3500 (Rev. 01-11)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

DATE: December 9, 2014

Copy to HH

TO: Rick Snyder, Governor

FROM: R. Kevin Clinton, Treasurer

SUBJECT: Status of Financially Stressed Local Governments

EMERGENCY MANAGER

Flint
Emergency Manager: Darnell Earley
Appointed: November 28, 2013
Anticipated Exit: April 2015

Recent Developments

- Two City Council seats will be vacant as of January 1, 2015 due to the members being elected to higher offices. A committee consisting of the Mayor and City Council is working with the Emergency Manager to review interested applicants for the vacant City Council positions.
- City officials are attempting to increase the City's income tax rate, which Treasury supports and must be approved by the legislature. State Representative Stanley is the lead on this initiative. Should the legislature approve the increase, the City will place this question on the November 2015 ballot.
- Six Charter amendments and a general Charter revision question were on the November 4, 2014 ballot. The following proposals passed:
    - Proposal 1 – Triggers a full review of the charter. A nine-member Charter Review Commission will be elected in May 2015.
    - Proposal 2 – Reduces the number of mayoral staff appointments from no more than ten to no more than five.
    - Proposal 3 – Adds a Charter amendment to require budgetary best practices.
- Three finalists were selected for the City Administrator position. Background and reference checks are being conducted on the preferred candidate now, with a goal to bring the person on board in February 2015.
- City officials met last month with the DEQ, and as a result of that meeting, prepared an operational plan to reduce the formation of disinfection by-products. They have exceeded the standard which is primarily the result of using water from a different source, namely the Flint River. This is anticipated to be mitigated once the City begins using Lake Huron water from the Karagondi pipeline. A DEQ violation notice will go out next week which will require the City to issue a public notice. The violation is expected to continue for a while because it takes time to resolve this problem.

Significant Actions/Issues

- The City has contacted the Michigan Health Endowment Fund at MDCH to determine if grant funds are available to assist citizens who are unable to pay their water/sewer bills.
- The accumulated deficit for FY 2013 was $12.9M; the City reduced the deficit by $3.9M to $9M in FY 2014 (unaudited).
- A $1.1M State appropriation was received to fund front-line public safety positions for FY 2015.
- The Genesee County 911 Consortium approved the City of Flint's return to the county-wide system by July 1, 2015. This will result in approximately $1M in annual savings to the City. Currently, the City spends $2.4M annually to subsidize its own 911 operations.
- A comprehensive public safety study, being prepared by ICMA, is due by year end.

Issues to Resolve before EM Exit

- Eliminate annual operating/structural deficit, which is projected at $1.7M for FY 2017 and grows to $11.9M by FY 2019 if the City loses the lawsuit over retiree healthcare. If the City loses this lawsuit, it will permanently add $5M annually to the cost of retiree healthcare. The City's current budget does not assume this additional $5M potential expense.

Hamtramck

Emergency Manager: Cathy Square
Appointed: July 1, 2013
Anticipated Exit: December 18, 2014

Recent Developments

- The City ended FY 2014 with an anticipated General Fund balance of $800,000.
- The City has made an employment offer to their preferred City Manager candidate. Their anticipated start date is mid-December.

Significant Actions/Issues

- Both the Public Works Director and the Income Tax Director have been terminated for misfeasance; a replacement Public Works Director has been hired, while the Income Tax Office has been outsourced to a private third-party.
- A complaint was filed in federal court by Hamtramck retirees over changes to healthcare benefits in October 2014.
- The City closed on its emergency loan on September 23, 2014, which was approved by the Emergency Loan Board on June 26, 2014. Proceeds resolved a $2.1M liability to MERS.
- The annual pension liability is anticipated to increase from $3.5M in FY 2015 to $4.3M in FY 2019. This resulted from the closing of certain pension plans and the MERS policy of accelerating the actuarial required contribution for closed plans.
- Emergency Manager Square is establishing a combined City Treasurer/Deputy City Manager position.

Issues to Resolve before EM Exit

- Retiree healthcare litigation.
- Finalize five-year budget.

Lincoln Park
Emergency Manager: Brad Coulter
Appointed: July 3, 2014
Anticipated Exit: January 2016

Recent Developments
- The Fire Chief resigned effective November 26, 2014.
- Emergency Manager Brad Coulter issued an EM Order restoring 50% of City Council's salaries effective December 1, 2014.
- A fire collective bargaining agreement has been proposed which will reduce overtime and the minimum manpower required on duty.
- The Emergency Manager has prepared two EM Orders. The first would amend the City Charter to close the current police and fire pension plan and transfer the assets to a new 345 pension system plan while the second would provide the millage necessary to fund a PA 345 pension plan. Both requests will require voter approval.

