



May 10, 2010

## BUDGET MESSAGE

Honorable Mayor Scrace and Council Members:

In accordance with the provisions of the City Charter, submitted herewith is the 2010-2011 Annual Budget for the Fiscal Year starting July 1, 2010.

### INTRODUCTION

This budget is the fourth that the City Manager and Finance Director have completed from start to finish. The overview to follow contains a number of key points worth highlighting before describing the main points of each of the funds. While this budget balances expenditures with available revenues as required, there are serious economic and fiscal conditions that merit attention, just as those raised last year.

### OVERVIEW

#### ECONOMIC TRENDS

The current national, state, and regional economic situation has impacted the City's finances, and created a significant challenge to the development of a balanced budget this year. In addition to the continuation of a trend dating back to 2002 where revenue collected and sent from the State of Michigan to cities has declined, nearly all other categories of local revenue are now also declining such as building permits. Most significant of all is the continued decrease in property tax revenue. Due to the strained national and regional housing market, property values declined for the fourth year in row:

#### Decline in Residential SEV

2007 – 3.0%      2008 – 9.4%      2009 - 20.7%      2010 – 9.0%

This decline of 42.1% in the value of residential property assessments has resulted in a major decrease in residential property tax revenues used for general operations for the second straight year. This is critical as residential properties comprise approximately 90% of the City's tax base, and property taxes are by far the single largest revenue source of the City. In addition, commercial values declined this year for the first time by an average of 3.5%, and personal property declined significantly by 10.6%. The total property value loss in all categories was approximately 18.1% last year and 8.7% this year.

Following assessments earlier this year, only about 100 (or slightly more than 2%) of the residential properties in the City have an SEV that is more than Taxable Value, compared to 80% of the City's 2268 parcels last year and 42% the previous year. The remaining difference in value between the total residential SEV and the Taxable Values is now less than .5%. What this means is that any further decline in property values will directly result in a corresponding reduction in property tax revenues from these properties. Given that the period on which next year's property assessments are based is now half over, the City does expect an additional overall decline in values next year as well.

## PROCESS

Anticipating a major financing challenge, during the Fall of 2009, the City began working on the 2010-11 budget for the fiscal year that starts July 1. After reviewing a five year financial projection that demonstrated an ongoing structural budget deficit caused primarily by lower revenues in the short term that are unlikely to be recovered under current state restrictions on local governments as well as by future retiree legacy costs, the City Council authorized creation of a blue ribbon citizen committee to review the situation and make recommendations. The Ad Hoc Citizen Budget Committee reviewed a 5 year fiscal forecast and spent months reviewing City budgets, audits and programs. After obtaining community input on revenue and spending priorities through a city-wide survey, the Citizen Committee made a series of short and long term recommendations for addressing the projected deficit.

The Committee presented the recommendations to the City Council which reviewed budget issues as a Committee of the Whole during the month of March. The Council then provided general direction to staff on developing a budget that met the goals of the Council. In large part, the submitted budget reflects the recommendations of the Citizen Committee as well as the priorities identified by the community wide survey. In particular, the draft budget preserves the same number of Public Safety Officers next year as is currently on the force. Service reductions are made in areas identified by the citizens as less of a priority such as recreation, special events, upkeep of City buildings and vehicles, and tree planting.

Notwithstanding the declining revenue environment, the Fiscal Year 2010-2011 budget is balanced without dipping into General Fund reserves or increasing the General Fund operations levy. Fee increases are proposed in a number of specialized areas intended to cover the costs of services offered such as building permits, various recreational services and programs, and certificate of occupancy inspections. A rewrite and simplification of the business license ordinance and fee schedule is contemplated as is a new false alarm/registration fee similar to the one in place at in Grosse Pointe Farms.

Marina fees, parking fees, and water and sewer rates remain unchanged. The Capital Projects Fund, which will not be tapped for any new Public Safety or Public Services vehicles this year or any major building repairs, must also continue to assume responsibility for major street project expenses.

The transmittal of a balanced budget was a challenge. State revenue sharing continues to decline year after year, including the \$35,000 in cuts approved by the State in the middle of this current fiscal year and are down more than 25% since 2002 when payments were about \$250,000 per year higher. The expected State of Michigan contribution from motor fuel taxes toward the City streets is expected to decline to an estimated \$302,500 requiring the City to contribute nearly \$258,000 to the Highway Fund for street maintenance costs. Also affected by the national housing situation are revenues from economically sensitive building permits of all types. Court revenues are also expected to decline next year. While revenue sources are significantly limited, there are built-in cost increases to operating City services. Personnel costs are the single biggest expenditure in a municipal budget, and many costs related to employees are rising beyond the rate of inflation, particularly health care and drug costs.

