



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

November 13, 2013

Mr. Harlan Goodrich, Secretary
Local Emergency Financial Assistance Loan Board
Local Audit and Finance Division
Michigan Department of Treasury
Lansing, MI 48909

Dear Mr. Goodrich:

On October 14, 2013, a preliminary review of the City of Lincoln Park (City) began pursuant to Section 4 of PA 436 of 2012, the Local Stability and Choice Act. An Interim Report of the Preliminary Review was sent to the City on November 4, 2013. The City was then given five days to respond to that Interim Report.

In its response to the Interim Report, the City did not submit any evidence or information which caused the Department of Treasury to amend the Final Report. Copies of both the Interim Report of the Preliminary Review and the City's response are included as attachments to the Final Report.

As required by Section 4(2) of the Act, the Final Report of the Preliminary Review of the City is being transmitted to the Local Emergency Financial Assistance Loan Board for their review. The Local Emergency Financial Board will determine if probable financial stress exists in the City within 20 days of receipt of the Final Report. Therefore, a determination for the City shall be issued no later than Tuesday, December 3, 2013.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Kevin Clinton".

R. Kevin Clinton
State Treasurer

Attachments

cc: State Representative Paul Clemente (paulclemente@house.mi.gov)
State Senator Hoon-Yung Hopgood (senhhopgood@senate.michigan.gov)
City Council



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY

R. KEVIN CLINTON
STATE TREASURER

DATE: November 13, 2013

TO: Local Emergency Financial Assistance Loan Board

FROM: R. Kevin Clinton, State Treasurer

SUBJECT: Final Preliminary Review of the City of Lincoln Park

Background

On October 14, 2013, the Department of Treasury commenced a preliminary review of the finances of the City of Lincoln Park (City) to determine whether or not probable financial stress existed. Section 4 of Public Act 436 of 2012, the Local Financial Stability and Choice Act, permits a preliminary review to be conducted if one or more of the conditions enumerated therein occurs. The preliminary review of the City of Lincoln Park resulted from the condition enumerated in subdivision (a) of section 4(1) having occurred within the City¹.

Preliminary Review Findings

The preliminary review found the following:

- During the fiscal year ending June 30, 2013, the General Fund borrowed \$2.5 million from the Water and Sewer Fund to make its annual pension payment. The City has stopped making the required debt service payments to SunTrust Bank. Due to the nonpayment of the loan, SunTrust has filed a federal lawsuit against the City.

For the fiscal year ending June 30, 2012, 46% of General Fund revenues were needed to cover debt service payments, retirement contributions, and retiree healthcare costs leaving only 54% to cover the cost of other operations.² Many of the union contracts have expired. However, the City recently approved a tentative agreement with one of its unions, the firefighters, that the City has indicated will save over \$800 thousand annually. The new

¹ Subdivision (a) provides that "[t]he governing body or the chief administrative officer of a local government request a preliminary review. The request shall be in writing and shall identify the existing or anticipated financial conditions or events that make the request necessary."

² The debt service payment to SunTrust is \$329,053; the annual repayment to the Water and Sewer fund is \$256,927 (2013); retirement contributions (ARC) are \$5,078,628 with \$3,086,121 for Police and Fire and \$1,992,507 for all others; retiree healthcare of \$4,410,625 (pay-as-you-go) with \$2,240,013 for Police and Fire and \$2,170,612 all others (ARC is \$6,662,452). General Fund revenues were \$21,542,629.

agreement includes a 5% wage reduction, a reduction of the pension multiplier to 2.5 for those hired before July 2013 and 2.0 for those hired afterward, 20% employee premium payments, loss of vacation and sick time sellback, possible overtime savings, and an elimination of the “no layoff” clause.

- The City of Lincoln Park has violated requirements of sections 17 and 19 of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act³. For the fiscal year ending June 30, 2012, there were several activities in the General Fund that went over budget with General Government being the largest at \$501,892. All General Fund activities that went over budget totaled over \$711,302. However, when netted together with other expenses and transfers out, Lincoln Park’s total General Fund expenditures were over budget by \$691,300.

Unaudited fiscal year ending June 30, 2013 financial statements⁴ indicated that only three expenditures went over budget. General Government was the largest at \$406,062. All General Fund activities for 2013 that exceeded their budget totaled \$455,397. Municipal Building and Grounds activities were over budget by \$39,338 and Library activities were over by \$9,997. When netted together with all expenses and transfers out, Lincoln Park’s total fiscal year 2013 General Fund expenditures were over budget by \$213,667.

