



May 11, 2020

BUDGET MESSAGE

Honorable Mayor Tomkowiak and Council Members:

In accordance with the provisions of the City Charter, submitted herewith is the 2020-2021 Annual Budget for the Fiscal Year starting July 1, 2020.

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 serious economic and fiscal conditions that merit attention. This is a budget that takes steps to adjust to the dramatic change of economic conditions caused by the efforts to save lives and prevent the spread of COVID-19. The General Fund, providing the bulk of City services under the Public Safety, Public Works, and Parks Departments is a zero growth budget with no net increase over last year's budget. On the revenue side, the proposed overall tax rate for the City of Grosse Pointe declines by more than three quarters of a mill, compared to last year.

OVERVIEW

COVID-19 IMPACTED BUDGET

The COVID-19 pandemic has created severe and immediate challenges to state and local governments across the country. With the near shut down of the economy, economically sensitive revenues have already dropped significantly. With the stay at home order first put in place by Governor Whitmer in March and in effect until at least until May 28th, the City has had to operate under an essential services restrictions. Reduced sales taxes, gas taxes, building permits, and parking fees due to lack of commercial activity are already impacting the City in the current fiscal year. This will likely extend into the fiscal year starting July 1.

To address this fiscal downturn, the City took immediate steps to downsize its operations including layoffs and furloughs except in Public Safety. On the other hand, the City has had unplanned expenditures related to COVID-19 precautions. These costs include increased sanitization of facilities and equipment as well as equipment, overtime created by quarantine of potentially exposed staff, and software needed for administrative staff to adjust to working in COVID-19 conditions, often virtually. While the City has begun to see some indications of the extent of the lost revenues, it is not possible to predict the length and depth of these revenue losses. The most recent data available from the state is that the March motor fuel taxes payment to Grosse Pointe is 23% less than February. That does not even include a full month of the stay at home order. The Michigan Department of Treasury estimated that the April and May sales taxes generated in Michigan would be down 50%. For the City's Constitutional revenue sharing payment, that translates to a direct reduction of \$40,000 per month.

While the COVID-19 situation is likely to be different by July 1, the start of this proposed fiscal year budget, the true extent of the financial impact is impossible to know. What is clear is that it will take time to recover. Consequently, this budget takes steps to structurally and permanently reduce costs of operations.

Even before the COVID-19 calamity struck, the City had begun to reassess its operations. The five-year financial projections that the City prepares every year prior to the start of the budget preparation indicated that changes were needed to keep budgets balanced into the future. Some of the factors influencing financial trends are noted below.

First, 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. This long-term trend was exacerbated by more significant revenue sharing cuts during Governor Snyder's tenure during the Great Recession. 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. 2020 will be the eighth year with an increase in residential assessments (which are based on 2019 values). In fact, residential and commercial property values increased on average by more than six percent in the City of Grosse Pointe in 2019. 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 1.9% 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. So while the real estate market for Grosse Pointe homes has been increasing far greater than the rate of inflation for eight 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 2019 that it would not be until 2026 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 third 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 first time in many years 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.

The City also recognized that with so many straight years of growth in the economy, it would be prudent to begin preparing for a potential downturn. Management staff were tasked at the beginning of the budget process to evaluate different and more efficient ways of operating their departments.

PROCESS

With all of that backdrop, starting in February, the department heads began preparing their budgetary needs and estimates with an eye on making efficiency improvements over time.

Amid those preparations, the pandemic hit and it was immediately clear that implementation of new efficiencies and changes in operations were immediately needed. Learning from how the City coped with the precipitous drops in revenues during the Great Recession, staff looked particularly at how upfront capital expenditures could reduce future operational costs and demands for staffing. As an example, ten years ago the City paid to install its own fuel tanks and take advantage of purchasing fuel from wholesale providers instead of paying retail prices from gas stations. The City has been saving money ever since. Over the last five years, the City has, through prudent management of its budgets, set aside its annual end of year operating surplus to the Capital Fund. This allows the City the ability to spend money on capital that will save on operations. That approach has been adopted in many cases to address the current financial crisis, as explained further below.