In light of the above constraints, in order to achieve a balanced budget, expenditures for all departments are below last year's levels. Administrative and supervisory costs have been significantly reduced in an effort to preserve service levels as much as possible. Contracted services are being held to below last year's or to zero increases wherever possible. For the second year in a row, new initiatives requiring additional spending have not been introduced. Many capital purchases have, again, been deferred or spread out. On the personnel side, this budget includes no increases in salaries for employees and a new high deductible health care plan, among other employee benefit reductions. This has resulted in a decrease of total General Fund operating expenditures of 15.3% from last year's budget.

The fact that the number of homes currently on the real estate market is at seven year low in the Grosse Pointes gives some indication of the light at the end of the tunnel, however, the underlying fiscal conditions raised above will still create an even more significant budgetary challenge next fiscal year. And as unfunded needs to provide for infrastructure improvements and retirement health costs continue to build, upcoming budgets will remain not just tight, but require priority setting, service level adjustments and changes in the way local government has administered things in the past. This is particularly true as retiree costs are projected. With the decline in the equity markets, the pension system has gone from significantly overfunded of more than 150% a few years ago to an estimated 116% in the pension fund at the beginning of the last fiscal year. For the first time since 1992, the City is actuarially required to contribute City funds in the Pension system, a contribution projected to rise to more than \$200,000 over the next several years. There will not likely be excess pension funds to transfer into the 401h retiree health care trust to cover this year's expenses, as there was not last year, precluding a funding method that had been done as a way to pay for these retiree health care expenses -- which now exceed \$400,000 per year.

The economic trends will continue to create significant challenges which will require creativity and flexibility. The City will continue to examine its health care and retirement related employee benefits, and seek to impose reduced benefit levels on new hires. The City will need to deliver services more efficiently. The City will need to regularly evaluate its level

of services to make sure its limited resources are being spent on the services the community desires. As recommended by the Citizen Committee, the City will have to increasingly recover service delivery costs from the users of more specialized services through fees and charges – looking to the beneficiaries of services to share the burden of providing these services. The City of Grosse Pointe, which already works closely with the other Grosse Pointes on many cost saving endeavors, has taken the lead – as recommended by the Citizen Committee – to invite the other Grosse Pointes to start to examine potential options for enhancing public safety service cooperation as we look for ways to deliver fire and police protection most efficiently yet at the highest service levels possible given the increasingly limited resources.

## **GENERAL FUND**

The proposed budget as submitted balances revenues with expenditures. Total General Fund outlays are proposed to decrease 14.2 % compared to last year. The charts which follow this budget message summarize proposed General Fund revenue and expenditures.

The City's major property tax generator is the general operations levy. The 11.8391 mill general levy is proposed to remain at the same rate.

The City's taxable value for 2010 is estimated at \$336,856,106, an overall decrease from last year. Property tax revenue is budgeted at \$4,180,571, an amount \$747,070 less than budgeted last year.

Given the State of Michigan's fiscal crisis, it is expected that the Legislatures will once again return to cutting municipal funds to balance the State's budgets. While the State is unable to finish their budget in time for incorporation in the City's budget, state Shared Revenues are predicted to decrease by \$75,650, and are estimated at \$369,350. State Shared Revenue provides 6.8% of general fund operations.

As previously mentioned, given the revenue challenges in other areas, there is a need to adjust rates from various fees and charges for services. According to figures compiled by SEMCOG, the City's collection of General Fund revenues from fees is significantly less than the statewide average for cities. This approach is also consistent with the recommendations of the Citizen Committee.

As in the prior fiscal year, each department is budgeted to spend less than last year. All administrative divisions are proposed to be reduced by 20% or more including Legislative, City Administration, and Human Resources. Three managerial positions are being eliminated (Assistant Manager, Recreation Coordinator and Public Works Supervisor), along with several part time seasonal workers for an overall reduction of 4.25 employees or Full Time Equivalents.

This budget assumes no salary increases for City employees, and a reduction in benefits. The City will introduce a new health plan that reduces costs. Funds for contracted consultants are reduced for the fourth year in a row.

Overall, the City's General Fund budget is proposed to be \$5.6 million, down from \$6.6 million in 2009-2010. Per the residential survey, service reductions have been made in the Parks and Recreation Department, reducing some recreational services and special events. The City is not purchasing any new Public Works or Public Safety vehicles, or undertaking any major building projects. On the other hand, all existing Public Safety staff are proposed to be retained. Personnel costs comprise 93% of the Public Safety Department's operational costs.

Consistent with the adopted personnel manual, the salary range structure for non-union positions adopted as part of that document will not be adjusted this year. The flat wage rate is consistent with the calendar year 2009 urban inflation indices for the Detroit Metropolitan Area from the U.S. Department of Labor. In terms of personnel, contract employees, part-time employees and seasonal employees will be reduced this year, particularly by the Parks Department. The use of overtime, particularly in Public Works, has been significantly curtailed and services provided on straight time whenever possible. In addition, a freeze on filling of any full-time positions that become open was imposed earlier in 2009 remains in place.