- The City has experienced a decline in revenues for the past several years. The taxable value of the City has declined 31.54% over the past four years (\$793,184,868 in 2009 compared to \$543,044,201 in 2013). Property tax revenue accounts for 60% of the City’s General Fund revenue. As a result, the City’s General Fund revenue has also declined from \$24,638,575 as of June 30, 2009 to \$20,330,785 as of June 30, 2013. For fiscal years 2012 and 2013, there were operating losses of over \$2.3 million each year. For fiscal year ending June 30, 2013, the projected General Fund deficit balance is \$94,148. Budget assumptions for 2014 are based, in part, on anticipated concessions from union negotiations.

| General Fund | 2009 | 2010 | 2011 | 2012 | Unaudited 2013 | Budget 2014 |
|--------------------------------|---------------|---------------|---------------|---------------|----------------|---------------|
| Revenues | \$ 24,638,575 | \$ 23,689,097 | \$ 23,696,056 | \$ 21,542,629 | \$ 20,330,785 | \$ 20,750,795 |
| Expenditures | 23,538,348 | 23,254,508 | 24,098,957 | 23,847,944 | 22,637,348 | 20,324,388 |
| Operating Surplus (Deficit) | 1,100,227 | 434,589 | (402,901) | (2,305,315) | (2,306,563) | 426,407 |
| Other Financing Sources (Uses) | (97,083) | (200,000) | 82,662 | - | 166,666 | - |
| Net Change in Fund Balances | 1,003,144 | 234,589 | (320,239) | (2,305,315) | (2,139,897) | 426,407 |
| Fund Balance - (as restated) | 3,219,216 | 4,222,360 | 4,671,303 | 4,351,064 | 2,045,749 | (94,148) |
| Fund Balance - End of Year | \$ 4,222,360 | \$ 4,456,949 | \$ 4,351,064 | \$ 2,045,749 | \$ (94,148) | \$ 332,259 |

³ This is a condition, determined during the preliminary review, that is enumerated in subdivision (j) of Section 4. Subdivision (j) provides that “[t]he local government has violated a requirement of sections 17 to 20 of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a, or 1919 PA 71, MCL 21.41 to 21.55.”

⁴ All references to the fiscal year ending June 30, 2013 or 2013 are unaudited.

- While there remains a healthy net position (net assets) balance in the Water and Sewer Fund, the City has experienced operating losses for the past six years with the most significant taking place for the years ending June 30, 2012 and June 30, 2013 at \$2.3 million and \$2.4 million respectively even with property taxes of over \$1 million yearly to help supplement the losses. To help with increasing expenditures, rates were raised approximately 8% in 2012.

| Water & Sewer Fund | 2008 | 2009 | 2010 | 2011 | 2012 | Unaudited 2013 |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Operating Revenue | \$ 7,355,587 | \$ 7,930,337 | \$ 7,480,877 | \$ 8,157,553 | \$ 7,737,041 | \$ 7,129,276 |
| Operating Expenses | 7,461,774 | 7,969,775 | 7,618,897 | 8,432,968 | 10,013,916 | 9,525,012 |
| Operating Income (Loss) | (106,187) | (39,438) | (138,020) | (275,415) | (2,276,875) | (2,395,736) |
| Nonoperating Revenue (Expense) | 1,256,084 | 1,072,953 | 903,664 | 1,072,951 | 961,663 | 977,486 |
| Transfers and Capital Contributions | (33,203) | - | 223,471 | - | 400,016 | - |
| Change in Net Position | 1,116,694 | 1,033,515 | 989,115 | 797,536 | (915,196) | (1,418,250) |
| Net Position - Beginning of year | 26,719,142 | 27,835,836 | 28,869,351 | 29,858,466 | 30,656,002 | 29,740,806 |
| Net Position - End of year | \$ 27,835,836 | \$ 28,869,351 | \$ 29,858,466 | \$ 30,656,002 | \$ 29,740,806 | \$ 28,322,556 |

- In 2003, the City's pension plans, the Municipal Employees' Pension Plan and the Police and Fire Retirement System, were 70.1% and 101.3% funded respectively. The actuarial valuation as of June 30, 2013 (Municipal Employees') and December 31, 2013 (Police and Fire), indicates the City has a \$69.1 million unfunded pension liability and a funding status of 28.0% and 34.6% respectively. Since 2003, the average funded percentage for both plans have trended downward.

| Year | Combined | |
|------|--------------|----------|
| | Unfunded | % Funded |
| 2003 | \$ 8,626,000 | 88.8% |
| 2004 | 10,854,000 | 86.1% |
| 2005 | 26,391,000 | 71.1% |
| 2006 | 37,453,000 | 58.0% |
| 2007 | 44,708,000 | 51.7% |
| 2008 | 48,235,000 | 49.2% |
| 2009 | 51,022,000 | 47.0% |
| 2010 | 59,584,000 | 39.2% |
| 2011 | 61,854,580 | 36.9% |
| 2012 | 64,532,243 | 35.5% |
| 2013 | 69,114,604 | 32.0% |

The significant change in the percentage of funding was explained in the City's audit for fiscal year ending 2004. According to that audit report, "a significant number of individuals accepted early retirement incentives offered by the City. These individuals will be retiring during the period from October 1 through December 31, 2004. This early retirement program will increase the City's unfunded actuarial accrued liability...The actuary has estimated that the City's contribution to the retirement system for subsequent years will increase over the

current year contribution. However, management anticipates that decreased payroll and fringe benefit costs will serve to offset the increase.”