Significant Actions/Issues
- SAFEbuilt was selected to perform building inspections for the City. Prior to this, inspections were not completed on a timely basis.
- The police and fire pension plan is 30% funded. The general employee plan is 22% funded.
- An EM Order to charge $60 for each vehicle towed by the City will result in additional revenue of $100,000 per year.
- A Financial and Operating Plan was submitted to the State Treasurer on August 22, 2014. The Plan's proposal included 1) Fire Department restructuring - $1M annual savings, 2) OPEB plan reform or elimination - $3.2M+ for duration of fiscal emergency, 3) CBA changes affecting unused sick and vacation buy-backs, average final compensation, resulting in $100K+ in annual savings, 4) health plan changes - $150K annual savings, and 5) outsource Building Department - $75K annual savings.
- FY 2013 ended with a General Fund accumulated deficit of $89K. It is anticipated the City will end FY 2014 with a $700K General Fund deficit.

Issues to Resolve before EM Exit
- Police and fire contracts need to be renegotiated.
- Pension and OPEB funding levels.

FINANCIAL REVIEW COMMISSION (FRC)

Detroit
Emergency Manager: Kevyn Orr
Appointed: March 14, 2013
Anticipated Exit: December 2014

Recent Developments
- The City emerged from bankruptcy on November 7, 2014 as Federal Judge Steven Rhodes gave his oral approval of the City's Plan of Adjustment. On November 19, 2014 the Michigan Settlement Administration Authority found that the necessary statutory requirements have been met in order to release the $194M in State funds that were pledged as part of the Grand Bargain.

- On December 8, 2014, Kevyn Orr entered his final Emergency Manager Order and 2-year budget. He also transmitted a letter to the Governor and Treasurer recommending that receivership under PA 436 end on the effective date of the City's Plan of Adjustment. Mr. Orr's tenure as Emergency Manager would end on this date as well (as of this writing, the effective date is expected to be December 10, 2014.
- PA 181 of 2014 requires that a Financial Review Commission be established to help ensure ongoing fiscal stability in the City and compliance with the Plan of Adjustment. This body will have broad authority to review the City's fiscal and operational decisions for a number of years to come.

Significant Actions/Issues

- Emergency Manager Kevyn Orr is expected to issue his final order and 2-year budget in early December. From there, the City will technically be released from receivership, but will remain under the review of the Financial Review Commission (FRC). Staff is being recruited for the FRC.

RECEIVERSHIP TRANSITION ADVISORY BOARD (RTAB)

Allen Park

RTAB Appointed: September 26, 2014

RTAB Members: Suzanne Schafer, Joyce Parker, Fredrick Frank, Karen Barann

Recent Developments

- The first meeting of the RTAB was held on October 21, 2014.
- Discussions with the City of Ecorse are being held regarding fire consolidation.
- The City is proceeding to restructure the bond debt of the Southfield Lease Properties through the use of a Tax Exempt Bond Voluntary Closing Agreement. The City will submit a proposed agreement to the IRS and pay a penalty of $200,000. The City intends to issue the Closing Agreement by March 2015.

Significant Actions/Issues

- Emergency Manager Joyce Parker exited on September 25, 2014.
- Litigation was filed by retirees challenging the Emergency Manager's authority to reduce OPEB liabilities. A motion for summary disposition is pending but was stayed by the judge through the end of the Detroit bankruptcy. No date has been set to hear this motion.
- A $2.6M emergency loan was approved by the Emergency Loan Board on September 23, 2014. The proceeds were used to pay a delinquent pension obligation of the same amount.
- A compliance settlement with the SEC was finalized on November 6, 2014 related to bonds that financed the failed movie studio project.
- Now that the Emergency Manager has exited, a five-year financial forecast and Capital Improvements Plan must be developed by December 15, 2014.
- City Hall will be relocating to a temporary facility in 2015 until a decision is made on whether to purchase an existing building or to construct a new facility. Before the City can temporarily relocate, internet connectivity and VOIP phone system issues in the temporary building need to be resolved.

