EMERGENCY FINANCIAL AND OPERATING PLAN
FOR
CITY OF ALLEN PARK

January 31, 2013

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ATTACHMENTS

- 2011 – 2012 Audit
- Letter from Governor Establishing State of Emergency
- Allen Park Review Team Report
- Deficit Elimination Plan for General Fund (Fiscal Years 6/30/13 – 6/30/17)
- 2011 – 2012 City Operating Budget
- General Fund Summary of State Shared Revenue, Property Taxes and Total Expenditures
- November 20, 2012 Town Hall Survey

Part 1

Authorization of Objectives

Section 1.01 Authorization

This Emergency Financial Plan for the City of Allen Park is required by Article 2, of the Local Government Fiscal Responsibility Act; Act 72 of 1990. A Financial Plan for a city must provide for all of the following:

a.) Conducting the operations of the local government within the resources available according to the Emergency Financial Manager's revenue estimate.

b.) The payment in full of the scheduled debt service requirements on all bonds and notes of the local government and all other uncontested legal obligations.

Section 1.02 Objectives

The Emergency Financial Plan for the city of Allen Park has the following objectives:

a.) To provide a balanced budget based on realistic revenue and expense projections

b.) To provide a realistic and practical plan to eliminate the structural and cumulative deficit

c.) To provide for an operational plan for the organization that is streamlined and efficient

After the initial development of a financial plan, the plan shall be re-examined by the Emergency Financial Manager in consultation with the local government, and if the Emergency Financial Manager reduces her revenue estimates, the Emergency Financial Manager shall modify the financial plan to conform to revised revenue estimates. If there are major reductions in expenditures exceeding amounts stated in the Plan, revenue reductions may be considered.

Section 1.03 Deficit Elimination Plan

As authorized by the Act, the Emergency Financial Plan shall also serve as a deficit elimination plan for the City of Allen Park otherwise required by law for the city, if approved by the State Treasurer.

Part 2

Definitions

Section 2.01 Definitions

As used in this Emergency Financial Plan:

(a) "**The Plan**" means the Emergency Financial Plan

(b) "**Act**" means the Local Government Fiscal Responsibility Act, PA 72 of 1990.

(c) "**Council**" means the Allen Park Mayor and City Council

(d) "**City**" means the City of Allen Park, Michigan

(e) "**EFM**" means the Emergency Financial Manager

(f) "**Review Team**" means the Allen Park Financial Review Team

(g) "**EM**" means the Emergency Manager

(h) "**Treasurer**" means the State Treasurer for the State of Michigan

(i) "**DEP**" means the Deficit Elimination Plan

Section 2.02 Singular or Plural Terms

Every word or defined term in this plan importing the singular manner only may extend to and embrace the plural number, and every word or defined term importing the plural number may be applied and limited to the singular number.

Section 2.03 References to Statutes

A reference to a statute or portion of a statute in the plan shall be deemed to include the latest amendments to the statute or portion of a statute.

Section 2.04 Catch Lines

The catch line heading of any section of this plan shall not be deemed to be a part of the section or The Plan, or be used to construe the section more broadly or narrowly than the text of the section would indicate, but shall be deemed to be inserted for purposes of convenience.

Part 3

Financial Status

Section 3.01 Review Team and Financial Status of City

On July 10, 2012, an Allen Park Financial Review Team was appointed to review the financial condition of the City of Allen Park. On July 18th, 23rd, and 24th and August 2nd, 2012, Allen Park Financial Review Team members met and reviewed information relevant to the financial condition of the city. Based upon those reviews, the Review Team concluded in accordance with Section 13(4)(d) of PA 4 Local Government and School District Fiscal Accountability Act, that a local government financial emergency exists within the City of Allen Park, and that no satisfactory plan exists to resolve the emergency. Therefore, the Review Team recommended the appointment of an Emergency Manager.

The review concluded the following which was the basis for a determination that a financial emergency exists and an Emergency Manager should be appointed.

(a) The City's long-term bond rating fell further below the BBB category and is considered a "junk" rating.

(b) City officials violated requirements of Section 17 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.

Section 3.01 (continued)

(c) City officials had not filed an adequate or approved deficit elimination plan with the Department of Treasury for the 2011 fiscal year.

(d) The City's debt was significantly high, due primarily to business-type activities, unfunded pension liabilities, and post-employment healthcare.

(e) While the number of active employees in the City's pension system decreased from 176 in 1991 to 103 in 2011, annual pension outlays increased from $1,042,595 to $6,908,395 during the same period. The pension system was 70.2% funded.

