

CITY OF BENTON HARBOR  
 FINANCIAL PLAN  
 SEPTEMBER 30, 2012

This financial plan is an update of the City's September 30, 2010 financial plan, and will be modified on an ongoing basis to conform to revised revenue and expenditure estimates.

The five-year deficit elimination plans that are incorporated into this financial plan provide for the conducting of operations of the City within its resources including ongoing payments in full of all of the City's scheduled debt service requirements on bonds and notes.

However, the City is insolvent. General Fund liabilities are approximately fifty percent of total revenues and, as shown below, three and one-half times assets. Both deficit elimination plans provide for the liquidation of accounts payable and amounts payable to other governments during the five-year period covered by this financial plan.

City of Benton Harbor General Fund  
 Balance Sheet at June 30, 2012  
 (unaudited)

Cash in Bank and on Hand	\$111,519
Taxes and Accounts Receivable	180,800
Due from Other Funds and Entities	504,165
Prepaid Expenses	52,603
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<b>Total Assets</b>	<b>\$849,087</b>
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Accounts Payable	\$880,589
Due to Other Funds and Entities	1,991,738
Accrued Payroll	58,957
Fire Escrow	40,648
Deferred Revenue	26,121
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<b>Total Liabilities</b>	<b>\$2,998,054</b>
Beginning Fund Balance	(\$2,186,467)
Net of Revenues and Expenditures (unaudited)	37,500
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Ending Fund Balance	(\$2,148,967)
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Total Liabilities and Fund Balance	\$849,087
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## EMERGENCY LOAN

Vendors have been paid three to six months late for several years. An emergency loan will allow the City to consolidate its current liabilities into a long-term note. Since the City's poor credit rating precludes any borrowing from other sources, the availability of a loan from the State is the only potential source of funding for the beleaguered city.

For example, delinquent payments for rubbish collection by residents have required that the City pay \$193 thousand dollars to the vendor by the end of this month, or services will be terminated. The delinquent amounts will be recouped after they are added to the tax rolls.

In addition, the City began payments this year on Water Utility bonds that were issued a few years ago to update the City's water utility. A payment of \$270 thousand, which is due this month, is a cash outlay the City can ill afford. The new bond payments combined with the recent loss of Benton Township as a water customer has worsened the City's cash position. Benton Township consumed approximately fifty-percent of the City's water production. The impending loss of St. Joseph Township as a water customer in January 2013 will make bad matters worse. St. Joseph Township consumes approximately fifty-percent of the utility's current production. The City has raised water rates to allow the utility to make the required bond payments and to sustain the loss of its two major customers. This is unfortunate since the City's water customers are paying the highest water rates in the region. Moreover, water rate increases are collected over time, and bond payments are paid in a lump sum.

If draconian measures were instituted and the City generated a surplus of, say, five hundred thousand dollars each year, it would take five years to pay the General Fund's debts. However, draconian measures imply no repairs and renovations to the City facilities, only emergency repairs to equipment, and no replacement vehicles and equipment for Public Safety and Public Works. Small surpluses are now being used to gradually reduce the General Fund liabilities, while gradually upgrading the City facilities. Consequently, the time required to reduce the General Fund's liabilities to an acceptable level would take many years. Meanwhile, threats for service and product cutoffs, the need to pay cash for many goods and services because of the city's poor credit, facility repairs, and the need to replace and repair equipment reduce the amount of funds available for liquidating liabilities.

Plan A, which is the preferred deficit elimination plan, incorporates a \$3 million emergency loan, which is sufficient to extinguish the General Fund deficit, pay all delinquent obligations to vendors, purchase new equipment, repair City facilities and equipment, and provide the City with much needed working capital. Plan B provides a forecast of the City's cash flows if it continues in "survival" mode.

The following circumstances exemplify the City's needs: One of the Public Safety Department's fleet of twenty-one vehicles is thirteen years old; one is eleven years old; nine are seven years old; and several of those vehicles have a hundred thousand miles. Also, the need for repairs and new technology is an ongoing source of concern for the Department.

Also, the Fire Division has thirty-three Air Tanks and twenty-one Self Contained Breathing Apparatus (SCBA) units of which 20 Tanks are expired and 18 SCBA units are either expired or broken. MIOSHA requires each Firefighter/Public Safety Officer (PSO) to have his or her own mask that is fitted to the individual. More importantly, the importance of maintaining their gear in good condition is crucial for the safety of the firefighters and PSOs.

In addition, the City's inability to monitor sites where illegal activity is conducted, could be addressed with the use of cameras to identify perpetrators.

Furthermore, the heating and air conditioning system in one of the City's two administrative buildings is beyond repair and needs to be replaced. Space heaters are used to provide heat during the winter months, but there was no relief for the sweltering heat this past summer.

Moreover, the amounts being contributed into the employee retirement plans are considerably below the required contributions to maintain their long-term viability.

