

REPORT OF THE AD HOC CITIZENS BUDGET COMMITTEE FEBRUARY 22, 2010

FINDINGS:

- That the City of Grosse Pointe is facing a significant financial challenge, attributable largely to the decline in its revenue base. The largest part of the decline is the decline of property tax revenues as a result of housing values continuing to show losses. The State of Michigan's support through revenue sharing and gas taxes has been declining since 2002 and continues to decline.
- That the financial problem is a structural one. In other words, even when the economy improves, the City's financial situation will not improve unless significant corrective measures are undertaken to balance revenues with expenditures. This is primarily due to the structure of the State of Michigan's financing system for local governments. Once the decline in property values ends, the base on which property taxes are generated cannot increase by more than the inflation rate even if property values double. The City is therefore locked into a lower property tax revenue base from which three quarters of the City's services are paid. Under the State Constitution, the City's general operations tax rate is at its cap. Given the State of Michigan's fiscal situation, its financial support for local governments is not likely to improve any time soon.
- That the City of Grosse Pointe is facing a significant increase in legacy costs for existing and new retirees in the upcoming years that will cause significant pressure on the General Fund operational budgets and become an increasingly high percentage of expenditures if left unchanged. Of particular concern is the significant and largely unfunded cost of the retiree health care system.
- That the City of Grosse Pointe has historically been well managed, has developed ample reserves over the years, and undertaken a wide range of cost saving initiatives over the last several years. This has resulted in a flat level of General Fund operational expenditures even though many operational costs, such as health care, increase faster than the rate of inflation.
- That significant and swift actions are required to ensure that Capital project and General Fund reserves are not depleted to offset the loss in revenue
- That the attractiveness of Grosse Pointe as a community is attributable in part to its excellent municipal services. Strong public safety and public works services and amenities such as parks are what make help make this community unique. It is important to try to preserve this as much as reasonable while taking prudent measures to be more cost efficient and allocate increasingly scarce resources on the highest priorities.
- That the high level of services the City residents have come to expect and have received is jeopardized by the continuing significant decline in revenues that the City has and will continue to experience in upcoming years if unabated

RECOMMENDATIONS:

- That the City of Grosse Pointe eliminate and not budget in the upcoming fiscal year several full-time positions that are vacant and budgeted but unfilled due to the hiring freeze imposed in 2009. This step is estimated to save approximately \$150,000 annually. The positions are: Assistant City Manager, Public Works Supervisor, and Recreation Coordinator. Another position that became vacant in 2009 and was already not budgeted in the current fiscal year was a Public Safety Officer from the dedicated patrol unit.
- That the City of Grosse Pointe significantly reduce special events expenditures and look to hold events jointly with other communities to save expenses. The community survey indicated that this is the lowest priority of all the City services.
- That the City of Grosse Pointe seek to impose a stricter model of cost recovery from Parks and Recreation programs. Such programs are not of equal use to all residents and users of those programs should cover more of their costs. Recreation program offerings should be evaluated to reduce or eliminate programs that cannot be justified by broad participation and/or paid for by the beneficiaries. A broad recreation fee or fees might be considered as well as increased or new fees for various programs. Recreation was also considered a lesser priority by the citizen survey than other programs. Expenditure reductions should be made in accordance with this lower status. The vacant full time Recreation Coordinator position should be eliminated.
- That the City of Grosse Pointe seek to reduce current and future employee and retiree costs, given that personnel costs are the largest expenditure in providing City services. The City's health care benefits package should be examined for savings and increased cost sharing by employees. The City should seek to adopt a tiered retirement plan, one that reduces retirement benefits for new hires. Moving to a defined contribution retirement plan for new employees, as most private sector companies have, should be evaluated or otherwise reducing retirement benefits to new employees. Given the very high cost of the retiree medical care defined benefit program, the City should seriously explore placing all new employees on a defined contribution retiree medical savings plan. Ways to reduce costs of the program for existing retirees and existing employees should also be examined as the City's retiree health care account will be depleted, depending on investments and future health care costs, in between three and six years from now, after which the more than \$400,000 per year current costs will need to be borne by the General Fund unless other methods are found to pay for the benefit or costs reduced to extend the life of the account. As more City employees reach retirement age over the next several years, retirement plan costs will only increase unless changes are made to make the benefits viable over the long term. Care should be taken to keep City employees benefits competitive, as the Committee recognizes that retaining and attracting high quality employees depends, in part, on the pay and benefits plan. The Committee does not recommend furloughs as a means for productively reducing costs over the long term.
- That the City of Grosse Pointe retain its unique City status and identity as a separate municipality but seriously endeavor to increase efficiencies through intergovernmental cooperation and sharing of services with its Grosse Pointe neighbors in all departments.