(f) During the 2010 fiscal year, city officials issued limited tax general obligation debt to finance the acquisition of property adjacent to City Hall for the purpose of establishing a movie studio. Because the movie studio was never realized, the City was left with annual debt service which had been remitted from the City's general fund. The City issued bonds for $31 million in general obligation bonds related to the Southfield Lease Properties. However, before the close of the 2010 fiscal year, the value of the property had been reduced. The City's general fund balance decreased substantially, primarily due to the appropriation required to pay-debt service for the Southfield Lease Property.

(g) The City requested a dedicated millage to pay debt service for the Southfield Lease Properties. The voters rejected the proposal. As a result of the rejection, the City is required to pay debt service for the bonds from the general operating fund, and due to inadequate funds, the payment creates a structural deficit.

(h) The City has been experiencing significant cash flow shortages. The City received $2,050,000 in tax anticipation note proceeds in May 2012, without which the City would have depleted its general fund cash. In August 2012, the City repaid the Tax Anticipation Note from property tax collections, which again created a shortfall in operating expenses.

(i) Other cost pressures included the salary and benefit structure. The police and fire service budgets represent over 43 percent of the total general fund budgets for 2011 and accounted for 73% of personnel positions in the City.

Section 3.02 Annual Audits for 2011 and 2012 Fiscal Years

In addition to the Financial Review Team Report, the City's 2011 fiscal year financial audit indicated there were factors that raised substantial doubt that the City could continue as a "going concern". Factors cited in the audit included the following:

1.) An impairment loss of approximately $4 million attributable to the Southfield Lease Properties fund.

2.) Significant negative cash flow from the Southfield Lease Properties fund and a substantial debt obligation of more than $2 million each year.

3.) A deficit in the general fund.

4.) The failure of a 3.5 millage request to repay debt service related to the Southfield Lease Properties debt service.

5.) A decline in taxable value over the past several years which has resulted in a reduction in property tax revenues. Taxable values of real and tangible personnel property within the City had fallen 24 percent.

The City's 2012 audit revealed a deficit in the amount of $857,145 and significant concerns in the audit report to include the following:

1) The General Operating Fund reported expenditures and transfers out in excess of revenue of approximately $1.8 million, resulting in a decrease in the General Fund balance to an $857,145 deficit.

2) Property taxes continued to decrease in the City with general fund receipts totaling $8,515,108. This is a reduction of $1.9 million (18.2 percent) from the prior year property tax revenue totaling $10,411,797.

3) Included in the General Fund operating deficit was a transfer of approximately $2.4 million to subsidize Southfield Lease Properties fund. The fund did not have sufficient revenues to cover operating costs and debt service payments. At June 30, 2012, the Southfield Lease Properties fund showed an operating loss of $409,882.

4) Net assets may serve over time as a useful indicator of a government financial position. In the case of Allen Park, assets exceeded liabilities by $49,268,841 in comparison to $59,319,319 in the prior year.

5) The City's actual expenditures for administration exceeded budgeted expenditures by $17,226 and in transfers to other funds by $214,554.

6) While the City's taxable value of property has decreased significantly over the last 2 years, the cost of operation has continued to increase.

7) The structural deficit in the general fund is approximately $4,000,000.

Section 3.03 Major Revenue & Expenses for the Past Seven Years

From 2007 – 2013 (projected), the City of Allen Park has seen a reduction in state shared revenue of 13.17%; in property taxes by 28.78%; and a decrease in operating expenditures by 20.89%.

Part 4

Consideration of Alternatives to Address Structural Deficit

Section 4.01 Alternatives

The following efforts are in process to address the shortfall and to eliminate the anticipated deficit for the fiscal year ending June 30, 2013. It should be noted that these efforts are short-term and does not address the structural operating deficit on a long term basis.

- Voters approved a special millage for Police and Fire expenses levied December 1, 2011, which generated net revenue of approximately $2.6 million. The revenue provided from the special assessment is not adequate in terms of the number of mills levied and the number of years for the levy to meet operating expenses for Police and Fire.

- The City developed a work plan utilizing the minimal number of staff in its operation of the General Fund. The Plan calls for closing City Hall on Fridays and reducing the hours of operation to the public. This alternative does not generate savings to offset operating expense. Closing City Hall on Fridays allow existing staff time to complete assignments not addressed throughout the week.

- The City work plan included several staffing reductions for estimated savings of $424,000. Unfortunately, savings from staffing in some cases did not impact the general fund because some of the positions were funded from other funds instead of the general fund.

