



CITY OF PONTIAC
EMERGENCY FINANCIAL MANAGER

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June 8, 2011

L. Brooks Patterson
Oakland County Executive
2100 Pontiac Lake Road
Building 41 West, 5th Floor
Waterford MI 48328

Dear Mr. Patterson:

I am forwarding the budget letter covering the City of Pontiac for the 2011-2012 fiscal year for your advance information.

The budget letter outlines and makes clear the worsening financial situation of the City within the last month, in particular.

In this regard, I will shortly be making recommendations concerning how this situation may be most effectively addressed including bankruptcy. However, I would like to have an early discussion with you to discuss the possibilities for merger of Pontiac into/with Oakland County. I realize this is perhaps a radical concept but I hope the positive consequences associated with such an initiative may be carefully weighed against the negatives of continuing the present situation.

I look forward to seeing you this afternoon.

Sincerely,

Michael L. Stampfler
Emergency Manager

CC: Dennis Cowan, Esq., Plunkett Cooney
Enc: Budget Letter

MLS/jkh



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Taxpayers of the City of Pontiac:

Meeting the 2008 Deficit Elimination Plan

During the 2010-11 fiscal year ending on June 30, 2011, I took the following steps to insure that the City's financial results met the General Fund deficit target of \$3,376,743 specified in the City of Pontiac's Deficit Elimination Plan approved by the Michigan Department of Treasury on June 23, 2008:

Accountability and Transparency

- Requested and received reimbursement of \$4.2 million from the GERS VEBA for retiree health insurance costs. This amount has already been received and is unavailable for the 2011-12 fiscal year due to the funds in this account being substantially depleted.
- Contracted with a third-party auditor to review health insurance rolls that resulted in \$1.3 million in annual savings through the identification of 95 persons who were found to be ineligible for the City's health insurance program.

Consolidation of Services

- Privatized Building and Planning services resulting in savings of \$358,000 for the balance of the fiscal year.
- Privatized Income Tax collection services resulting in a savings of \$82,074 for the balance of the fiscal year.
- Privatized Information Technology services that will result in an annual savings of \$179,911 starting next fiscal year.
- Contracted with Oakland County Sheriff for police and dispatch services that will result in an annual savings of \$2.2 million per year starting next fiscal year.

Employee Compensation

- Implemented workforce reduction of 72 employees on November 12, 2010, resulting in a savings of \$2,624,994 for the balance of the fiscal year.
- Implemented workforce reduction of 18 employees on December 31, 2010, resulting in a savings of \$517,220 for the balance of the fiscal year.
- Implemented workforce reduction of 18 employees on March 11, 2011, resulting in a savings of \$419,672 for the balance of the fiscal year.

- Announced a workforce reduction of 11 employees on June 6, 2011, to allow the transfer of the Pontiac Police Department to the Oakland County Sheriff to commence July 1, 2011.

In total, \$5,481,871 was saved during the previous fiscal year, \$2.2 million will be saved next fiscal year, and \$4.2 million was realized through the VEBA reimbursement, for a total improvement of \$11,881,871.

Worsening Financial Conditions

Despite the savings identified above, the 2011-12 fiscal year budget, which begins July 1, 2011, demonstrates a continual worsening of the financial condition of the City of Pontiac.

Revenue Reductions

In opposition to the significant efforts that have resulted in reduced expenditures, just within the past three months, the City has been notified of significant decreases in anticipated revenue for the 2011-12 fiscal year:

1. **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.
2. **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.
3. **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 the next ten years.
4. **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.

These four revenue reductions total \$7.1 million for the 2011-12 fiscal year and combined with the \$4.2 million one-time VEBA reimbursement accounts for a total anticipated revenue loss of \$11.3 million for the 2011-12 fiscal year.

Property taxes and revenue sharing were the two largest sources of city revenue for the 2010-11 budget, totaling \$20.7 million, or 54% of anticipated revenue. In 2011-12, these two sources, however, are budgeted to total \$16.2 million, only 48% of anticipated revenue. In other words, property taxes and revenue sharing will fund only 38% of the budgeted expenditures.

Overreaching Commitments

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:

1. **Subsidy of Parking System.** One example of mismanagement and poor planning is the City's parking system. Annually, the City subsidizes operating expenses by \$150,000. In addition, no provision was made for future capital improvements or maintenance needs that are estimated to be nearly \$870,000 at this time.
2. **Subsidy of Cemetery Operations.** The second case of mismanagement is the cemetery operations. The fee schedule has not been revised since 1998 and operating costs were not controlled. As a result, a transfer of \$450,000 is required to be made to the cemetery fund beginning in the 2011-12 fiscal year and annually thereafter.
3. **Underfunded Retiree Health and Life Insurance.** One final example of 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 required amount to cover these costs. The failure of the City to set aside funding requires using current resources to meet expenditures.
4. **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, 64.2% of the Court's total budget. Under this proposed 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.

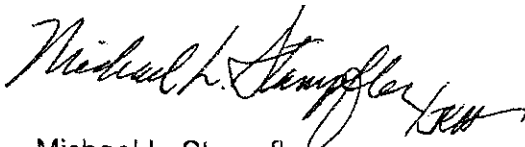
Summary

The proposed budget projects General Fund revenues of \$33,675,692, a decrease of approximately \$5 million from the current fiscal year. General Fund expenditures are budgeted at \$42,846,510, an increase of approximately \$5 million from the current fiscal year. The City is forecasted to have a \$12,501,037 accumulated deficit as of June 30, 2012, missing the deficit elimination plan target of \$1,751,743 established in the Deficit Elimination Plan by \$10,749,294. To place this number in perspective, if the City were to lay-off every current employee paid from the General Fund, the savings would amount to approximately \$11 million still over \$1.5 million short of the accumulated deficit. Unfortunately, these unfavorable trends are projected to continue: as of June 30, 2013, the City of Pontiac is projected to have an accumulated General Fund deficit of \$24,206,902 based on current revenue and expenditure projections.

The four largest expenditures of the General Fund are for the Fire Department (\$10,267,070), Police services provided by the Sheriff (\$9,983,295), Retiree Fringe Benefits (\$7,001,019), and operating transfers and subsidies to funds that have failed to cover costs (\$5,983,076). These four budget areas alone total \$33,234,460, and consume all but \$441,232 of total anticipated revenues. The remaining functions of the City, including paying utilities, will require an additional \$9,612,050.

As another major concern over the years, the City has failed to develop a proper capital improvement plan. Such a plan identifies major capital projects and potential sources of funding. A capital improvement plan for the next fiscal year is funded; however, after July 1, 2012, there are almost no resources available to meet the identified needed improvements.

In addition to the General Fund issues fully discussed above, other funds of the City are presently in a deficit or will soon be in a deficit if current operating trends continue. Among these are the Downtown Development Authority, Parking Fund, Sanitation Fund, and Water Fund.



Michael L. Stampfer
Emergency Manager

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