

City of Pontiac
Written Financial Plan
Fred Leeb, Emergency Financial Manager

June 23, 2009

Honorable Council Members and Citizens of the City of Pontiac:

In accordance with the provisions of the City of Pontiac and State of Michigan, we are herewith submitting the City's proposed budget for the FY09/10. The total General Fund budgeted spending being proposed is \$46.1 million, \$3.9 million less than the current year's amended budget, reflecting a 7.8% reduction.

As you will see, the attached budget reflects the current economic crisis that is facing this City, State and the entire nation. Revenues from most sources are expected to decline as the City's costs, most of which are fixed, continue to rise.

We are faced with a large structural deficit that has not been resolved in past years and continues to grow and jeopardize our viability as a City. Pontiac is now in a "perfect storm" due to local unemployment estimated to be approximately 30%, City debt levels of approximately \$110 million, the inability of the citizens to bear a significant tax increase, lost opportunities to sell the Silverdome at a relatively high price in past years, the waste of tens of millions of dollars in prior years by the City on investments that have generated little or no return (e.g., the Strand Theater and the Phoenix Center), major declines in real estate values and resulting property taxes, the auto industry in a depression, the largest City taxpayer (General Motors) in bankruptcy, the need to provide tax abatements to attract new business to the City (e.g., Motown Motion Pictures), the State and Oakland County in their own budget crises and the high likelihood that local economic conditions will continue to worsen. More specifically, the impacts to Pontiac will include:

- Reductions to revenues from declines in the City's property tax base (from foreclosures, auto plant shutdowns and their ripple effects) and the income tax base (from a lower number of workers and from lower pay levels per worker).
- Increased costs of labor (primarily due to increases in overtime pay, longevity pay, contractual step increases, etc.), health care and other legacy commitments
- Further economic pain yet to be determined due to the impact of the General Motors bankruptcy and plant closings. GM already has notified us of the closing of the Pontiac Truck Plant and that the fate of the Pontiac Stamping Plant is likely to be tied to their decision (to be made by the end of this month) as to whether they will close their Lake Orion Assembly Plant. Even if GM chooses to keep open the Lake Orion Assembly and Pontiac Stamping Plants, Pontiac will receive lower tax revenue from GM because we have offered additional tax incentives to GM in the hopes they will make a favorable decision on this issue. GM also has told us that they have started to appeal all of their real and personal property valuations for all major facilities across the country in an effort to reduce their property tax liabilities by 80%. In addition, GM is now reviewing all of their major leases to assess whether they should be assumed or rejected in bankruptcy court. This could jeopardize the lease of GM's On Star facility in Pontiac.

The gap between total revenues and total costs is not new. The City has already cut large numbers of employees in past years, has frozen most salaries, and has sold or liquidated assets, settled contractual disputes and issued a large amount of debt. In fact, there already are many departments that are undermanned (such as the Police Department). These actions have proven, however, to be only stopgap solutions due to the local economic depression described above, generous fringe benefits for employees and retirees and union contracts that are far too expensive for the City to bear (e.g., the firefighters contract). The City has bought time with past actions but time has now run out. In addition, future budgets must also include payments for some of the actions that have been taken in the past. Debt service of \$2.2 million per year must be budgeted for the next 13 years just for the Budget Stabilization bonds of \$21.5 million that were issued in 2006 to finance previous years' deficits. The City must take immediate action now to bring costs in line with revenues. This budget reflects the need to take that step. We realize that we are rapidly running out of assets to sell and one-time fixes. We must fix structural imbalances now.

The following is a more detailed summary of the projected revenues and expenditures for FY10.

General Fund Revenues:

- Total General Fund revenues are estimated to be \$46,131,659 for FY10. This represents a decline from FY08 actual of 15% and a decline of 7.7% from the FY09 amended budget.
- Income tax revenues are projected to decline to \$9 million reflecting area layoffs, downsizing of the automobile industry and the deep national recession. This is a decrease of 24% since FY08 and a decrease of 19% from the FY09 amended budget.
- Property tax revenues (including PILOT) are projected to decline to \$12,816,753, representing a decrease of approximately 10% from the FY09 amended budget.
- State shared revenue is projected to decrease, for at least the fifth straight year, to \$10,813,624, declining by 9% from the FY09 amended budget. This amount has been based on our own conservative assumptions.
- Fees, such as those for permits and licenses, and other revenue sources from all collections areas will be analyzed to determine whether increases will be feasible. We have established a Revenue Enhancement team to assist in identifying new revenue opportunities. Any future increases in revenue, along with the costs required to realize these increases, will be in the form of amendments to the FY10 budget.