- The City is working on issuing debt to ensure adequate cash flow from operations until the end of the fiscal year ending June 30, 2013.

Section 4.02 Bankruptcy

Under Article 2, 141.1222, Section 22 and 23, the Emergency Financial Manager may provide written notice to the Local Emergency Financial Assistance Loan Board requesting authorization to proceed under Title II of the US Code, II U.S.C. by the EFM that no feasible financial plan can be adopted that can satisfactorily resolve the financial emergency in a timely manner, or a determination by the EFM that an adopted financial plan, in effect for at least 180 days cannot be implemented as written, or as it might be amended, in a manner that can satisfactorily resolve the financial emergency in a timely manner.

The Manager has determined that the initiation of bankruptcy proceedings under the Act is not a viable option at this time for achieving the objectives for the City for the following reasons:

a) The requirements under the Act for requesting the initiation of bankruptcy proceedings cannot currently be satisfied.

b) An alternative to bankruptcy for rectifying the financial emergency exists and is described in Part 5. If the alternative stated in Part 5 is determined to be inadequate to eliminate the structural and cumulative deficit, reconsideration may occur regarding bankruptcy.

Part 5

Financial and Operating Plan

As stated earlier, alternatives proposed by the City may address the immediate cash flow. However, the alternatives do not go far enough to offer a long term strategy to address budgetary needs and to eliminate the structural and cumulative deficit.

The financial and operating plan as stated in Part 5 is being considered based on a number of factors; guidance from Allen Park residents and businesses, comments and suggestions made at a Town Hall meeting and several Coffee Times with the Emergency Financial Manager, consultation with Allen Park elected and appointed officials, and experts in the financial area.

Section 5.01 Survey Information from November 20, 2012 Town Hall Meeting

In order to develop a financial and operating plan that is responsive to community needs and desires, a survey was conducted in November 2012 at a Town Hall meeting. Approximately 66% of residents in attendance completed the survey. The survey summary is attached for informational purposes. Information gathered with the survey included the following:

* 58% support or strongly support employees paying more for healthcare.
* In general, there is a hesitancy to cut services in any department, but the ranking of willingness to cut starts with Parks & Recreation and then drops, in order to Building & Engineering, Fire, Public Services and Police.
* There is majority support for regionalizing/consolidating services with other communities.
* There were many ideas for use of the studio property next door to City Hall. The most frequent response was for a Costco or some other type of retail.
* One survey question was "*What is Allen Park*?" The responses were summarized that: "Allen Park is a clean, safe community with quality schools and long time residents who are very proud of their city and close to their neighbors".
* 19% in attendance are in favor of a tax for debt service. 24% are willing to assist the City with park and street clean up. 17% are in favor of a fee for trash collection.

Section 5.02 Components of Financial and Operating Plan

The survey has been given consideration in the development of the Financial and Operating Plan. The Plan as stated below is comprised of three categories: Revenue Enhancements, Expenditure Reductions, and Operational changes to facilitate a higher functioning, more effective and efficient organization. As stated, the overall objective in the Financial and Operating Plan is to eliminate the cumulative and structural deficit and to make the necessary reforms to bring the City organization in line with current benchmarks and standards that are inherent with high performance organizations.

Section 5.03 Revenue Enhancements:

	Sources of Revenue	General Fund $	Rubbish Fund $
1	Review Administrative Fees	100,000	
2	Review License/Permit Fees	50,000	
3	Increase Special Assessment for Police and Fire Operation or/Alternative – Subcontract Fire & EMS Services or Develop an Alternative Model	2,000,000	
4	Sale of Underutilized City parks and vacant lots	25,000	
5*	Solicit Grants for City Services	1,250,000	
6*	Refinance Southfield Lease Bonds	1,700,000	
7	Point of Sale Program for Homes Sold	97,000	

* One Time Revenue Enhancement

Other Revenue Consideration

- Sell the Studio Property. Revenue from sale of property will be used to reduce outstanding debt.
- Contribution from DDA & BRA to reimburse General Fund for services provided in district.
- Inter fund borrowing and possibly TAN for short-term cash flow while plan is being implemented. Emergency loan may be explored.

