidy for one additional year.

- E. **Use of one-time revenue sources.** In the 2010-11 fiscal year, the City received \$4.2 million from the General Employees VEBA to reimburse the City for retiree health insurance. The VEBA now has a balance of less than \$50,000, and this source of revenue is no longer a viable option for the City.

These five revenue reductions total \$11.3 million for the 2011-12 fiscal year. In order for the City to become financially solvent, the City must reduce the use of one-time revenue sources to balance the budget.

In addition to the revenue challenges, over the years, the City has engaged in activities and made promises that the City did not have the ability to properly manage or financially support. Principal among these major problems looming in the future are:

- A. **Underfunded Retiree Health and Life Insurance.** One final example of financial mismanagement and poor management was the City's commitment over the years to cover the cost of retiree health and life insurance without setting aside money to pay for the future expenditures. As of June 30, 2010, the City had a total liability over \$306 million for retiree health and life insurance obligations and had only set aside approximately \$36 million, just below 12% of the amount to meet these costs. The failure of the City over many years to set aside adequate funding in the General Employees' Retiree Health and Insurance Benefits Trust when the benefits were granted requires using General Fund resources to meet current expenditures.
- B. **Increasing Cost of Health and Other Insurance Benefits.** A challenge facing all employers is the increasing cost of health insurance. In Pontiac's case, this challenge is even greater because many of the collective bargaining agreements require the City to provide a certain level of health insurance to current workers and retirees at little or no cost to the workers or the retirees. The City offers 20 different health insurance benefit plans to its current workers and retirees. Some of these plans have as few as seven people. As a result, the City is unable to realize the efficiencies gained by having a smaller number of plans.
- C. **High Cost of Fire Protection.** Fire protection is critical in an older community like Pontiac, however, charter and contractual requirements place demands on the cost of operations of the Fire Department that are unnecessary and artificially increase the cost of fire protection services. The Fire Department is allocated just over 30% of the City's revenue in the 2011-12 budget.
- D. **Increased District Court Subsidy.** While other departments of the City have been required to significantly reduce operating costs since fiscal year 2007-08, (Fire Department reduction of 29.8% and Police Department reduction of 28.7%), the District Court has increased operating costs by 16.0% from 2007-08 to 2010-11 despite a decreasing caseload (according to the audit for the fiscal year ended June 30, 2008, the amended budget for the fiscal year ending June 30, 2011, and the District and Municipal Court Statistical Supplements). For the 2011-12 fiscal year, the total requested budget by the District Court was \$4,187,789 that would have required a City subsidy of \$2,690,489, or, in other words, the Court requested a 64.2% subsidy from the General Fund as part of the Court's total budget. Under the adopted budget, however, the subsidy to the court was reduced to \$1,586,000 to be in line with the sacrifice required of other General Fund supported activities.

- E. **Subsidy of Sanitation Operations.** Because of a decreasing tax base and increasing fuel costs, the City is required to subsidize the operations of the sanitation collection and the closing of the City-owned landfill in the amount of \$1,356,000 for the 2011-12 fiscal year.
- F. **Subsidy of Cemetery Operations.** A second example of financial mismanagement is cemetery operations. The fee schedule has not been revised since 1998 and operating costs were not controlled. As a result, a \$450,000 annual subsidy is required.
- G. **Subsidy of Parking System.** One example of financial mismanagement and poor planning is the City's parking system. Annually, the City subsidizes operating expenses by \$150,000. In addition, adequate provision was not made for future capital improvements or maintenance needs that are estimated to be nearly \$870,000 at this time.

Financial and Operating Plan

To begin to address the worsening financial condition of the City of Pontiac, the City must first address those issues under its control and then work to stabilize and begin to increase the sources of revenue.

The single largest impact to the City's expenses is health insurance. Recent changes in State law provide an incentive for the City to change the way it funds health insurance. Public Act 152 of 2011 limits the amount of money the City can spend on current employees for health insurance by prohibiting the City from paying more than 80% of the costs of health insurance or by paying more than a certain amount depending on the plan coverage. Limits are now \$5,500 for single-person coverage, \$11,000 for two-person coverage, and \$15,000 for family-coverage illustrative rates for premiums and any reimbursement of co-pays, deductibles, or payments into health savings accounts for government that choose not to cap expenses at 80%. By consolidating the number of plans, sharing the costs of the insurance, and offering a plan that is more realistic in today's economy, the City should realize at least \$2.8 million in savings on an annual basis. These savings will be realized through the modification, rejection, termination, or renegotiation of contracts pursuant to Section 19 of Public Act 4 of 2011.

