May 10, 2021

BUDGET MESSAGE

Honorable Mayor Tomkowiak and Council Members:

In accordance with the provisions of the City Charter, submitted herewith is the 2021-2022 Annual Budget for the Fiscal Year starting July 1, 2021.

INTRODUCTION

The overview which follows 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 several economic and fiscal conditions that merit attention. The overall operational budget is constrained and balanced without property tax increases, with a backdrop of concern about the unknown long-term impact of COVID-19 on the City’s commercial properties.

OVERVIEW

The five-year financial projections that the City prepares every year prior to the start of the budget preparation indicated that changes are needed to keep budgets balanced into the future. This process started last year, accelerated by the COVID-19 pandemic. The current year fiscal budget undertook several new mechanisms to automate operations, including automated read water billing, online building permit processing, and new parking pay stations and payment methods. Some reorganization and reduction of staff and processes were undertaken as a result of these changes last year. This reassessment of operations continues in the proposed budget, with additional reorganization and additional parking equipment and software implementation.

While the economy had been growing for years until COVID-19 hit, the "Great Recession" suffered in southeastern Michigan greatly impacted the City’s finances. Part of the lingering impacts of that recession is that it reset a base of revenue from property taxes and lowered payments to municipalities by the State of Michigan. Dating back to 2003, the State of Michigan has been balancing its shortfalls on the backs of local governments. The City of Grosse Pointe has had a cumulative loss of State of Michigan revenue sharing totaling $2,451,349 million between 2003 and 2017, as estimated by the Michigan Municipal League. Even more significant was the drastic decrease in property tax revenue.
Property taxes are the primary source of revenue for cities in Michigan. Due to the strained national and regional housing market, property values declined in Grosse Pointe for six years in a row after a peak in 2006. Cumulatively, this cut values in half for residential properties. Residential values are now continuing to rise. 2021 will be the ninth year with an increase in residential assessments (which are based on 2020 values). In fact, residential property values increased on average by more than four percent in the City of Grosse Pointe in 2020. While commercial values held steady in 2020, the longer-term impact of COVID-19, which caused several vacancies and potentially a longer-term shift in office space demand, is uncertain. However, under the Headlee/Proposal A amendment to the Michigan Constitution, the increased taxable value for any property is capped at the annual inflation rate. This year, Michigan has determined that cap to be 1.4% in the upcoming Fiscal Year. Grosse Pointe is also prohibited by the Headlee Amendment from raising its property tax rates to levels allowed by its City Charter. While the real estate market for Grosse Pointe homes has been increasing far greater than the rate of inflation for nine consecutive years, City finances must still face the stark financial task of dealing with property tax revenue levels that have reverted to those found in the last decade. Plante Moran, the City’s independent auditor, estimated in December of 2020 that it would not be until 2023 that the City’s taxable value on which property taxes are based, would equal that from 2009. On top of that, when there is a notable increase in taxable values, the Headlee amendment “rolls back” the tax rate applied to the tax rate. This will be the fourth year in a row where the City rolls back its tax rates to levels lower than the year before.

On the expenditure side, the basic key to maintaining a balanced City budget in Michigan, under the constraints of the Headlee/Proposal A amendment, is to keep expenditures from exceeding the rate of the increase in the inflationary cap on taxes. However, as the City’s financial forecast showed, some expenditures are projected to continue to increase in future years above the estimated rate of inflation. If not adjusted, that would lead to increasing deficits over the next five years. Expenditures projected to exceed inflation include those attributable to collective bargaining agreement commitments, active employee health care costs, retiree health care costs, and contributions to the City’s pension program. The City is required in this upcoming budget to pay a contribution into the retirement system for the second year due largely to adopting the State of Michigan’s recommended standards that are more conservative in their actuarial assumptions. In addition, there are many newer employees hired over the last five years in Public Safety and Public Works that are reaching their full pay in the scale.

An additional financial condition now putting pressure on the Capital Projects Fund and the General Fund into the future is solid waste service. The Solid Waste levy has been rolled back four years in a row, and no longer generates sufficient revenue to even cover the annual costs of the collecting and disposing of refuse and yard waste. The solid waste property tax levy is unable to be increased due to the Headlee tax rate cap. To delay the impact of this on the General Fund having to absorb operational costs historically paid for from the Solid Waste levy, capital expenditures related to refuse vehicles will now all be funded through the Capital Projects Fund.

**PROCESS**

Notwithstanding the increasing demands from the expense side, the Fiscal Year 2021-2022 budget is balanced without dipping into General Fund reserves or increasing the General Fund operations property tax levy (which is actually prohibited by the Headlee Amendment without a vote of the populace). There are some General Fund fee increases proposed in the upcoming budget limited to the building department. In fact, the General Fund levy, the Solid Waste levy, the Road Fund levy and
the Debt Service levies are rolled back and decreased in this budget. In total, property owners will realize a .2914 mil reduction compared to last year -- from 17.4715 in 2020 down to 17.1801 in 2020.