### **SOLID WASTE FUND**

Due to the reduced property values, the solid waste levy does not cover the cost of providing refuse services to City residents and businesses. To address this problem, the City is creating a Solid Waste Fund to account for all revenue and expenses related to garbage, recycling, and yard waste services. An increase in the solid waste tax rate is proposed from the current 1.1609 mills to 1.7755 mills. Both operations and solid waste equipment will be funded from this dedicated source of revenue, although a general fund subsidy is still required to cover all of the solid waste expenses this year. This budget does not eliminate rear yard pick-up but instead saves expenses related to rear yard pick-up by deferring purchase of a Cushman, with a savings of approximately \$25,000. The goal of this fund is to eliminate the General Fund subsidy of these services entirely. In the future, as solid waste expenses and revenues are tracked through this dedicated fund, the intent is that the revenues garnered from charges for services and the solid waste levy will, in fact, cover all the expenses and that adjustments to fees and/or expenses will be made as necessary to assure this.

### **GENERAL DEBT FUND**

The General Debt Fund pays for debt issued by the City of Grosse Pointe Building Authority and also the City of Grosse Pointe. There are two outstanding bond issues: 1994 Building Authority Bonds for new municipal offices, Council-Court Chambers, and Public Safety alterations expiring in 2014; and 2001 General Obligation Bonds for the Neff Park swimming complex. Total principal and interest payments for fiscal 2010-11 are \$410,653. The Building Authority Bonds are financed with general operating property tax revenue, while the General Obligation Bonds receive funding from a voted millage with a dedicated levy.

As a direct result of the declining taxable values, revenue from the voter approved 2001-2020 General Obligation Bond has decreased to the point where the revenue generated by the dedicated .5 mill levy for this purpose generates only \$168,428, which is now \$49,747 short of covering the annual interest and principal payments. The bond was issued after more than 80% of City voters approved an unlimited tax levy for the purpose of issuing and paying off bonds to finance the construction of a new pool. However, the .5 mills is all that has been needed to date. The budget as outlined increases the debt retirement millage rate to make up the difference, and avoids having the General Fund subsidize the pool project when the demands on the general fund, particularly public safety needs, are so high.

Without these tax rate increases in the Solid Waste and Debt Levy, the General Fund would be required to subsidize these specified expenses that were intended to be paid for by the fees levied. Otherwise, funds would be taken away from the operational budget, and in particular the funds available to support critical Public Safety needs, the highest priority identified by residents and by far the largest component of the General Fund budget.

To put these rate increases in perspective, the City's residential properties declined in value an average of 9.4% this year for tax assessment purposes. The proposed total levy amount of 14.2622 mills would still generate less property tax revenues than this past year, even though the combined rate would increase by approximately 5.5%.

For a Grosse Pointe City resident's house that was worth \$250,000 in 2009 and the taxable value was half that at \$125,000, the resident homeowner would have paid \$5,500 in total property taxes with a principal residence exemption millage of 43.999. The average decline in assessment since then was 9.4% and the new taxable value would be \$113,250. Even with the proposed change in the solid waste and pool levy tax rate of the City, the average resident's property tax bill with a \$250,000 house is estimated to decline to \$5,070, a roughly \$430 property tax reduction from 2009.

### **CAPITAL PROJECTS FUND**

Capital spending for equipment and building improvement has been pared back significantly from the levels of more than four years ago. The most significant expenditure is for constructing an on-site fuel pump for City vehicles, which should provide savings from purchase of fuel wholesale. The Capital Projects Fund also lists all of the City's vehicles and major equipment for the Public Services and Public Safety Departments with the projected replacement schedule in future years, although refuse trucks and equipment will now be funded by the Solid Waste Fund. No Public Safety or Public Works vehicles are proposed for purchase in this budget. Public Works has moved to a three-year replacement cycle for the City rubbish trucks instead of every two years, and pick-up trucks have moved from an 8-year replacement cycle to a 10-year cycle.

## **WATER SUPPLY & SEWAGE DISPOSAL SYSTEM**

The budget projection for the Water and Sewage Disposal System shows total revenue of \$2,219,200 and operating expenditures of \$1,934,145. Operating income is budgeted at \$285,055, along with a projected interest income of \$45,000. Capital outlay for major projects is proposed at \$965,000. This is to fund a new 12” water main along Mack Avenue, as called for in the long term water and sewer capital improvement plan. This capacity expansion project will increase water pressure and fire hydrant flows in the northern part of the City, and is the second leg of four part water main loop.