Also in the area of health insurance, the City will seek reimbursement from the federal government for up to 80% of the cost of health insurance costs of persons younger than 65 who have retired after June 1, 2010. This is expected to result in income of \$2.8 million over two years. Unfortunately, this is a limited source of revenue and the City needs to explore other alternatives in future years to reduce costs.

Despite the significant reductions in the Fire Department budget, additional cost saving measures can be taken to improve the efficiency of operations. Many of these issues will be obtained through collective bargaining. Cost savings are expected to realize \$1.5 million over two years. Currently negotiations are taking place with Waterford Township for fire services that could potentially save the City much more than the \$1.5 million indicated in this plan.

The City needs to concentrate on providing core services to its residents and can no longer afford to own or operate programs or services than can be provided by the public sector. That is why the City needs to either sell or subcontract management responsibility for parking and cemetery operations. The City is also looking to sell the golf course, the Strand Theatre, and any other real estate that is not required for essential municipal operations. By placing land on the market for sale that is owned presently by the City, the result, when the land is purchased, will be that the City will increase the tax rolls and relieve itself of various short- and long-term liabilities associated with being a property owner.

To offset the City's subsidy of sanitation operations, the City needs to insure that residents are paying for the service that they receive. Therefore, I will be proposing and adopting an ordinance to allow for the establishment of a fee that will cover the City's cost of providing sanitation services to its residents.

The City welcomes and agrees with the recommendation of the State Supreme Court to reduce the number of judges in the 50th District Court by two. Caseloads demonstrate that the Court has too many judges and is inefficient. The City urges the State Legislature to adopt the recommendation of the State Supreme Court and reduce the number of judges in the 50th District Court by two. Before the judges positions are eliminated, the City encourages, the 50th District Court to accept its reduction in subsidy and take action this fiscal year to operate the court more efficiently.

The original budget adopted by my predecessor included a judgment levy to pay for the City's contribution to the City's various pension and VEBA funds. Unfortunately the City does not have the money to make these contributions, and the judgment levy is necessary at this time. While a judgment levy is included in the next fiscal year as well, it is anticipated that additional savings realized from the other parts of this plan, will make it unnecessary to utilize a levy for the 2012-13 fiscal year.

During the next two years, the City will continue to meet its existing debt service requirements on all bonds, notes, and municipal securities and all other uncontested legal obligations.

During the next two years, the City will continue to develop partnerships with neighboring communities to provide services in an efficient manner than will benefit all the partners. Additionally, services that can be provided by the private sector at a lower cost and at a level better than those that can be provided by the City will continue to be explored.

Finally, a balanced City operating structure needs to be in place for the elected officials to inherit. A review of the operational practices of the City of Pontiac has resulted in the observation of the inadequacy or lack of professional management practices. When systems are not working as designed, assuming that systems exist, dysfunction results. Dysfunction results in inefficiency. Inefficiency results in the waste of limited time and resources. Elected officials and city employees will be trained in proper management practices and financial monitoring tools as city departments are reorganized to focus on providing core services to the taxpayers.

A new organization chart (attached) has been developed for the City of Pontiac that will result with the City administered by four key department heads: a City Administrator, a City Clerk/Human Resources Director, a DPW Director, and a Finance Director.

The City Administrator will be responsible for the oversight of all public safety functions, including police, fire, and building and safety. In addition, the City Administrator will be responsible for oversight of the activities of the Pontiac Growth Group and various subcontractors, especially the information technology area.

The City Clerk and Human Resources position will be combined. The Clerk will have one deputy clerk and will have oversight of the cable division. The risk management and payroll functions will be transferred to the Finance Department. Vital records will be transferred to Oakland County and the County Clerk's Office will be asked to provide technical assistance in certain areas of election administration. The City will also reduce the number of precincts by April 15, 2012.

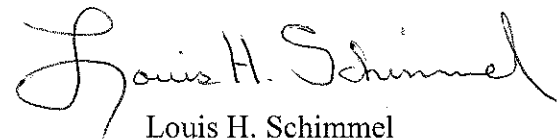
The DPW Director will be responsible for oversight of all public works activities. The City will strive to subcontract as many of the public works activities that are presently performed by City employees. The DPW will relocate to City Hall. All excess vehicles and equipment will be auctioned. The DPW facility will be sold.

The Finance Department will have four division managers: controller, purchasing/risk management, payroll/payables, and treasurer. The treasurer will be given administrative oversight of income tax and assessing, services that are presently subcontracted. The finance department's efficiency and internal control issues will be greatly improved with the implementation of the BS&A financial management software in February of 2012. The City will move from having four different financial operating platforms that do not interface to one system that will interface and allow for better customer service.