Following is the City's proposed use of the emergency loan proceeds:

Emergency Loan Proceeds	\$3,000,000
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Uses of Emergency Loan Proceeds	
Accounts Payable	\$1,496,000
Public Safety and Public Works Vehicles and Equipment	604,000
Payment of Delinquent Water Fees Due to Benton Township	336,000
Heating and Air Conditioner Repairs	100,000
Delinquent Fees to Rubbish Collections Firm	193,000
Working Capital	464,000
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Total Uses of Emergency Loan Proceeds	\$3,000,000
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#### RECENT COST REDUCTIONS

A loan to address the City's insolvency is not "throwing good money after bad" or perpetuating processes that contributed to the City's insolvency. Although cash flow challenges continue to persist due to the City's large amount of liabilities, the City's structural deficit has been eliminated, as denoted in the following table (dollars in thousands):

Year	2005	2006	2007	2008	2009	2010	2011	2012
Surplus (Loss)	\$(2,088)	\$(2,024)	\$(1,801)	\$(1,524)	\$(1,297)	\$(780)	\$(654)	\$38

### Salaries and Wages

The following is presented to show that the City's break-even budget was attained by reducing costs that contributed to the City's structural deficit. Over the past two years, General Fund costs have been reduced by over \$1.5 million annually with no detrimental effects on City services.

Department	2010 Costs	2012 Costs	Increase (Decrease)
<b>GENERAL FUND</b>			
City Manager	\$195,388	\$196,262	\$873
City Assessor	128,938	94,451	(34,487)
Public Works	493,848	463,117	(30,732)
City Clerk	110,778	119,019	8,241
Human Resources	38,000	40,000	2,000
Finance	161,822	143,045	(18,777)
Police	1,469,509	1,259,930	(209,578)
Fire	666,659	403,753	(262,906)
Inspections	113,243	137,097	23,855
<b>Total General Fund</b>	<b>\$ 3,378,185</b>	<b>\$2,856,675</b>	<b>(\$521,511)</b>
Community Development	\$166,891	\$ 81,490	(\$85,401)
Water Payment Center	\$188,111	\$183,435	(\$4,676)
Utility Services	688,950	471,264	(217,685)
<b>Total Utility Services Fund</b>	<b>\$877,061</b>	<b>\$654,699</b>	<b>(\$222,362)</b>
<b>Total All Funds</b>	<b>\$4,422,137</b>	<b>\$3,592,864</b>	<b>(\$829,273)</b>

### Health Care

Three factors contributed to a decrease of over \$400 thousand in employee health care costs to the City: a thirty-three percent (33%) reduction in employees; major increases in deductibles and co-pays; and a twenty-percent payment of health care premiums by employees.

### Pension Funds

The City Charter requires the establishment of "a pension and retirement plan for all groups of officers and employees in the service of the City." Recent collective bargaining agreements require employees to pay ten-percent of their salaries into the pension funds. Also, the reduction of the City's workforce by one-third will, over time, cause a significant decrease in the City's pension costs.

## DEFICIT ELIMINATION PLANS

Each deficit elimination plan included in this report provides for the elimination of the City's deficit, the payment of all liabilities to vendors, and payment of all taxes belonging to other taxing jurisdictions.

The General Fund deficit is approximately \$2 million; and the total amount of accounts payable for the current fiscal year, as determined by the State Treasurer's uniform chart of accounts, exceeds ten percent of the City's total expenditures.

During the past 180 continuous days: the operations of the City have been conducted within the available resources; all scheduled debt service requirements on all bonds, notes, and other uncontested legal obligations were paid with the exception of a note payable to Benton Township, which is now current; all taxes withheld on the income of employees were transferred to the appropriate agencies; all of the taxes collected by the City as agent for other governmental units, school districts, and other taxing authorities were transferred to the appropriate agencies; and all wages, salaries and other compensation due to employees and retirees were paid.

With the exception of the required contributions to the City's employee benefit plans, which currently exceed the City's ability to pay in full, each of the deficit elimination plans included in this financial plan provide for the conducting of operations of the City within the resources available, including the payment in full of the scheduled debt service requirements on all bonds, notes, and all other uncontested legal obligations of the City.

Property taxes are expected to increase only modestly during the five years covered by these projections.

Whirlpool Corporation has pledged to donate \$200 thousand dollars to the City in 2013 and again in 2014. The corporation has also pledged to contribute \$300 thousand annually each year beginning in 2015 and ending in 2023. Annual contributions will be directed by resolution to be used for funding for the public safety defined benefit plan.

State Revenue Sharing is projected to remain constant.

Other than step-increases for PSOs there will be no wage increases for police and fire until after June 2016. The AFSCME contract, which expires in 2016, provides for annual increases of one and one-half percent (1.5%) annually. AFSCME employees comprise about ten percent (10%) of the General Fund labor force of approximately sixty employees.

Only modest increases are forecast for other costs.

PLAN A

This plan incorporates a \$3 million emergency loan.