- Based on a 2010 actuarial report, the latest available, other postemployment benefits (OPEB)⁵ unfunded liabilities were over \$105.4 million and is 0% funded. The 2011 and 2012 yearly increases in the City’s OPEB obligations⁶ were \$2,107,243 and \$2,198,285 respectively. Taking into account OPEB obligation increases, the unfunded liability may increase to \$110 million or more after an actuary report is completed.

An Interim Report on the Preliminary Review was sent to the City of Lincoln Park on November 4, 2013. The City was given five days to respond to that report. Copies of both the Interim Report (Attachment A) and the response from the City of Lincoln Park (Attachment B) are attached.

As the state financial authority for units of local governments, I am forwarding this Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board pursuant to Section 4(2) of Public Act 436 of 2012.

⁵ At the time of the preliminary review, 2012 actuarial estimates were unavailable.

⁶ The difference between the actuarial required contribution and the actual contribution.



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

November 4, 2013

BY ELECTRONIC AND UNITED STATES MAIL

Mr. Joseph Merucci, City Manager
City of Lincoln Park
1355 Southfield Road
Lincoln Park, MI 18146

Dear Mr. Merucci:

On October 14, 2013, a preliminary review of the City of Lincoln Park (City) began pursuant to Section 4 of Public Act 436 of 2012, the Local Financial Stability and Choice Act. The purpose of the preliminary review is to determine the existence of probable financial stress within the City, and to provide an interim report of findings within 20 days of commencement of the preliminary review.

The interim report of findings is attached for your review. The City has five (5) days from the date of this letter to provide comments on the interim report. Please provide your comments to both Edward B. Koryzno, Jr. at KoryznoE@Michigan.gov and Suzanne K. Schafer at SchaferS7@Michigan.gov. Comments may also be submitted by fax to (517) 373-0633.

The final report of the preliminary review must be completed 30 days following the commencement of the preliminary review – on or before November 13, 2013. The final report will then be submitted to the Local Emergency Financial Assistance Loan Board. If a finding of probable financial stress is made by that Board, the Governor shall appoint a Review Team to determine if a financial emergency exists. We appreciate your cooperation in this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Kevin Clinton".

R. Kevin Clinton
State Treasurer

cc: State Representative Paul Clemente (paulclemente@house.mi.gov)
State Senator Hoon-Yung Hopgood (senhhopgood@senate.michigan.gov)
Lincoln Park City Council



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

DATE: November 4, 2013

TO: Local Emergency Financial Assistance Loan Board

FROM: R. Kevin Clinton, State Treasurer

SUBJECT: Interim Report - Preliminary Review of the City of Lincoln Park

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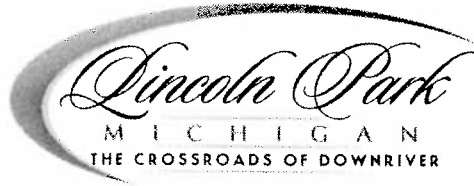
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⁵ At the time of the preliminary review, 2012 actuarial estimates were unavailable.

⁶ The difference between the actuarial required contribution and the actual contribution.



November 7, 2013

Mr. Edward B Koryzno, Jr. Administrator
Michigan Department of Treasury
Office of Fiscal Responsibility
400 West Allegan
Lansing, MI 48922

Ms. Suzanne K. Schafer
Department of Treasury
Office of Fiscal Responsibility
400 West Allegan
Lansing, MI 48922


Dear Mr. Koryzno and Ms. Schafer:

I am writing to respond to the preliminary review of the city's finances. The city has the following two clarifications:

- (1) In paragraph #1, of the first bullet point, the statement is made, "...the General Fund borrowed \$2.5 million from the Water and Sewer fund to make its annual pension payment. The point should be clarified to say the money was borrowed to make the police and fire pension payment.
- (2) In the paragraph at the top of page 3, in the fourth line it states, "...respectively even with property taxes of over \$1 million yearly to help supplement the losses. The property tax that is levied, approximately 1.47 mills, is a judgment levy in favor of the United States EPA against Wayne County, the operator of the downriver sewage treatment facility.

Please contact me if you wish to discuss this matter.

Sincerely,


Joseph Merucci,
City Manager

Sent via U.S. and electronic mail