The City's Law Department will be abolished and all legal services will be provided by an outside counsel. The Federal Programs office functions are being transferred to Oakland County.

The organizational structure outlined above will be codified with amendments to the code of ordinances as necessary. In areas where union cooperation will be required, the City will negotiate with the unions as required by law.

Although the plan outlined above projects a positive fund balance at the end of the 2012 and 2013 fiscal years, the City is using one-time revenues to balance the budget each fiscal year. This plan will continue to be monitored and amended as conditions require. The success in the implementation of this plan will be dependent on the cooperation of all stakeholders: elected officials, taxpayers, employees, and retirees.



Louis H. Schimmel
Emergency Manager
City of Pontiac

City of Pontiac
 Deficit Elimination Plan
 Projected General Fund Operating and Cumulative Surplus (Deficit) - Fiscal Years 2012-2013
 October 20, 2011

	Amendments										Amended Budget	
	2012	1	2	3	4	5	6	7	8	9	2012	2013
Revenue												
Property taxes	\$ 8,187,270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,187,270
Income taxes	8,700,000	-	-	-	-	-	-	-	-	-	-	8,700,000
Penalties & interest on taxes	900,000	-	-	-	-	-	-	-	-	-	-	900,000
State Revenue Sharing	8,006,297	-	-	-	-	-	-	-	-	-	-	8,006,297
Fees/Charges/Misc	2,259,700	-	-	-	-	-	-	-	-	-	-	2,259,700
Licenses & Permits	1,564,396	-	-	-	-	-	-	-	-	-	-	1,564,396
Interest Earned	3,226,447	-	-	-	-	-	-	-	-	-	-	3,226,447
Admin Charges	300,000	-	-	-	-	-	-	-	-	-	-	300,000
Transfers from other funds	523,582	-	-	-	-	-	-	-	-	-	-	523,582
Contributions from other sources	8,000	-	-	-	-	-	-	-	-	-	-	8,000
Miscellaneous & Other	1,808,000	-	-	-	-	-	-	-	-	-	-	1,808,000
Fed/State Grants & Other	35,675,692	\$ 1,800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	35,475,692
Total Revenue												
Salaries & Wages	5,308,724	-	-	-	-	-	-	(500,000)	-	-	-	4,808,724
Fringe Benefits	9,961,215	-	-	-	-	(1,295,753)	-	-	(1,400,000)	-	-	7,265,462
VEBA Contribution General	34,438	-	-	-	-	(34,438)	-	-	-	-	-	-
VEBA Contribution Police & Fire	809,809	-	-	-	-	(809,809)	-	-	-	-	-	-
Supplies	669,302	-	-	-	-	-	-	-	-	-	-	669,302
Services	2,954,241	-	-	-	-	-	-	-	-	-	-	2,954,241
Professional Services	13,726,275	-	-	-	-	-	-	-	-	-	-	13,726,275
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous & Administrative charges	515,617	-	-	-	-	-	-	-	-	-	-	515,617
Bond Debt Service	2,154,813	-	-	-	-	-	-	-	-	-	-	2,154,813
Transfers to Other Funds	6,712,076	-	-	(1,350,000)	(125,000)	-	(2,440,000)	-	-	-	-	2,772,076
Contingencies	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	\$ 42,846,510	\$ -	\$ -	\$ (1,350,000)	\$ (125,000)	\$ (25,000)	\$ (2,140,000)	\$ (2,440,000)	\$ (500,000)	\$ (1,400,000)	\$ -	\$ 34,866,510
Excess: Revenue over Expenditures	(9,170,818)	-	-	-	-	-	-	-	-	-	-	605,182
Fund balance (Deficit) - Beginning	(3,330,219)	5,060,000	-	-	-	-	-	-	-	-	-	1,729,781
Fund balance (Deficit) - Ending												\$ 2,328,963

