

**Emergency Manager of the City of Allen Park
Order No. 037**

**ORDER OF THE EMERGENCY MANAGER OF THE CITY OF ALLEN PARK,
COUNTY OF WAYNE, STATE OF MICHIGAN, APPROVING A FUND
BALANCE RESERVE POLICY FOR THE CITY OF ALLEN PARK**

By the EMERGENCY MANAGER of the City:

WHEREAS, under Local Government Fiscal Responsibility Act, Act 72, Public Acts of Michigan, 1990, as superseded by the Local Financial Stability and Choice Act, Act 436, Public Acts of Michigan, 2012 ("Act 436"), and a Contract (the "Contract") dated October 25, 2012 between the State of Michigan and Joyce A. Parker. Joyce A. Parker has been appointed as the Emergency Manager (the "EM") of the City of Allen Park, County of Wayne, Michigan (the "City") and charged with the power to take actions with respect to the City, including the power to exercise the authority and responsibilities of the Mayor, the City Manager, as the Chief Administrative Officer, and of the City Council, as the governing body of the City, concerning the adoption and amendment and enforcement of ordinances and resolutions affecting the financial condition of the City as provided in the Home Rule City Act, Act 279, Public Acts of Michigan, 1909, as amended ("Act 279"); and

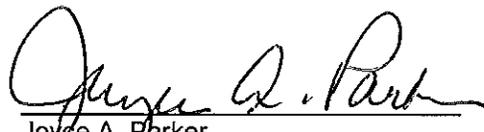
WHEREAS, under Act 436 the EM is authorized and directed to issue to the appropriate officials and employees of the local government the orders the EM considers necessary to accomplish the purposes of Act 436 for the benefit of the City, and

WHEREAS, the EM has determined it is in the best financial interest of the City and necessary to accomplish the purposes of Act 436 and the financial plan of the EM, to approve a new Fund Balance Reserve Policy related to the fund balance reserve requirements for the General Fund.

**NOW THEREFORE, BE IT ORDERED BY THE EMERGENCY MANAGER OF THE CITY
OF ALLEN PARK, PURSUANT TO ACT 436 of 2013, AND THE CONTRACT, THAT:**

1. The Fund Balance Reserve Policy for all funds attached is approved as presented.
2. Repeal. All orders of the EM, resolutions of the City Council of the City, and parts of resolutions or orders in conflict with this Order are hereby repealed to the extent of such conflict.

SO ORDERED this 1st day of July, 2014.



Joyce A. Parker
Emergency Manager
City of Allen Park

City of Allen Park Fund Balance Reserve Policy

Baird 07.02.14

In consideration of Order No. 2013-021 and the commitment made to voters after the passage of the millage, the following fund balance reserve policy is revised as of 7-1-14 and attached to Order No. 2014-037:

Whereas, there is a General Fund deficit of (\$694,185) at the end of the fiscal 2013/14, which carries over to fiscal year 2014/15; and

Whereas, during the fiscal year 2014/15, the city will be able to resolve or not resolve a number of issues that will impact the financial viability of the city. The issues include the following:

1. The sale of the Southfield Lease Properties: Without the sale of the property, the city's debt service payments will continue at the \$2.6 million. \$1.9 million will be required as a general fund contribution which is more than what is included in the deficit elimination plan and the budgets for the next two years.
2. There is a vote scheduled in August, 2014 regarding personal property taxes. If voters approve the legislation, the city will lose personal property taxes with replacement of the revenue from the State of Michigan. The city will not receive total reimbursement of the taxes during the current fiscal year and will be required to make up the shortfall.
3. This is the last year for the SAFER grant. The city will be making application for a continuation of the grant, however, if the grant is not approved, the city will have a reduction in revenue to support fire operations.
4. Currently, the City has an outstanding lawsuit regarding retiree health care. If the city does not prevail with the lawsuit, the city will have a shortfall in the general fund budget and will need to identify funding to address the shortfall.
5. The city will be evaluating options available for a new city hall. There is some funding in the 2014/15 budget; however, the amount may not be adequate to cover the costs associated with this project. Having adequate reserves is essential at this point in time.
6. The city recently applied for an Emergency Loan to cover outstanding debts related to the pension fund and for debt service reimbursement. If the city proceeds with the loan or considers another alternative to repay the outstanding amount, a payment will be required.
7. There may be unanticipated emergency expenses. Having an adequate general fund reserve will help in such situations.