General Fund Expenditures:

- Total General Fund expenditures are estimated to be \$46,131,659 for FY10, a decrease of 7.7% from the amended FY09 budget.

- Personnel costs (salaries and wages, active and retiree fringe benefits) represent approximately 70% of the General Fund expenditures in the FY09 amended budget and approximately 68% in the FY10 budget.
- This budget assumes that Fire Department overtime will decrease by \$1,400,000 from the current year's levels to reflect a change in minimum manning levels from 30 to 24 persons per shift. In conjunction with this assumption, 16 vacant positions were removed from the FY10 budget. These reductions in minimum manning and in overtime are a major assumption which requires either agreement with the union or a favorable arbitration decision. *Implementation of this arrangement must begin immediately. Each day of delay will cause additional overtime costs which will result in a larger deficit in the current fiscal year.*
- The FY10 budget assumes that there will be no subsidy from the General Fund for the operations of the Golf Course as compared with a subsidy of about \$49,000 in the amended budget.
- The FY10 budget assumes that there will be a subsidy for the District Court from the General Fund in the amount of \$2.7 million, an increase of 2.7% above the subsidy in the amended FY09 budget.

Structural General Fund Deficit Elimination Actions

- The FY10 budget first assumes that all overhead costs not necessary to run basic City operations either has been eliminated or reduced to a minimum. This has resulted in cost reductions in the following senior positions:
 - Mayor—salary reduced to \$50,000/year, no benefits, no gas key
 - City Council—salary reduced to \$5,000/year, no benefits, no gas keys
 - Legislative Auditor—position eliminated
 - Chief of Staff—position eliminated
 - Chief Assistant to the Mayor—position eliminated
 - Finance Director—position eliminated
 - Growth Group Executive Director—retired, replaced by Chief Assistant to the Director (not in General Fund)
 - Downtown Development Authority Executive Director—salary reduction (not in General Fund)
 - In total, 39 regular full time positions have been reduced in all funds

After the above reductions and other non-personnel cuts, a projected \$6.9 million budget gap remains (FY10 budgeted expense greater than revenue) and will be addressed as follows:

- Asset sales of \$1.5 million (from potential sales of the Holland and Howard Dell Community Centers, the Golf Course and the two cemeteries) have been included to reduce the expense gap to \$5.4 million. The actual final proceeds from these asset sales are not yet known.

- The FY10 budget assumes that the remaining expense gap of \$5.4 million will be split equally between reductions in medical expenses (less generous medical plan offerings) and either new employee contributions to medical costs or lower wage costs. We intend to negotiate with the City's seven unions and all retirees as soon as possible to enable the most equitable sharing of these costs. All active employees and all retirees in all funds must participate fairly in these concessions to prevent an inequitable load on any group of employees.

We sincerely understand the hardship these proposed concessions represent and appreciate the sacrifices already made by our active and retired employees, but believe this is the best available option to addressing our budget problems.

- Including the impact of \$2,720,283 in concessions and/or cost savings, Salaries and Wages are budgeted at a reduction of 20% from prior year budget, at \$13,756,659. Without these concessions, the budgeted Salaries and Wages only represent a 5% reduction by taking recent position eliminations into account.
- In addition to the above-mentioned concessions and/or cost savings described above, the budget includes the projected impact of \$2,720,283 in concessions and/or cost reductions in fringe benefits. Without this concession fringe benefits would have had to increase by 25% in the FY10 budget from the levels in the FY09 amended budget. Even after the budgeted concessions of \$2.7 million, fringe benefits in the FY10 budget are projected to increase to \$14,076,363, 5% over the FY09 amended budget.
- As stated above, in order to balance the FY10 budget, wage and/or benefit concessions will be sought from all the City's bargaining units. Absent such agreements, a balanced budget will require the equivalent of the elimination of approximately 100 of the 281 budgeted positions in the City's General Fund. This would equate to an approximate 36% reduction in headcount in the General Fund. We believe that this would cause a decimation of City services and would be our least preferred choice.
- Additional elimination of positions may also be required as the impact of the GM bankruptcy becomes known and as department operations are analyzed in further depth. Any further cost reductions will be amended into this budget at a later date.
- The cumulative deficit remaining at the end of FY09 is estimated to be approximately \$6.0 million. We are assuming that the Silverdome will be sold through an auction process prior to December 31, 2009 and that the net proceeds will offset this cumulative deficit from prior years.