Section 5.04 **Expenditure Reductions:**

	Sources of Expense Reduction	General Fund $	Rubbish Fund $
1	10% Salary Reduction Beginning the End of 2012/13 FY	381,000	
2	80/20 Health Insurance Employee Co-Pay	440,000	
3	Insurance Program Changes for Retirees	550,000	
4	Elimination of Curbside Pickup by DPS		200,000
5	Reduction of Holidays and Vacation Pay	90,000	
6	Reduction of Mayor/Council Pay by 50%	52,080	
7	Eliminate In-House Assessor Position – Hire Deputy Assessor & Contract for Assessor Services	35,000	
8	Reduce Sick Leave from 90 to 12 Days Per Year	TBD	
9	Reduce Vacant Staff Positions by a Minimum of 9 Positions	722,000	
10	Reduce Pension Multiplier	TBD	
11	Liability Insurance Reduction	35,000	

Other Proposed Changes

1. Review actuary report and assumptions for pension contribution made by City.
2. Review District Court operations for potential savings.
3. Review contribution to General Fund to support service delivery to DDA, BRA and retail commercial development.
4. Review feasibility of transferring pension plan and/or other options.
5. Consolidate Fire service with nearby community or develop an alternative model.
6. Subcontract for dispatch and jail services.
7. Evaluate the feasibility of reserve, CERT and volunteer programs for Police and Fire departments.

Section 5.05 Plan Assumptions

1.) Eliminate vacant Police and Fire positions estimated at 9 positions. Deeper reductions will be required if an increase in the Special Assessment does not take place. Based on community comments, reductions are currently proposed to meet best practices in local government. This methodology is based on concerns raised in the community regarding maintaining service delivery based on the current model. Other service delivery models can also be considered.

2.) The Plan addresses a 10% reduction in personnel wages, beginning the end of the 2012/2013 fiscal year.

3.) The Plan proposes a reduction of pension multiplier from (2.9 or 2.5%) to 2.25%. This action is prospective. Savings have not been included in the Deficit Elimination Plan, due to limited savings in the short-term. Long-term savings may be significant.

4.) Streamline health insurance programs and implement an 80/20 employee co-pay. Prescription co-pays will also be reviewed.

5.) Review retiree healthcare coverages to identify potential savings at comparable coverage levels currently provided. Review prescription co-pays for retirees from $1, $2, $5 and $10 to a higher co-pay.

6.) Consider adoption and implementation of a "Point of Sale" inspection program. The program is projected to generate $97,000 in revenue and maintain and improve the quality of housing in the City.

7.) Reduce sick days for all appointee contracts from 90 days to 12 days per year.

8.) Eliminate curbside pickup by DPS workers. This service is covered under the trash contract with Republic and the service has been duplicated by City workers.

9.) The Plan includes an additional $475,000 for cost increases during 2013/2014 fiscal year.

Section 5.05 (continued)

10.) The Plan includes refinancing the Southfield Lease Property to reduce expenses until the property is sold. The property is currently on the market for sale. Any proceeds from the sale will be used to repay the debt.

11.) The Deficit Elimination Plan includes a 4% reduction in taxable value based on the Assessor's preliminary calculation of loss in taxable value.

12.) The City will review options related to pension contributions and other pension plans.

13.) The Plan proposes an increase in the special assessment for police and fire services. If it is not approved, reductions in Police and Fire costs will occur in an equal amount. Revenue is estimated not to exceed amount of $2,000,000.

14.) Administrative charges will be reviewed and increased as necessary.

Section 5.05 (DEP Summary)

City of Allen Park
General Fund Deficit Elimination Plan
Departmental Basis
Fiscal Years June 30, 2013 Through June 30, 2017