Of particular emphasis, given that fire and police services comprise more than half the City's operational budget, that the City of Grosse Pointe immediately work with all of the Grosse Pointes to enter into discussions about a combined Public Safety Department, shared Court system and a consolidated dispatch operation. Public safety services are particularly well suited to such cooperative endeavors. The Committee also believes that due to some inherent inefficiencies in the structure of a small Public Safety Department such as the City's, cooperative public safety initiatives could be undertaken without undermining the high quality of services and accountability now enjoyed by citizens.

- That the City of Grosse Pointe seek to recover the cost of specialized programs and services, licenses, permits through new or increased user fees so that public services of broad benefit and application such as public safety can be funded through the general levy. A thorough review of the City's fee structure should be conducted with the purpose of significantly decreasing reliance upon the property tax base as the primary source of revenue and on the state of Michigan as the secondary source of revenue.
- That the City of Grosse Pointe's levy for paying the bonds and interest on the pool construction be adjusted annually to ensure that the cost of this improvement are covered as authorized and approved by a past referendum of the citizens. Due to the decreased property tax base, it is estimated that if the pool bond levy is not adjusted, then the General Fund operations need for maintaining public services will be depleted by approximately \$48,000 in next year's budget to offset these costs.
- That the City of Grosse Pointe's solid waste programs become self-sustaining, *i.e.* cover their costs. The Committee recommends a variety of actions be undertaken to bring the City's extensive solid waste programs in balance with revenues. The City's Solid Waste Levy of 1.1609 mills and all other solid waste fees do not generate sufficient revenue to cover the costs of all the City's garbage, yardwaste, waste, and leaf programs. Of the \$781,600 in operational and annualized equipment costs related to the City's solid waste operations, only \$520,000 is recovered to pay for this service. In addition to levying up to the full amount allowed under State law by Council, an additional .61 mills, the Committee recommends: 1) reducing service levels including instituting curbside pickup only; 2) charging for additional services such as bulk or extra pickups; and, 3) extending the life of equipment even longer. Elimination of the purchase and use of Cushman's nearly every year alone would eliminate \$30,000 annually in expenses. The combination of approaches should have the goal of ensuring that solid waste services are fully paid for by the residential and commercial users, thereby freeing up General Funds for their intended operational purposes instead of subsidizing solid waste programs.
- The Committee reviewed the City's building project needs and recommends that no major building projects be undertaken during the next several years. The Committee recognizes that both the Public Works building, which has not undergone any substantial work since its construction in the 1960's and the Public Safety building, have legitimate space and improvement needs, but that large projects at this time cannot be afforded. A bond issued in 1994 for the City Hall and Council Chamber conversion expires in 2014 that may provide some ability to fund some improvements at that time.