Parking fees remain unchanged. Water and sewer rates are budgeted to increase with the rise of the cost of wholesale water produced by the City of Grosse Pointe Farms and capital projects, as well as the operating costs of the system.

State revenue sharing is expected to increase. The expected State of Michigan contribution from motor fuel taxes under Act 51 toward the City streets is also estimated to increase. While the City has virtually no options to increase revenues and existing sources are significantly limited or flat, 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 those related to active employee’s health care and retirees and legacy costs.

Upcoming City budgets will also require continued priority setting, service level adjustments and changes in the way local government has administered things in the past. This year’s budget does include, for the seventh time, a Road Improvement Fund. This was made possible by voter approval in August of 2014 of an entirely new levy dedicated to fixing the City’s roads. Even with the millage devoted solely toward roads, now rolled back from the initial 2.5 mils to 2.3630, it will take many years to catch up from more than a decade of underinvestment. However, other capital needs remain without a source of funding other than from savings left over from annual budgets.

The most significant long-term challenge remains paying for the already promised retiree health care. With the retiree health care trust depleted to less than a year’s worth of benefit payments, the City has now for the seventh consecutive year budgeted the full cost of providing a year’s worth of health care to current retirees, including contributions from the current employees who are eligible for retiree health insurance. While the City’s switch to an alternative Medicare age retiree health plan did significantly reduce expected costs in the upcoming year, paying as you go does not address the unfunded $10.6 million in post-retirement benefit obligations resulting in only an 8% funded status of the retiree health care obligations.

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. The City will need to deliver services as efficiently as possible. 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. The City of Grosse Pointe continues to examine potential options for enhancing public safety service cooperation as we look for ways to deliver fire and police protection, now comprising 50% of the General Fund budget, most efficiently yet at the highest service levels possible given the increasingly limited resources. Significantly, City voters did vote to authorize major upgrades to City facilities in August of 2017 and those projects are in full operation for this upcoming fiscal year. These important projects will help keep down major capital improvement expenditures that were increasingly required on old deteriorating buildings and equipment stored outside. However, the new Public Safety and Public Works facilities have increased operational expenditures due to their larger size.
GENERAL FUND

The proposed budget, as submitted, balances revenues with expenditures. Total General Fund outlays are proposed to increase by $176,938.

The City’s major revenue generator is the general operations tax levy. The 11.3262 mill general levy will be rolled back to 11.1914 for the 2021-2022 budget year. It cannot be increased due to the Proposal A/Headlee limit.

The City’s taxable value for 2020 is estimated at $395,105,866, an overall increase from last year. Property tax revenue, real and personal, is budgeted at $4,458,067, an amount $100,896 higher than budgeted last year.

State Shared Revenues are estimated at $526,694, an amount 17.7% more than the prior year due to the state’s elimination of one of the payments in the previous year due to COVID-19. State Shared Revenue provides 8.7% of general fund operations.

Overall, the City’s General Fund budget is proposed to be $6.4 million, an increase of $176,937 over the budget in 2020-2021.

Some highlights of changes in this year's budget expenditures include:

- Allocation of funding for a year’s retiree health care costs in the total amount of $536,000, including contributions from other funds proportionate to employee costs from that fund (e.g. Parking and Water/Sewer)
- Allocation of funding for a year’s retiree pension contribution in the total amount of $130,602, including contributions from other funds proportionate to employee costs from that fund (e.g. Parking and Water/Sewer)
- Addresses Clerk Transition
- Meets commitment to additional contribution to Main Street Grosse Pointe
- Provides for a full-time Public Safety Director
- Restores part time seasonal maintenance employees reorganized to incorporate park grounds maintenance under DPW grounds maintenance supervision
- Accounts for increased operational costs of large new facilities

SOLID WASTE FUND

The revenues of the Solid Waste Levy, which is rolled back to 1.6784 from 1.6987 last year, are allocated in this fund as reserved for only rubbish related purposes. With the revenues from property taxes capped and increased expenses, there is nothing left for major equipment purchases needed for rubbish collection such as garbage trucks and leaf equipment. The tax rate cannot be increased due to the Proposal A/Headlee limit. The existing Cushmans that are budgeted to be replaced over the next several years which will continue rear yard pickup, are being allocated from the Capital Projects Fund due to the Solid Waste Fund not having sufficient funds. In 2013-14, the City combined the commercial and residential pickup schedules to reduce costs, both in capital as well as personnel, and changed to a 4-day residential pickup schedule. Conversion of the additional areas in the Village to
compactor service in the parking lots has helped reduce demands on Public Works employees. The City will need to consider higher or new fees to cover future operational and capital needs of the Solid Waste Fund, or to consider service level changes to adjust to available funds. The current revenues are not sufficient to cover the operating costs and do not allow for any future capital purchases or future increases in expenses. Otherwise, the General Fund will ultimately have to be tapped to also support solid waste activities which were previously provided for in this special revenue fund.

