

**EMERGENCY FINANCIAL AND OPERATING PLAN  
FOR  
CITY OF HAMTRAMCK**

---

**August 14, 2013**

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EMERGENCY FINANCIAL PLAN  
CITY OF HAMTRAMCK  
August 14, 2013

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## **Part 1**

### **Authorization of Objectives**

#### **Section 1.01     Authorization**

This Emergency Financial Plan for the City of Hamtramck is required by Section 11, MCL 141.1551, of the Local Financial Stability and Choice Act; Act 436 of 2012. 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 Manager's revenue estimate.
- b.) The payment in full of the scheduled debt service requirements on all bonds, notes, and municipal securities of the local government, contract obligations in anticipation of which bonds, notes and municipal securities are issued, and all other uncontested legal obligations.
- c.) The modification, rejection, termination, and renegotiation of contracts pursuant to section 12.
- d.) The timely deposit of required payments to the pension fund for the local government or in which the local government participates.
- e.) Any other actions considered necessary by the emergency manager in the emergency manager's discretion to achieve the objectives of the financial and operating plan, alleviate the financial emergency, and remove the local government from receivership.

#### **Section 1.02     Objectives**

The Emergency Financial Plan for the City of Hamtramck 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 Manager in consultation with the local government. If the Emergency Manager reduces her revenue estimates, then she 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 Hamtramck 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 Financial Stability and Choice Act, PA 436 of 2012.
- (c) **“Council”** means the Hamtramck Mayor and City Council
- (d) **“City”** means the City of Hamtramck, Michigan

- (e) “EM” means the Emergency Manager
- (f) “Review Team” means the Hamtramck Financial Review Team
- (g) “Treasurer” means the State Treasurer for the State of Michigan
- (h) “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 the City

On April 17, 2013, a Hamtramck Financial Review Team was appointed to review the financial condition of the City of Hamtramck. On April 24, and 30 and May 2, and 10, 2013, Hamtramck 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 5(4)(b) of PA 436 Local Financial Stability and Choice Act, that a local government financial emergency exists within the City of Hamtramck, 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) City officials had adopted budgets, or budget amendments, or both, that do not comply with PA 2 of 1968, the Uniform Budgeting and Accounting Act.
- (b) City officials submitted a deficit elimination plan that was deemed unacceptable by the Department of Treasury.
- (c) City officials utilized assets from other City funds to increase cash flow in the General Fund.
- (d) City officials had delayed making approximately \$2.2 million in required pension contributions in order to manage cash flow.
- (e) The unfunded liabilities of the City's pension and other post-employment benefits (OPEB) posed significant obstacles to its long-term fiscal health. An actuarial evaluation based on data from the 2011 calendar year indicated the pension plan had \$98.4 million in actuarial accrued liabilities, but only \$55.8 million in pension assets. Therefore, the pension plan had an unfunded actuarial accrued liability of \$42.5 million.
- (f) While the Water and Sewer Fund had a significant balance of net assets, a sizable shift had taken place related to its operating income. For each fiscal year from 2009

to 2011 the City saw a positive operating income. However, the audited financial statements for the 2012 fiscal year reflect an operating loss of \$409,999, which was the direct result of higher charges the City was obligated to remit to the City of Detroit for its water supply. Water and Sewer rates have not kept pace with these increases even though the City of Hamtramck increased rates in 2011 by 9.1% for water services and by 11% for sewer services.

**Section 3.02 Annual Audits for 2011 and 2012 Fiscal Years**

In addition to the Financial Review Team Report, the City's 2012 fiscal year financial audit indicated there were factors that were noted that would signify the presence of a financial emergency. Factors cited in the audit included the following:

- 1.) A deficit in the general fund.
- 2.) 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 personal property within the City had fallen 14.3 percent.

The City's 2012 audit revealed a deficit in the amount of \$582,365 in the audit report to include the following:

- 1) The General Operating Fund reported expenditures in excess of revenue of approximately \$3.3 million, resulting in a decrease in the General Fund balance to a \$582,365 deficit.
- 2) Property taxes continued to decrease in the City with general fund receipts totaling \$6,651,326. This is a reduction of \$2.3 million (26.2 percent) from the prior year property tax revenue totaling \$9,012,767.
- 3) Revenue generated from the GM Poletown facility was originally budgeted to be \$1.7 million annually, but actual receipts totaled only \$750,000 in FY 2012-2013. Previous fiscal years payments were approximately \$3 million.

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

#### **Part 4**

##### **Section 4.01     Bankruptcy**

Under the Act, 141.1558, Section 18, the Emergency 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 EM that no feasible financial plan can be adopted that can satisfactorily resolve the financial emergency in a timely manner, or a determination by the EM 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**

The financial and operating plan as stated in Part 5 is being considered based on a number of factors; guidance from Hamtramck residents and businesses, consultation with Hamtramck elected and appointed officials, and experts in the financial area.