The City’s consumable water is supplied by the City of Grosse Pointe Farms and sewage processing is completed through the City of Detroit Sewage System. This budget assumes no increase to water and sewage rates.

## **HIGHWAY FUND**

The Highway Fund provides separate accounting for all operation and improvements to the City streets. State Shared gas and weight tax revenue and contributions from the General Fund support this activity.

State Shared Highway Revenue is estimated at \$302,500, continuing a downward trend of support from the state for roads. The General Fund Contribution is proposed at \$257,812 to cover the cost of winter street maintenance, routine street maintenance, tree trimming and removal and capital outlay for crack sealing and maintenance construction. A contribution of \$262,000 from the Capital Projects Fund will cover the cost of planned local street resurfacing.

Operating expenditures are proposed at \$520,312, a decrease of 3.9%, while capital outlay is proposed at \$302,000. The work planned for this upcoming year is to repair the worst sections of various concrete streets as an effort to prevent further deterioration and avoid the cost of complete reconstruction of these more than 50 year old concrete streets. A similar project was completed more than five years ago on the concrete streets south of Jefferson.

A five year projection of future street projects, based on the continuing current level of capital expenditures, is included. It should be noted, however, that the City’s 4<sup>th</sup> annual comprehensive street condition survey, conducted in accordance with state requirements, identified significantly more work that is needed, but unfunded. In recent years, major capital projects for streets have been allotted approximately a quarter of a million dollars. This year’s survey found a continuing trend of more streets that are in poor and fair condition (ranked 3 and 4 on a scale of 10). Two significant federally funded projects on St. Clair and Cadiuex last year helped increase the number of streets in the best conditions (ranked 9 or 10) and another federally funded project planned jointly with Grosse Pointe Farms on Fisher south of Maumee after school gets out will use outside funds to help the City keep up with street needs. In order to pay for street projects, for the second straight year, significant funding had to be transferred from the Capital Projects fund, which will only hasten the depletion of those funds. State and federal road funding increases are being contemplated in Lansing and Washington and would provide important support for the

City's street network, if approved. Given the documented need for street improvements, the City's road conditions will deteriorate significantly over time if additional funding sources are not found for this important element of the City's infrastructure.

### **PARKING FUND**

The debt payments and operational costs for the Village Parking Structure are incorporated as the major cost in this budget. Occupancy in the garage has increased significantly over the past year although still less than projected before construction and the revenue generated by the structure does not cover its costs. As often has been stated, this is typically the case with public parking structures, except in major cities' urban core. However, the budget for the Parking Fund does include and has no difficulty in paying for the bonding costs for the garage entirely from parking revenues, as planned. A significant project to reconfigure Village Lot 3 behind Ace Hardware consistent with the Downtown Parking Plan of 2006 is included in the budget from the Parking Fund reserve balance in preparation for the construction of a new Neighborhood Club facility hopefully in 2011.

### **MARINA FUND**

The Marina was constructed in 2003 and is a significant asset to our community. The Marina Fund is an enterprise fund created to separately account for all marina operations. Due to the economy which has significantly impacted leisure activities and subsequently diminished the waiting list for boat wells, there is no increase budgeted for Marina Well Fees for the 2011 boating season and all wells may not be filled. Marina well fees and kayak rack fees are expected to generate less revenue, an estimated \$158,340. Expenses including debt retirement are estimated at \$158,037. The marina fund budget projects a slight operating profit of \$303.

### **DRUG FORFEITURE FUND**

This federally mandated fund was established to track funds collected by the Public Safety Department from drug related property seizures and OUIL/drunk driving offenses. While these funds are not allowed to be used for officer's wages, they can be used for designated types of police equipment such as vehicles, cell phones and radios. The Public Safety Department is able to meet some of its equipment needs through increased use of this fund this year, taking some pressure off the General Fund to provide for those needs during this tight budget year. Public contributions toward the drug dog and related expenses are also recorded in this fund.

## **APPRECIATION**

A great deal of information is contained in the following pages, and represents extensive effort by many staff members in multiple departments. Credit for this budget is given to each member of the City Staff who assisted in the process which began in January.

In particular, thank you to all the Department Directors for their participation in gathering information and for their assistance in developing the individual department budgets and flexibility in dealing with limited resources. This budget is a better tool as a result of their input.

Also, a huge thank you to the time put into this year's budget process by the members of the Ad Hoc Citizen Budget Committee. Their expertise was invaluable to setting the direction and priorities for addressing this financial challenge this year and into the future.

## **PROCEDURE**

The City Charter requires that a public hearing on the budget be held at least one week prior to its adoption. This hearing is scheduled for May 10, 2010 at 7:00 p.m. Adoption of the proposed budget is scheduled for the regular City Council meeting on May 17, 2010.

Respectfully submitted,

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City Manager

Karen A. Johnson  
Director of Finance/Treasurer