- The Committee reviewed the City's road project needs and the Committee recognizes that the current level of funding significantly underfunds what is needed to properly maintain the City streets. State funds continue to decline for the Highway Fund which causes the General Fund to cover these costs. The Committee applauds the City for its approaches to stretching available funds and for finding outside grant funds in recent years, but such approaches are not viable over the long term. At the current rate of funding street improvements, the Capital Projects Fund, built up from sound financial management from General Fund surpluses and sale of assets such as the cable system, will be depleted in five years. Even this minimal level of funding for streets of approximately \$250,000 per year is not sufficient to address the documented existing need for more than \$6 to \$9 million in improvements (depending on the type of construction). Lobbying for increases in state funds distributed to municipalities under Public Act 51 is recommended. Paying for solid waste equipment through the Solid Waste revenues (see above recommendation) will also extend the viability of the Capital Projects Fund. If no new source of funding to replenish the Capital Projects Fund is found, in future years a local levy dedicated to streets reconstruction may be necessary or the General Fund will be have to be tapped to pay for capital improvements creating added pressure on this already constrained source.
- The Committee acknowledges that each Department significantly reduced its budget during the current fiscal year to address the shortfall in revenues. The Committee recommends that the existing budget be reviewed for any additional savings that can be implemented now, and also to continue to reduce expenses wherever possible in upcoming years. The Committee applauds the City's staff efforts to date and encourages a continued creative and vigilant approach and ongoing review of processes, systems, automation, and efficiencies that can help the City maintain its services with fewer resources.

SUMMARY

- The Committee believes that the city must make expenditure reductions, reprioritize programs and seek cost savings through intergovernmental efforts to reduce overhead, inefficiencies and overlap. The Committee believes that if the approaches above are adopted, City expenditures will be reduced and City revenues in total will still be less than this current year.
- The Committee favors a multi-pronged approach to bring City costs and revenues in balance over the long term. Costs need to be reduced but the decline in revenues will also need to be stemmed. The Committee does **not** support increasing the amount of property taxes collected over what will be generated this year. But what cannot be overlooked is that approximately 80% of residents already received a tax reduction this year, and 42% received a tax reduction the prior year. With an average 9% reduction in assessed value this upcoming year, nearly all resident homeowners will experience an overall property tax reduction (some for the third year in a row) and no homeowner's SEV will be higher than their Taxable Value. Due to the efforts of the City to date to reduce costs, services have not been seriously impacted as of yet by these past revenue reductions. In order to deal with the continued assessment declines and state shared revenue reductions, the service changes recommended above by this Committee are not only needed but they will also be felt by both citizens and employees alike. Such expenditure changes are needed to ensure that all prudent avenues are explored before the City turns to the voters to request that the General Levy Tax rate be changed. Clearly, for example, the residents' survey results also support the Committee's viewpoint that service sharing efforts undertaken with other communities are a prime opportunity for savings, particularly in public safety. Recreational and special event programs are of lesser priority and expenditures there should be scaled back.

In future years, the Committee supports a general levy tax rate change to a level that will generate no more than the property taxes currently generated. The survey of Grosse Pointe households provides some backup to the Committee's support for halting the decline in general property tax revenues. The Committee believes that citizens would likely be willing to forego property tax decreases in the future if additional expenditure reductions are undertaken and there are no reasonable means left to avoid significant service reductions or program eliminations to more highly valued services. In order to stem the reduction in general property tax revenues, a change in the general property tax rate would be needed. And in order to increase the general tax levy rate, a vote of the citizens would be required. That said, it is important to emphasize that a tax rate change of the nature the Committee would recommend does equate to a property tax increase. Due to the decline in the City's tax base, a tax **rate** increase would be needed simply to maintain the existing level of property tax revenues, a step which, the Committee is prepared to support in future years as needed to keep our City's most valued, high priority services. All Grosse Pointe City stakeholders including residents, business owners and city employees will have to make sacrifices to ensure the City continues as a desirable place to live and work.

Committee Recommended Short Term Options

<u>Expenditures (estimated)</u>	<u>Revenues (estimated)</u>
\$150,000 Position Eliminations	\$200,000 Solid Waste Levy
\$150,000 Employee Health Care/Benefit Reductions	\$ 48,000 Pool Levy
\$ 30,000 Institute Curbside Only Garbage Pickup	\$ 25,000 Fees / Permits
\$ 10,000 Recreation/Special Events Reductions	

TOTAL CUTS: \$340,000 TOTAL REVENUE: \$273,000

TOTAL TO APPLY TO DEFICIT REDUCTION IN SHORT TERM: \$613,000