**Section 5.01 Components of 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 5.02 Revenue Enhancements:**

<u>Sources of Revenue</u>		<b>General</b>	
		<u>Fund</u>	
1	Sale of City owned lots	\$200,000	
2	Net rental registration and inspection fees (revenue generated from contracting building and inspection department to third party)	178,000	
3*	Property tax judgment levy for outstanding FY 2013 required pension contributions	1,250,000	

\* One Time Revenue Enhancement

**Section 5.03 Expenditure Reductions:**

<b><u>Sources of Expense Reduction (Increases)</u></b>		<b><u>General Fund</u></b>
1	Reduction in Mayor and Council compensation and expenses	\$32,000
2	10% salary reduction, elimination of paid leave days, shift differential, longevity, out-of-class pay, elimination of non-federally mandated overtime, paid birthdays and reduction of sick time.	847,000
3	Reduce full time police and fire positions by a minimum of 10 positions and incorporate part-time and or reserve personnel	1,000,000
4	Eliminate DDA director and CED coordinator positions	77,500
5	Health insurance program changes for active and retirees	534,000
6	Review elimination of dental, optical and life insurance for all current and retired employees along with all longevity and insurance opt out pay.	176,000
7	Workers comp and liability insurance reduction	39,000
8	Contract Hamtramck and Highland Park income tax departments with third party	84,000
9	Reduction in various operating supplies and contractual services	87,000
10	Reduction in street lighting and utility costs	252,000

### **Other Proposed Changes**

1. Staff Reorganization.
2. Create position of finance director to oversee all financial related departments/develop risk management program.
3. Review actuarial report and assumptions for pension contribution made by City.
4. Review District Court operations for potential savings.
5. Explore alternative models for sharing Police and Fire services.
6. Evaluate the feasibility of reserve, CERT and volunteer programs for Police and Fire Departments.
7. Explore consolidation or outsourcing of police and fire dispatch.

### **Section 5.04 Plan Assumptions**

- 1.) Eliminate five police and five fire full time positions. Use of part-time personnel and/or reserves will also be considered. Other service delivery models will also be considered.
- 2.) The Plan addresses a 10% reduction in personnel wages, elimination of paid leave days, shift differential, longevity and out-of-class pay. Elimination of minimum staffing levels will also significantly reduce non-federally mandated overtime costs.
- 3.) The Plan proposes contracting the operations of the building and code inspections departments to a third party eliminating five full-time positions. The plan recognizes a significant increase in new inspection revenue as a result of the new contractor.
- 4.) The Plan calls for switching to a single health insurance cafeteria program for all active and retirees effective January 2014.
- 5.) The City is reviewing all retiree healthcare participants to ensure only eligible retirees and beneficiaries are receiving benefits.
- 6.) Compensation and expenses for the mayor and council have been reduced for the 2013/2014 fiscal year.
- 7.) The plan calls for the sale of some of the over 400 city owned lots. The estimated proceeds from the property sales are estimated at \$200,000 annually for the next two fiscal years.

- 8.) The Plan proposes contracting the operations of the city income tax and Highland Park income tax departments to a third party resulting in the elimination of four full-time positions. The plan recognizes costs savings and anticipates an increase in revenue; however, no new revenue has been included in the plan.
- 9.) Eliminate the DDA director and CED coordinator positions with all duties to be performed by the CED director.
- 10.) The Plan includes the review of elimination for all active and retiree's dental, optical and life insurance. The plan also includes elimination of all longevity and payments in lieu of insurance.
- 11.) The Plan includes working with DTE to develop a plan to significantly reduce the utility costs associated with citywide street lighting
- 12.) The Plan proposes cost freezes and review of purchasing policies to reduce normal operating supplies and costs including payments for various contractual services.
- 13.) The Plan includes reductions in cost from changes to the workers compensation and general and liability insurances.
- 14.) The Plan calls for working with MERS to obtain a judgment levy to pay the remaining balance of required annual pension contribution for the 2012-2013 fiscal year.
- 15.) The City's Library Fund has incurred a significant operating loss of over \$100,000 in each of the past two fiscal years. The library has an estimated fund balance of \$150,000 as of June 30, 2013. The plan calls for reviewing library operations and reducing expenditures to ensure the General Fund is not required to fund any future shortfalls.