	Amendments										Amended Budget	
	2013 (2012 final amended)	10	11	12	13	14	15	16	17	18	19	2013
Revenue												
Property taxes	\$ 8,187,270	\$ (1,146,217)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,041,053
Income taxes	8,700,000	-	-	-	-	-	-	-	-	-	-	8,700,000
Penalties & interest on taxes	900,000	-	-	-	-	-	-	-	-	-	-	900,000
State Revenue Sharing	8,006,297	-	-	-	-	-	-	-	-	-	-	8,006,297
Fees/Charges/Misc	2,259,700	-	-	-	-	-	-	-	-	-	-	2,259,700
Licenses & Permits	1,564,396	-	-	-	-	-	-	-	-	-	-	1,564,396
Interest Earned	3,226,447	-	-	-	-	-	-	-	-	-	-	3,226,447
Admin Charges	300,000	-	-	-	-	-	-	-	-	-	-	300,000
Transfers from other funds	523,582	-	-	-	-	-	-	-	-	-	-	523,582
Contributions from other sources	800,000	-	-	-	-	-	-	-	-	-	-	800,000
Miscellaneous & Other	1,808,000	(800,000)	-	-	-	-	-	-	-	-	-	1,008,000
Fed/State Grants & Other	35,475,692	\$ (1,146,217)	\$ (800,000)	\$ 800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	34,329,475
Total Revenue												
Salaries & Wages	4,808,724	-	-	-	-	-	-	(1,000,000)	-	-	-	3,808,724
Fringe Benefits	7,265,462	-	-	-	-	-	-	-	(1,400,000)	-	-	6,233,462
VEBA Contribution General	-	-	-	-	-	-	-	-	-	-	-	-
VEBA Contribution Police & Fire	-	-	-	-	-	-	-	-	-	-	-	-
Supplies	669,302	-	-	-	-	-	-	-	(100,000)	-	-	669,302
Services	2,954,241	-	-	-	-	-	-	-	-	-	-	2,954,241
Professional Services	13,726,275	-	-	-	-	-	-	-	-	-	-	13,726,275
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous & Administrative charges	515,617	-	-	-	-	-	-	-	-	-	-	515,617
Bond Debt Service	2,154,813	-	-	-	-	-	-	-	(150,000)	-	-	2,154,813
Transfers to Other Funds	2,772,076	-	-	(125,000)	(25,000)	-	-	2,440,000	-	-	-	5,062,076
Contingencies	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	\$ 34,866,510	\$ -	\$ -	\$ (125,000)	\$ (25,000)	\$ 368,000	\$ 2,440,000	\$ (1,000,000)	\$ (250,000)	\$ (1,400,000)	\$ -	\$ 34,874,510
Excess: Revenue over Expenditures	605,182	-	-	-	-	-	-	-	-	-	-	(945,035)
Fund balance (Deficit) - Beginning	2,328,963	-	-	-	-	-	-	-	-	-	-	2,328,963
Fund balance (Deficit) - Ending												\$ 1,783,928

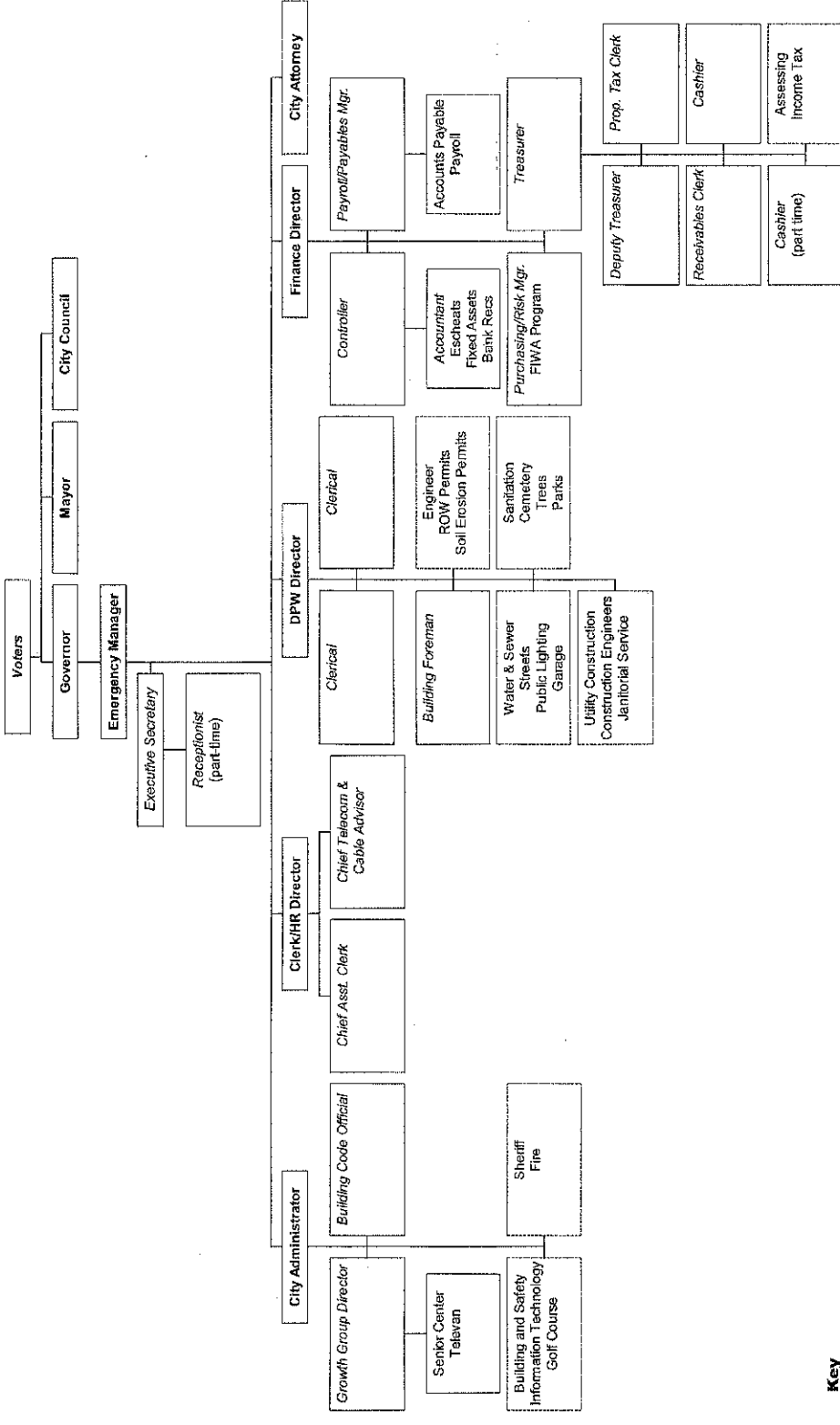
See attached for detailed description of the above budget adjustments (DEP action items)