Benton Harbor
RTAB Appointed: March 10, 2014
RTAB Members: Bret Witkowski, Marvin Raglon, Sharon Hunt

Recent Developments
- FY 2014 audited General Fund revenues exceed expenditures by $1.2M.
- The City's audit is complete and will be presented to the RTAB in January 2015.
- The RTAB affirmed the appointment of C.F. Jones for the vacant 2nd Ward Commission seat. Mr. Jones was sworn in at the November 3, 2014 City Commission meeting.

Significant Actions/Issues
- The City submitted a $4.8M Capital Improvements Plan (CIP) which was approved by the RTAB on September 24, 2014.
- The City Manager implemented a rolling five-year Financial and Operating Plan to guide the City. The plan was approved by the RTAB on November 25, 2014.
- A litigation study was recently completed by UHY which will assist the City in improving its process of managing legal and litigation issues.
- Lawsuit filed against the City and former Emergency Manager Saunders by former Public Safety Director alleging he was dismissed for complaining to the State. Case evaluation took place on November 19, 2014, and is set at $250,000.

Ecorse
RTAB Appointed: May 1, 2013
RTAB Members: Edward Koryzno, Robert Bovitz, Joyce Parker

Recent Developments
- The City has appointed Wayne O'Neal as Interim City Administrator. The RTAB approved the appointment on November 18, 2014. The City has contracted with the Michigan Municipal League (MML) to complete a full-time City Administrator search; a candidate is expected in 90-120 days.
- The RTAB Annual Evaluation took place at the November 18, 2014 meeting and will be forwarded to the Governor. The evaluation was not favorable and the Board does not recommend removal of RTAB oversight at this time.
- Plante Moran has tendered their intent to separate from the City as of January 1, 2015. The ability of the RTAB to monitor the finances of the City will be jeopardized if a qualified replacement is not hired.

Significant Actions/Issues
- City Council repeatedly rejected a CGAP grant which would have saved the City $1M; offsetting the lost tax settlement revenue.
- Pension contributions are anticipated to increase from $1.8M in FY 2015 to $2.4M in FY 2016 because of a MERS recalculation of closed funds.
- The State has approved $750K in State Revolving Funds for a sanitary sewer project.
- The RTAB rejected the City's proposed five-year budget in June 2014 due to unrealistic projections. The amended budget completion date is unknown.

Pontiac
RTAB Appointed: August 19, 2013
RTAB Members: Edward Koryzno, Louis Schimmel, Keith Sawdon, Robert Burgess

Recent Developments
- The City of Pontiac Retired Employees Association v. City of Pontiac lawsuit in the United States District Court was recently reassigned from Judge Lawrence P. Zatkoff to Judge Avern Cohn. The City of Pontiac and the Retired Employees Association are participating in facilitation.
- In April 2014, the Final EM Order was amended to create a Deputy Mayor position. The field of candidates has been narrowed to three, and a finalist will be selected by mid-December.
- Oakland County Circuit Court Judge Michael Warren dismissed the City's condemnation lawsuit involving the Phoenix Center because the City failed to include compensation for the lien placed on the property. The City is preparing an appeal of the decision to the U.S. Sixth Circuit Court of Appeals. Information has also come to light that suggests the condition of the Phoenix Center is not as bad as was officially reported. The Department of Treasury is investigating this issue.
- The first Annual RTAB Evaluation for the City is in the process of being scheduled.

Significant Actions/Issues
- Accumulated General Fund balance for FY 2014 is approximately $4M.
- The RTAB is currently reviewing the City's proposed FY 2016 budget, which will be the City's first adopted budget since the two-year budget recommended by the Emergency Manager prior to exit.
- General Fund is structurally balanced in FY 2015 but expenditures are projected to exceed revenues by $360K due to deferred projects from FY 2014.
- The City Charter Commission has completed a draft of a new City Charter, which is under review by the Attorney General's Office. Any Charter changes will ultimately be subject to a vote of the electorate. A possible election date has yet to be determined.
- The City Administrator has informed the RTAB that additional financial training for the City Council is needed.

CONSENT AGREEMENT

Inkster
Date Executed: February 20, 2012
Consultant/Treasury Representative: Mark Stuhldreher
Term of Consent Agreement: N/A

Significant Actions/Issues
- A class action lawsuit over water rates was filed against the City on October 20, 2014 alleging water rates are not just and reasonable.
- General Fund revenues are projected to exceed expenditures by $1.5M in FY 2014.
- The Police Chief resigned in July and an Interim Chief was appointed. A search firm is being retained to find a permanent chief.
- A GASB Actuarial report indicated that the City has reduced its OPEB liability by 73% between July 1, 2012 and July 1, 2014; from $27M to $7M.