	<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Revenues					
Property taxes	\$2,345,000	\$2,391,900	\$2,439,738	\$2,500,000	\$2,500,000
State shared	1,499,508	1,500,000	1,500,000	1,500,000	1,500,000
PILOTs	520,000	520,000	520,000	520,000	520,000
Charges for services	327,000	350,000	350,000	350,000	350,000
License and permits	275,000	275,000	275,000	275,000	275,000
Administrative fee - Water	275,000	275,000	275,000	275,000	275,000
Contributions	200,000	200,000	300,000	300,000	300,000
Rental income	200,000	100,000	100,000	100,000	100,000
Other	330,000	330,000	330,000	330,000	330,000
Total Revenues	\$5,971,508	\$5,941,900	\$6,089,738	\$6,150,000	\$6,150,000
Expenditures					
Emergency/City Manager	\$472,702	\$475,000	\$475,000	\$475,000	\$475,000
City assessor	96,000	84,000	84,000	84,000	84,000
City Attorney and claims	300,000	200,000	200,000	150,000	150,000
City Clerk	234,088	235,000	235,000	235,000	235,000
Finance	328,009	330,000	330,000	330,000	330,000
Police Department	1,593,000	1,650,000	1,675,000	1,700,000	1,700,000
Fire department	370,000	370,000	370,000	370,000	370,000
Inspections	243,048	190,000	190,000	190,000	190,000
City Engineer	25,000	25,000	25,000	25,000	25,000
Public Works	450,000	450,000	450,000	450,000	450,000
Equipment Purchases	903,900	50,000	50,000	50,000	50,000
Repairs and Maintenance	200,000	25,000	25,000	25,000	25,000
General administration	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Pension Fund Contributions	550,000	550,000	550,000	550,000	550,000
Total Expenditures	\$6,865,747	\$5,734,000	\$5,759,000	\$5,734,000	\$5,734,000
Revenues Under Expenditures	\$(894,239)	\$207,900	\$330,738	\$416,000	\$416,000
Other Sources and Uses					
Loan Proceeds	\$3,000,000				
Proceeds from sale of assets	400,000				
Debt Service	0	(350,000)	(350,000)	(350,000)	(350,000)
Total Other Sources and Uses	\$3,400,000	\$(350,000)	\$(350,000)	\$(350,000)	\$(350,000)
Fund Balance Increase	\$2,505,761	\$(142,100)	\$(19,262)	\$66,000	\$66,000
Beginning Fund Balance	(2,150,000)	355,761	213,661	194,399	260,399
Ending Fund Balance	\$355,761	\$213,661	\$194,399	\$260,399	\$326,399

PLAN B

This plan excludes an emergency loan.

	<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Revenues					
Property taxes	\$2,345,000	\$2,391,900	\$2,439,738	\$2,500,000	\$2,500,000
State shared	1,499,508	1,500,000	1,500,000	1,500,000	1,500,000
PILOTs	520,000	520,000	520,000	520,000	520,000
Charges for services	327,000	350,000	350,000	350,000	350,000
License and permits	275,000	275,000	275,000	275,000	275,000
Administrative fee - Water	275,000	275,000	275,000	275,000	275,000
Contributions	200,000	200,000	300,000	300,000	300,000
Rental income	200,000	100,000	100,000	100,000	100,000
Other	330,000	330,000	330,000	330,000	330,000
Total Revenues	\$5,971,508	\$5,941,900	\$6,089,738	\$6,150,000	\$6,150,000
Expenditures					
Emergency/City Manager	\$472,702	\$475,000	\$475,000	\$475,000	\$475,000
City assessor	96,000	84,000	84,000	84,000	84,000
City Attorney and claims	300,000	200,000	200,000	150,000	150,000
City Clerk	234,088	235,000	235,000	235,000	235,000
Finance	328,009	330,000	330,000	330,000	330,000
Police Department	1,593,000	1,650,000	1,675,000	1,700,000	1,700,000
Fire department	370,000	370,000	370,000	370,000	370,000
Inspections	243,048	190,000	190,000	190,000	190,000
City Engineer	25,000	25,000	25,000	25,000	25,000
Public Works	450,000	450,000	450,000	450,000	450,000
Equipment Purchases	300,000	50,000	50,000	50,000	50,000
Repairs and Maintenance	100,000	25,000	25,000	25,000	25,000
General administration	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Pension Fund Contributions	400,000	400,000	400,000	400,000	400,000
Total Expenditures	\$6,011,847	\$5,584,000	\$5,609,000	\$5,584,000	\$5,584,000
Revenues Under Expenditures	\$(40,339)	\$357,900	\$480,738	\$566,000	\$566,000
Proceeds from sale of assets	400,000				
Fund Balance Increase	\$359,661	\$357,900	\$480,738	\$566,000	\$566,000
Beginning Fund Balance	(2,150,000)	(1,790,339)	(1,432,439)	(951,701)	(385,701)
Ending Fund Balance	<u>\$(1,790,339)</u>	<u>\$(1,432,439)</u>	<u>\$(951,701)</u>	<u>\$(385,701)</u>	<u>\$180,299</u>