	Actual 6/30/2012	Amended Budget (as of 12/31/12) 6/30/2013	Revised DEP 6/30/2013	Projected 6/30/2014	Projected 6/30/2015	Projected 6/30/2016	Projected 6/30/2017
Revenue/Other Financing Sources							
Property Taxes	$ 8,439,439	$ 7,172,703	$ 7,172,703	$ 6,882,703	$ 6,882,703	$ 6,882,703	$ 6,882,703
Police & Fire Special Assessment	2,619,461	2,620,000	2,620,000	2,620,000	2,620,000	2,620,000	2,620,000
Impact Fee	400,000	-	-	-	-	-	-
State Revenue Sharing	2,361,232	2,436,707	2,436,707	2,436,707	2,436,707	2,436,707	2,436,707
District Court	1,750,519	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
Franchise Fees	487,098	480,000	480,000	480,000	480,000	480,000	480,000
Ambulance Transport Fees	627,664	630,000	630,000	630,000	630,000	630,000	630,000
Equipment Rental	331,958	300,000	300,000	300,000	300,000	300,000	300,000
Sale of Vacant Property	-	-	25,000	25,000	25,000	25,000	25,000
Charges for Services, fees and other rev	1,804,821	1,367,485	1,367,485	1,464,485	1,464,485	1,464,485	1,464,485
Operating Transfers In	325,397	140,000	140,000	140,000	140,000	140,000	140,000
Administrative Charges	307,758	192,660	227,660	300,000	300,000	300,000	300,000
Voted Increase in spec assess mills or reductions	-	-	-	2,000,000	2,000,000	2,000,000	2,000,000
Total	19,455,347	16,989,555	17,049,555	18,928,895	18,928,895	18,928,895	18,928,895
Expenditures/Other Financing Uses							
Mayor and Council	104,159	75,178	52,080	52,080	52,080	52,080	52,080
District Court	2,025,822	1,904,755	1,904,755	1,904,755	1,904,755	1,904,755	1,904,755
Clerk	315,637	253,821	253,821	253,821	253,821	253,821	253,821
Administration	1,030,418	1,087,650	1,087,650	1,052,650	1,052,650	1,052,650	1,052,650
Assessor	202,846	208,340	208,340	208,340	208,340	208,340	208,340
Finance	214,341	311,030	311,030	311,030	311,030	311,030	311,030
Treasurer	151,605	97,840	97,840	97,840	97,840	97,840	97,840
City Hall	260,080	263,180	263,180	263,180	263,180	263,180	263,180
Police	6,059,007	5,999,700	5,799,367	5,209,700	5,209,700	5,209,700	5,209,700
Fire	3,677,172	3,901,100	3,603,600	3,058,100	3,058,100	3,058,100	3,058,100
Public Service	1,159,373	1,042,100	1,042,100	1,042,100	1,042,100	1,042,100	1,042,100
Parks and Rec	955,631	583,300	583,300	583,300	583,300	583,300	583,300
Retiree Healthcare	2,550,541	3,040,000	2,948,333	2,490,000	2,490,000	2,490,000	2,490,000
Increase in healthcare costs, pension, etc	-	-	-	475,000	475,000	475,000	475,000
Pension contribution deferral	-	-	(2,600,000)	-	-	-	-
Operating Trans Out - Rubbish Fund	155,681	200,000	127,083	-	-	-	-
Operating Trans Out - Southfield Lease Fund	2,408,332	1,800,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Total	21,270,645	20,767,994	16,882,479	18,201,896	18,201,896	18,201,896	18,201,896
Net Revenue Over (Under) Expenditures	(1,815,298)	(3,778,439)	167,076	727,000	727,000	727,000	727,000
Beginning Fund Balance - as adjusted	958,150	(857,148)	(857,148)	(690,072)	36,928	763,927	1,490,927
Estimated Ending Fund Balance	$ (857,148)	$ (4,635,587)	$ (690,072)	$ 36,928	$ 763,927	$ 1,490,927	$ 2,217,926

Section 5.06 Organizational Changes

1. Cross train existing staff to serve in multiple areas to facilitate increased support in various departments.

2. Reopen City Hall initially on Fridays, and if feasible, during lunch hours.

3. Conduct a feasibility study to determine space needed for operational purposes and identify an alternative site for City Hall.

4. Review and establish best practices and adequate internal controls to facilitate an efficient and high performing organization.

Section 5.07 City Reorganization

Various City departments will be evaluated with the goal of reorganization within twelve months of the Plan approval.

Part 6

Implementation

Section 6.01 Public Informational Meeting

A public informational meeting was held on _____ to review the Plan and any modifications to the Plan. The meeting was held at 6:00pm at _____.

Section 6.02 Reexamination of Plan

This Plan will be reexamined at least every 6 months by the Manager and Treasurer, or his or her designee.

Section 6.03 Modification of Plan

The Manager may from time to time modify this Plan as the Manager determines necessary to advance the objectives of this Plan. If the Manager reduces revenue estimates for the district, the Manager will modify the Plan to conform to the revised revenue estimates. Prior to implementing any modification, the Manager will first notify the Treasurer.

Section 6.04 Issuance of Orders

As authorized in the Act. The Manager will issue to the appropriate elected and appointed officials and employees, agents, and contractors of the City, the orders considered necessary for the timely and satisfactory implementation of this Plan.

Section 6.05 Submission of Plan

This Plan was developed after consultation with the State Treasurer and shall be submitted to the State Treasurer.

EMERGENCY FINANCIAL AND OPERATING PLAN

FOR

CITY OF ALLEN PARK

Submitted by: _____

Joyce A. Parker
Emergency Financial Manager
City of Allen Park

January 31, 2013

Public Hearing Held: February 19, 2013

Approved By: _____

Joyce A. Parker
February 20, 2013