Whereas, the Governmental Officers Association (GFOA) recommends 2 months worth (or about 17%) of General Fund balance reserves, it is in the best interest of the City to revise the General Fund balance reserve requirement to 10-15% of annual operating expenditures plus 1.2 restricted debt service ratio to cover bond or loan payments. The General Fund balance reserve for the fiscal year 2014/15 shall be 10%; and

Whereas, at the end of the fiscal year 2014/15, and following the release of the annual audit report for the fiscal year, the General Fund balance will be evaluated to determine if a millage rollback is warranted from the Special Police and Fire Millage (approved by voters in August, 2013). Based on the review and determination of the fund balance, if the City is stable in order to provide a millage rollback, the rollback would be a part of the fiscal year 2015/16 budget and provided to residents at the end of the fiscal year. This methodology is important in order to confirm the City's financial stability before a rollback is authorized.

Therefore, the Emergency Manager hereby authorizes the following Fund Balance Reserve Policy for the City of Allen Park, effective July 1, 2014:

FUND BALANCE RESERVE POLICY

The City desires to maintain a prudent level of financial resources to guard its citizens against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. The Fund Balance is to be accumulated to meet this purpose, to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The City's goals are to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated revenues.

The following fund balance reserve policy should be used to provide the general framework for setting unreserved, undesignated fund balance reserve levels and for proposals with intended use of fund balance reserves. The City recognizes there are no absolute rules or easy formulas that provide fund balance reserve levels. Generally, reserve levels are determined based on a percent of operating expenditures plus debt service ratio. The City recognizes the need to provide a policy which provides the guidelines for the annual review and discussion of fund balance reserves during the budget development process. Planned use of fund balance reserve decisions should be the result of deliberative consideration of all factors involved.

RESTRICTED DEBT SERVICE RATIO

In connection with the adoption of the City's annual budget for the General Fund, Enterprise Funds, Special Revenue Funds, or Component Units of the City, the City or Component Units of the City shall annually restrict a cash amount equal to 1.0 to 2.0 times the annual debt service due that fiscal year. Unless otherwise required by applicable bond documents, the restricted cash amount

are not and shall not be considered pledged funds for any related bond issues, shall be tested not more than semi-annually and may be expended for other purposes subject to being replenished by the applicable or established testing date.

GENERAL FUND 10-15% Operating Expenditures Plus 1.2 Restricted Debt Service Ratio

To account for resources traditionally associated with governments, which are not required to be accounted for in another fund. Expenditures from the General Fund go to services such as public safety (police, fire, and emergency management); parks and recreation programs; development and planning; community development services; roads; the City’s legal and general government administration; and a variety of other services and programs.

The City considers it a good practice to keep 10-15% of annual operating expenditures in unrestricted governmental fund balance plus 1.2 restricted debt service ratio to cover debt service.

The decision to retain a fund balance of 10-15% of operating expenditures stems from the following considerations:

- This amount provides adequate funding to cover approximately two-three months of operating expenses.
- It provides the liquidity necessary to accommodate the City’s uneven cash flow, which is inherent in its periodic tax collection schedule.
- It provides the liquidity to respond to contingent liabilities.

Only under circumstances deemed extraordinary by the City, during annual budget preparation or when unforeseen expenses arise, will funds be removed from this fund balance to cover a shortfall. Only in the case of events that can be considered to be an emergency will this fund be allowed to fall below a level of 10% of operating expenditures plus a 1.2 restricted debt service ratio. Replacement of funds removed from this fund balance will be a priority of the City over other expenses in subsequent years, at the discretion of the Emergency Manager or Receivership Transition Advisory Board (if applicable), or the City Council.

ENTERPRISE FUNDS 25% Operating Expenditures Plus 1.2 Debt Service Ratio

Includes all revenue and expenses necessary to operate the funds including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

For Utility fund balance reserves (wastewater and water), the decision to increase or decrease target fund balance reserves will be supported by the report of cost of service study or review provided by the City’s consultant.

Water and Wastewater Systems - to account for the collection and treatment of the sewage of the City and to account for the proceeds of bonds and construction of infrastructure related to the City's Water and Wastewater Systems.

SPECIAL REVENUE FUNDS

1.2 Debt Service Ratio

To account for the proceeds of specific revenue sources (other than those from expendable trusts or for major capital projects), which are restricted legally to expenditure for specified purposes.

MVH Major and Local Roads - to account for the State-Shared gasoline and weight tax collections to provide for certain maintenance, repair costs and capital improvements of the City's Roads.

COMPONENT UNITS:

Legally separate organizations for which the elected officials of the primary government are financially accountable.

Downtown Development Authority

2.0 Debt Service Ratio by FY 2016

To account for the tax increment revenue that is derived in the Downtown Development District, which is used to pay debt service on outstanding bond issue(s) and finance various improvements in the downtown area.

Brownfield Redevelopment Authority

1.0 Debt Service Ratio

To account for the capture of property tax revenue and the appropriation of revenue to pay debt service on outstanding bond issue(s), administrative and costs, and reimbursements to the developers.