- As of January 1, 2014, no additional participants could enroll in the City's healthcare plans at retirement. This includes future and existing retirees. The City provides participants with a monthly stipend that is used to purchase healthcare elsewhere. The stipend for a one-person household pre-Medicare is $500 per month; $200 per month if Medicare eligible. The stipend for a two-person household pre-Medicare is $1,000 per month; $400 per month if Medicare eligible.

River Rouge
Date Executed: December 15, 2009
Consultant/Treasury Representative: N/A (P.A. 72)
Term of Consent Agreement: N/A

Recent Developments
- A reduction in healthcare benefits for active employees and retirees was implemented on November 1, 2014. The City is currently working to determine the estimated annual savings.
- The City has reached a tentative collective bargaining agreement with the police patrol union. Treasury is reviewing the terms of the proposed agreement.

Significant Actions/Issues
- U.S. Steel annual $1M tax settlement payment to the City expires in FY 2015.
- General Fund revenues are expected to exceed expenditures by $986K in FY 2014.

Royal Oak Township
Effective Date: April 21, 2014
Consultant/Treasury Representative: Robert Burgess

Recent Developments
- The Township's Financial and Operating Plan was approved by the State Treasurer on November 26, 2014.
- The Township's 2015 budget development process is complete and an approved budget was submitted to the State Treasurer for approval on December 1, 2014.
- The Township submitted a required report to Treasury on November 17, 2014 that identifies how each of the findings documented by the Review Team will be resolved. Another report was submitted identifying how each finding in the past two annual audits will be resolved.

Significant Actions/Issues
- The Township has approved a new contract for waste disposal services. A 10% cost reduction will be achieved under this new agreement.
- The Michigan State Police continues to provide police services to the Township.
- A Deficit Elimination Plan that is required for police, fire, and street lighting funds to address a total deficit of $547.6K was originally due by August 23, 2014. The Township's proposed Financial and Operating Plan states that the Township will develop and submit the Deficit Elimination Plan within 90 days of approval of the Financial and Operating Plan.

- On July 30, 2014 the Township submitted a Corrective Action Plan to address deficiencies identified in its FY 2013 Audit. Local Audit and Finance Division is monitoring the Township's implementation of this plan.
- Surplus pension assets of $619K administered by MERS were transferred to the Township. The Attorney General's Office recommended that these funds may only be used for the purpose of pension expenses. The Township included in its Financial and Operating Plan that they will strongly consider returning the $619K to MERS and no future requests will be made to MERS during the life of the Township's financial emergency. The Financial and Operating Plan was adopted on October 14, 2014 by the Township Board. The plan was transmitted to the State Treasurer for review and approved on November 26, 2014.
- The Bureau of Construction Codes ordered the Township Building Inspector to inspect and issue a report regarding conditions at the Township's Recreation Center. The report was ordered when Treasury contacted the Bureau of Construction Codes after receiving a complaint from a Township Parks Commissioner regarding possible health and safety violations at the Recreation Center. The report remains under review by the Bureau of Construction Codes.

NEUTRAL EVALUATION

Highland Park
Financial Review Team Appointed: December 2, 2013
Financial Emergency Declared: January 30, 2014
PA 436 Option Selected: Neutral Evaluation

Recent Developments
- The City selected Tetra-Tech to prepare a water and sewer rate study.
- Two finalists for City Administrator were selected for a second interview. The interviews were held on December 4, 2014.
- Huron Consulting Group is being retained to write the RFP to solicit a vendor to operate and maintain the City water and sewer system.
- BenStaff has been hired by the City to make recommendations to reduce health care costs.

Significant Actions/Issues
- Ronald Rose has contracted with the City to facilitate the provisions of the Emergency Loan Agreement.
- The Emergency Loan Board approved the Emergency Loan Agreement and a $3M emergency loan on September 23, 2014. The emergency loan closed on September 24, 2014.
- Liabilities total $117.6M - some of the major components are: $55.3M debt (including $20.7M owed to DWSD), $17.7M pension bonds, and $26.1M unfunded OPEB liabilities.
- Summary of the Plan of Adjustment for the City of Highland Park adopted on August 28, 2014.
    - Fifth Third Bank has finalized an agreement and settled for 50 cents on the dollar for outstanding debt.
    - By June 15, 2015 Highland Park, as required by terms of the emergency loan, must have a third party operator for its water/sewer systems.