**GENERAL DEBT FUND**

The General Debt Fund pays for debt issued by the City of Grosse Pointe. There is one outstanding bond issue: 2018 General Obligation Bonds for the Public Safety and Public Works Facilities. Total principal and interest payments for fiscal 2021-22 are $759,900. The General Obligation Bonds receive funding from a voted millage with a dedicated levy.

The budget as outlined eliminates the debt retirement millage rate for the pool of 0.6626 mills while increasing the debt retirement millage rate for the facilities by 0.5547 mills.

**CAPITAL PROJECTS FUND**

The Capital Projects Fund 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. 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, or longer whenever possible. It is expected that the new Public Works facility will help protect vehicles from deterioration from no longer being exposed to the elements and having better maintenance capacity.

Some of the purchases budgeted for in the 2021-2022 fiscal year include police vehicles, a refuse truck and, a contribution to the Road Fund for the street projects. Other items included are police equipment as well as various building, park and village improvements. It should be noted that the only source of revenue for the Capital Projects fund is savings at the end of the fiscal year from the annual budget not needed to maintain the 25% General Fund fund balance.

**WATER SUPPLY & SEWAGE DISPOSAL SYSTEM**

The budget projection for the Water and Sewage Disposal System shows total revenue of $3,041,847 and operating expenditures of $2,519,425. Operating income is budgeted at $522,422, along with a projected interest income of $20,000. Capital outlay for major projects and equipment is proposed at $1,262,000. This is to repair sewers, change lead water services, and purchase a water pick-up truck, a tap machine and a sewer jetter to replace the one from 1988. The major capital project planned for 2022 from this fund is to completely replace the sewer system from the last century on Loraine.

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. Readiness to serve charges increased due to the increase of the operating costs of the system. Commodity charges are being increased by the City of Grosse Pointe Farms which produces water for the City. The Debt service component of the rates will remain fairly consistent.
HIGHWAY FUND

The Highway Fund provides separate accounting for all operation and maintenance to the City streets. State Shared gas, registrations and weight tax revenue (Act 51) support this activity.

State Shared Highway Revenue is estimated at $579,3022. A contribution from major to local roads is proposed at $85,672 to cover the cost of winter street maintenance, routine street maintenance, tree trimming and removal, capital outlay for crack sealing, and maintenance construction not covered by the amount local streets receives from the state motor fuel tax revenues shared through Act 51. Operating expenditures are proposed at $480,825. The budgeted cost of street resurfacing and reconstruction is shown in the City’s Road Fund. The Road Fund will collect the voter approved millage to address the needed road construction projects.

ROAD IMPROVEMENT FUND

The Road Improvement Fund, with the original approved levy of 2.5 mills now down to 2.3630, dedicated to road repairs, will generate revenues of $930,000 in Fiscal Year 2021-22. Projected expenditures for the road projects in 2021 will go toward the resurfacing of part of Rivard, Charlevoix, and Loraine. To complete these projects, many of which required complete reconstruction, the Capital Projects Fund and the Major Road Fund will supplement the Road Fund this year to make up the shortfall in the road millage to pay for these more expensive road restorations. The Road Improvement Fund has created a source of revenue for up to a 15-year lifespan and will fund a comprehensive road improvement program utilizing recognized best practices of asset management. The program is reviewed annually in December. The review in December 2021 will determine the projects built in calendar year 2022 using any fund balance in the Road Improvement Fund, and FY 2022-23 road millage. The authority for a road levy was approved by the voters in August 2014.

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 declined over the past year as a result of many people working remotely due to the pandemic. Even before the pandemic, the revenue generated by the structure has not covered its costs. As often has been stated, this is typically the case with public parking structures, except in major cities’ urban core that can charge far more for public parking. 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. The City continues to budget for replacement of all the major parking equipment systems incorporating technological advances that are easier for both customers and staff. The replacement of these systems will increase efficiencies in the parking department.

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. The Marina fees are proposed to increase 3% for the 2022 boating season. Marina well fees and kayak rack fees are expected to generate estimated revenue of $197,088, which is slightly more than the total expenses
including debt retirement and capital improvements. As the water levels recede, several significant marina projects will be completed in upcoming years.

**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/drunken 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.

**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.

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.

**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, 2021 at 7:00 p.m. Adoption of the proposed budget is scheduled for the regular City Council meeting on May 17, 2021.

Respectfully submitted,

Peter J. Dame
City Manager

Kimberly Kleinow
Director of Finance/Treasurer