Other Funds

- No future federal stimulus funding has been included in the budget but additional funding will be sought when appropriate. It should be noted that this funding is

generally limited in its approved use and sometimes, such as with COPS funding, carries longer-term obligations. It is extremely unlikely, however, that any future Federal Stimulus funding could be used to decrease the budget deficit.

- In the upcoming months an analysis will be performed on the Water and Sewerage fees to determine what fee increases are merited. We will also know more of the impact on Water and Sewerage revenues as a result of future reductions in usage by GM's manufacturing plants.
- The FY10 budget for the Water and Sewerage funds currently includes projected cash flow deficits to be funded from the surpluses generated in prior years. These deficits with capital outlay and debt service paid in prior years are resulting in the projected depletion of cash in these funds during FY10. We intend to prevent capital spending during FY10 will cause such a deficit position. This situation will be investigated further during the FY10 and any revenue increases, cost savings or capital spending reductions will be addressed as budget amendments.
- Budgeted monthly operating costs for the Silverdome have been reduced and have been included only through December 31, 2009. The property will be offered at auction and the plan is to dispose of it no later than the end of the calendar year. The fund balance which previously paid for operating costs has been depleted and a General Fund contribution of about \$900,000 will be required to subsidize the property for half of the fiscal year.
- The FY10 budget assumes that Cemetery maintenance and operating costs of \$388,026 will be reimbursed by contributions from the Cemetery Endowment fund, requiring no subsidy from the General Fund.
- Staffing reductions will reduce the Pontiac Growth Group and Downtown Development Authority to one only one position in each organization. The budget also assumes that the offices will move into City Hall, further reducing operating costs and making additional funds available for debt obligations and to respond to declining tax revenues in those funds.

Other Key Statistics

- The General Fund has approximately 700 retirees and 280 active employees totaling 980 people. Only 29% of the General Fund people are active.
- All funds combined have approximately 932 retirees and 441 active employees totaling 1,373 people. Only 32% of the people in all funds are active.
- Medical expenses are expected to be a total of \$22.0 million for all funds. This equates to \$14,000/person in all funds including retirees (prior to the reductions that have been budgeted).
- The \$5.4 million deficit gap in the General Fund equates to \$5,500/person, including retirees.

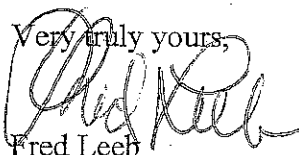
Each month that elapses without resolution may cause us to require deeper cuts in the remaining days of the fiscal year. If concessions cannot be quickly obtained other drastic means will be required to obtain the savings necessary. It is my sincere hope that all parties can work together toward the best interests of the City to achieve what is needed

and avoid any steps that will further jeopardize our service delivery or commitments to our citizens.

While this budget represents the City's best estimates at this time, it is understood that other revenue-increasing or cost-savings opportunities may be identified later for our consideration and use. Within the next few months, each department will be reviewed thoroughly to identify those opportunities and, as they present themselves and can be realistically quantified, the budget will be amended to reflect their potential contributions toward fiscal stability. It is my intention that this budget remain "under construction" as we dig deeper to identify and undertake efforts throughout the fiscal year to alleviate this crisis.

In closing, I am asking for the cooperation of all stakeholders of the City of Pontiac in helping to bring about the changes needed to respond to the dire economic situation we are faced with. I appreciate your input and will make myself and other key personnel available to answer any questions that you may have.

Very truly yours,



Fred Leeb

Emergency Financial Manager