City of Pontiac

Assumptions for Updated Deficit Elimination Plan

- 1) The books for 6/30/11 have been closed and are currently under audit. The estimated ending fund balance for the General Fund is \$1,719,781.
- 2) The City is eligible for reimbursement of pre 65 retiree healthcare costs through a grant (ERRP). The City has requested and is expecting reimbursement during 2012 approximately of \$1,800,000.
- 3) Beginning in January 2012, the City will assess a fee for rubbish collection to balance the rubbish fund and eliminate the required General Fund subsidy totaling \$1,350,000.
- 4) The City anticipates selling or entering into a management agreement to operate the cemeteries during 2012. The 2012 budget anticipates saving half the budgeted \$250,000 subsidy.
- 5) The City anticipates selling or entering into a management agreement to operate parking operations during 2012. The 2012 budget anticipates saving half the budgeted \$50,000 subsidy.
- 6) The City will not make the required contributions to the P&F and General VEBA's as well as the P&F pension contributions for the 2012 year saving the budget amount of approximately \$2,140,000.
- 7) The City anticipates the TIFA's remaining fund balance will be sufficient to cover their estimated operating loss for 2012 and therefore will not need to make the budgeted transfer of \$2,440,000.
- 8) Negotiations continue with the fire department union. The City anticipates savings in wages or fringe benefits of at least \$1,000,000 annually (\$550,000 during 2012)
- 9) The City is reviewing retiree healthcare and anticipates savings from plan changes and/or increase in copays. Total anticipated annual savings of \$2,800,000 (\$1,400,000 for 2012)
- 10) The City anticipates a decrease in property taxes from 2012 of 14% based on preliminary information from Oakland County.
- 11) Consistent with #2 above, the City is expecting reimbursement from the ERRP grant during 2013 approximately of \$1,000,000 (\$800,000 less than 2012).
- 12) The City plans to sell the golf course and anticipates net proceeds of approximately \$800,000 during 2013.
- 13) Consistent with #4 above, the City will realize the additional half year savings from the cemetery subsidy of \$125,000 eliminating the entire subsidy.
- 14) Consistent with #5 above, the City will realize the additional half year savings from the parking subsidy of \$25,000 eliminating the entire subsidy.
- 15) The City had a one time reduction of \$100,000 in 2012 for workers comp that will not recur and anticipates a 5% increase in overall fringe benefits.
- 16) The City anticipates the TIFA's will have no fund balance by 2012 and will require an annual subsidy of \$2,440,000 for 2013 and beyond.
- 17) Consistent with #8 above, the City will realize the additional savings from the fire union negotiations of \$1,000,000 for 2013.
- 18) The City anticipates \$100,000 phone savings from a new AT&T contract and will be placing \$150,000 of budgeted lawsuits on the tax rolls for 2013.
- 19) Consistent with #9 above, the City will realize the additional half year savings from the retiree healthcare savings of \$1,400,000 for 2013.

City of Pontiac Transitional Government Organization Chart



Key

City Employee

Subcontracted Service