- After the selection of this third-party operator, DWSD and Highland Park will negotiate a long-term settlement for outstanding water and sewer debt.
- Work to reduce retiree healthcare benefit cost has begun.
- An emergency loan of $11.7M, with restructuring of $4.8M in existing loans, will be used to refund $2.7M in Fiscal Stabilization Bonds, $5.2M in Financial Recovery Bonds, and $3.6M in State Revolving Fund Bonds.

OTHER COMMUNITIES

Melvindale

Recent Developments

- The City requested approval to issue $2.24M in tax anticipation notes, which matures no later than September 1, 2015. Treasury approved the borrowing on November 13, 2014.

Significant Actions/Issues

- The General Fund deficit for FY 2013 is $1.9M, an increase of $248K from the FY 2012 deficit.
- The unrestricted annual deficit for the city-owned ice arena in FY 2013 is $1.9M, which is approximately $160K more than what the City projected. It continues to negatively impact the General Fund.
- The Department issued a conditional approval of the City's Deficit Elimination Plan. The City is required to submit monthly financial reports to demonstrate adherence to the plan.
- The City Council approved placing two millage proposals on the November ballot. The first was a 2.07 millage levy to pay the debt on the ice arena. This proposal was soundly defeated with 66% of the vote. The second proposal was a 7.08 millage levy for street/sidewalk repair. This passed with 55% of the vote.

Taylor

Significant Actions/Issues

- The General Fund has an unrestricted deficit of $2.2M for FY 2013.
- The City made only 47% of its required annual contribution for OPEB. The unfunded liability is $232.7M and continues to grow.
- There are several contingent liabilities that may impact the financial stability of the City, including the possible need to subsidize Brownfield Redevelopment Bonds of $14.2M.
- A 1996 levy to pay a general obligation bond expires in 2015, potentially resulting in a $6.2M drain per year on the General Fund during FY 2016 and FY 2017.

City of Wayne

Recent Developments

- Citizens renewed a 1 mill levy for police and fire on November 4, 2014. The City of Westland has officially ended discussions to form a fire authority between the Cities of Westland, Wayne, and Inkster. Executive-level instability in the City of Wayne was stated as the primary reason for this decision.

Significant Actions/Issues

- Projected General Fund deficits for FY 2014 and beyond.
- The City is discussing a May 2015 ballot proposal that would seek voter approval for additional millage.
- The positions of Finance Director, Personnel Director, Chief of Police, and Parks and Recreation Director are currently vacant.
- David Murphy was appointed Interim City Manager on October 7, 2014.

Wayne County

Recent Developments

- Treasury staff met with the County Executive Transition Team to have a general discussion regarding what the team sees as critical issues.
- The Finance Director has indicated that short-term borrowing may not be necessary for FY 2015. However, the most recent cash flow statement does not support this conclusion.
- Cash reserves reached its lowest point in August 2014 with pooled cash falling to approximately $73M (average balance is $170M). This includes proceeds from a short term borrowing of $75M.
- In a monthly status letter from the Director of Labor Relations, the Director continues to indicate that negotiations with all bargaining units have stalled.

Significant Actions/Issues

- Warren Evans was elected as Wayne County Executive on November 4, 2014. Mr. Evans replaces Robert Ficano.
- The Finance Director anticipates the accumulated deficit for FY 2014, will be approximately $60M. The reduction from $159M is mainly due to the transfer of funds from the Delinquent Tax Revolving Fund to the General Fund.
- The preliminary results of the County's actuarial report indicate a drop in OPEB liability of approximately $409M. This reduction is a result of the City choosing less expensive plans and implementing cost sharing. The participants are paying a larger share of the cost. This does not include any savings opportunity resulting from a proposed change to retiree healthcare.
- The County is working to resolve a disagreement with the Mental Health Authority over services provided to jail inmates. The County currently pays for this service but believes it falls under the purview of the Authority.
- The County submitted a revised Deficit Elimination Plan (DEP), approved by the County Commission, which removes the changes to retiree healthcare. The loss of the $9.2M in savings will be offset by the $10M anticipated increase in revenue sharing. The County Treasurer agreed to transfer $150M from the Delinquent Tax Revolving Fund to the General Fund. Of that $150M, $82M has already been transferred and applied to the accumulated deficit, and $44M has been applied to the operating/structural deficit in accordance with the DEP. The additional $24M, which was not part of the DEP, will be used to help reduce the accumulated deficit.
- Approval of the County's DEP is on hold until the new Wayne County Executive takes office. The County will be required to submit an updated DEP to include the unaudited numbers for FY 2014.