**Section 5.05 (DEP Summary)**

EMERGENCY FINANCIAL PLAN  
CITY OF HAMTRAMCK  
August 14, 2013

City of Hamtramck General Fund Deficit Elimination Plan Fiscal Years 2014 through 2016							
	Actual 6/30/2011	Actual 6/30/2012	Projected 6/30/2013	Original Budget 6/30/2014	Amended Budget 6/30/2014	Estimated 6/30/2015	Estimated 6/30/2016
<b>Revenue</b>							
Property Taxes	\$ 4,707,323	\$ 4,690,824	\$ 4,420,400	\$ 4,229,633	\$ 4,229,633	\$ 4,229,633	\$ 4,229,633
GM Agreement	3,213,798	720,000	787,000	330,000	330,000	330,000	330,000
County PILOT	1,040,868	1,038,363	1,087,000	1,060,000	1,060,000	1,060,000	1,060,000
Income Taxes	1,689,883	1,875,635	1,940,000	1,640,000	1,640,000	1,640,000	1,640,000
Licenses and permits	608,879	684,038	621,000	1,138,500	936,500	1,274,500	1,274,500
State Revenue sharing	3,249,324	2,825,179	2,862,142	2,992,031	2,992,031	2,992,031	2,992,031
Fines and forfeitures	1,594,177	1,591,050	1,793,000	1,630,000	1,630,000	1,630,000	1,630,000
Admin charges	122,960	333,100	305,000	332,000	332,000	332,000	332,000
Grant revenue	104,068	89,008	1,060,000	1,483,000	1,233,000	487,000	283,000
Other revenue	<u>1,178,621</u>	<u>1,129,771</u>	<u>810,732</u>	<u>1,113,881</u>	<u>1,113,881</u>	<u>1,113,881</u>	<u>813,881</u>
<b>Total Revenue</b>	<b>17,308,211</b>	<b>14,827,148</b>	<b>13,693,283</b>	<b>16,393,075</b>	<b>15,961,075</b>	<b>15,729,075</b>	<b>13,129,075</b>
<b>Expenditures</b>							
Mayor and Council	49,368	42,428	54,153	50,623	13,070	30,153	30,153
Court	372,444	613,710	623,744	624,723	621,481	620,159	620,159
City Manager	182,038	173,612	189,129	173,544	173,559	173,173	173,173
Emergency Manager	-	-	-	-	23,200	-	-
Elections (included with clerks office beg 2013)	32,362	41,831	-	-	-	-	-
Highland Park Income Tax Collection Department	123,173	121,069	138,953	179,462	173,057	121,595	121,595
Income Tax	235,320	225,418	239,619	180,321	141,788	122,875	122,875
Assessor	86,271	96,903	129,430	86,100	86,100	86,100	86,100
City Clerk	160,065	161,891	193,607	172,760	164,242	163,234	163,234
Personnel	197,348	148,894	263,191	276,305	268,724	267,143	267,143
Finance Director	-	-	-	-	75,000	100,000	100,000
Comptroller	241,476	282,622	289,510	133,600	133,600	133,600	133,600
Legal	412,636	427,314	407,500	230,000	230,000	230,000	230,000
Treasurer	170,331	174,237	219,332	177,350	172,565	169,730	169,730
Public Services	326,088	631,871	688,905	387,828	797,033	1,013,248	1,013,248
Auto Theft Grant	200,613	187,574	171,392	109,376	101,706	95,436	95,436
Retiree Costs	-	-	3,386,156	3,040,000	2,857,000	2,674,000	2,674,000
Community Development	79,642	74,873	169,321	79,131	34,546	-	-
General Administration	2,183,541	1,973,973	1,431,590	1,122,820	1,040,420	831,920	831,920
Police	6,344,512	6,252,926	4,438,644	4,353,768	3,902,089	3,340,410	3,340,410
Fire	5,103,721	5,583,164	3,953,128	3,994,000	3,486,381	2,866,761	2,866,761
Sanitation	770,414	889,109	813,000	720,000	680,000	680,000	680,000
Code Enforcement	123,306	(8,700)	7,580	83,000	83,000	83,000	83,000
<b>Total Expenditures</b>	<b>17,649,427</b>	<b>18,130,533</b>	<b>17,823,024</b>	<b>16,374,501</b>	<b>15,280,200</b>	<b>13,822,547</b>	<b>13,822,547</b>
Revenue over (under) expenditures	(341,216)	(3,303,385)	(2,127,741)	18,574	680,876	1,706,528	1,306,528
2012/2013 MERS pension contribution judgment levy	-	-	1,249,709	-	-	-	-
Beginning fund balance (deficit)	<u>3,062,236</u>	<u>2,721,020</u>	<u>(582,365)</u>	<u>(1,460,397)</u>	<u>(1,441,823)</u>	<u>(760,948)</u>	<u>945,381</u>
Ending Fund balance (deficit)	<u>\$ 2,721,020</u>	<u>\$ (582,365)</u>	<u>\$ (1,460,397)</u>	<u>\$ (1,441,823)</u>	<u>\$ (760,948)</u>	<u>\$ 945,381</u>	<u>\$ 2,252,109</u>

## Implementation

### **Section 6.01**      Public Informational Meeting

A public informational meeting will be held on August 21, 2013 to review the Plan and any modifications to the Plan.

### **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 HAMTRAMCK**

Submitted by: *Cathy L. Square*  
Cathy L. Square  
Emergency Manager  
City of Hamtramck  
August 14, 2013

**Public Informational Hearing to Be Held:**  
**Wednesday, August 21, 2013, 10:00 a.m.**  
**Hamtramck City Hall**  
**3401 Evaline St., Hamtramck, MI 48212**  
**Third Floor Council Chambers**

Approved By: *Cathy L. Square*  
Cathy L. Square  
August 14, 2013