Notwithstanding the increasing demands from the expense side, the Fiscal Year 2020-2021 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 no General Fund fee increases proposed in the upcoming budget. The solid waste property tax levy is also unable to be increased due to

the Headlee tax rate cap. In fact, the General Fund levy, the Solid Waste levy, the Road Fund levy and the Debt Service levy for new facilities are rolled back and decreased in this budget. In total, property owners will realize a .7503 mil reduction compared to last year -- from 18.2219 in 2019 down to 17.4715 in 2020. Unless a property was recently purchased most property owners in the City will experience a slight decrease in actual taxes owed for City purposes compared to last year, in spite of increased property values.

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 GLWA sewage and stormwater costs, capital projects, as well as the debt service of the system.

State revenue sharing is expected to decrease due to the effects of the COVID 19 pandemic. The expected State of Michigan contribution from motor fuel taxes under Act 51 toward the City streets is also estimated to decrease. 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.

With the unstable and uncertain economy, the underlying fiscal conditions raised above will create budgetary challenges. The State of Michigan is anticipating billions of dollars of shortfalls in its current year budget ending in September and in its next fiscal year. If the past is any indication, if there is no relieve forthcoming from the federal government, the City should expect the State to further reduce statutory revenue sharing levels and Act 51 road monies as much of those are funded by the state's General Fund.

To address these financial challenges, using available capital funds, the City of Grosse Pointe proposes to reduce expenditures and employee workload by:

- Upgrading its building permit system to allow fully online submission of permits and plans, as well as scheduling of inspection. This will reduce administrative processing time.
- Replacing annual flower planting in The Village with perennials. This will reduce costs in maintaining beds and purchase of new flowers every year.
- Replacing aging parking equipment with more technologically advanced systems for payment and enforcement. This will allow for easier use by customers and employees, and reduce maintenance, operations, Public Works employee time and costs.
- Upgrading water meter reading equipment with a remote auto-read system. This will eliminate the need for Public Works employees to drive down every street every time a water reading is needed.
- Replacing the streetlights on City streets with energy efficient LED lights

Operationally, a number of changes are proposed or assumed in the Public Services (Public Works) Department.

- Elimination of the dedicated Parking Supervisor position. Additional parking supervisory duties will be assumed by one of the three Public Services Supervisors.
- Creation of a lower paid full time Commercial District Technician that will handle parking lot and structure and equipment maintenance, collecting parking meters and pay stations, and handling commercial district litter pickup
- Elimination of use of part-time workers for yard waste pick-up, and the part-time positions for litter pickup and a seasonal worker
- Refuse truck crews as part of their normal routes will now empty the curbside litter containers in the business districts.

Overall, the City's employee count is proposed to be nearly 3 Full Time Equivalents (FTE's) less than this current year. The reduced number of employees is possible largely through enhanced use of technology and better use and prioritization of employees' time.

This summer, additional savings are expected – although not reduced in the budget -- in the Parks and Recreation Department as many of the summer events with large people in Neff Park will not likely occur. The City pool is unlikely to open due to COVID-19 precautions. It is hard to conceive of a scenario in which the pool can be safely operated with crowds, sanitization and social distancing requirements likely to be needed. This savings from not operating the pool could help offset any major State budget or continued revenue reductions due to the COVID-19. Additional expenses are expected just to keep the other park amenities clean, sanitized, and to monitor social distancing in the parks.

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 sixth 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 2.2915, 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 sixth 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 will be in operation for this upcoming fiscal year. These important projects will help keep down major capital improvement expenditures that had been increasingly required on the old deteriorating buildings and equipment stored outside. However, the new Public Safety and Public Works facilities will have increased operational expenditures due to their larger size.

GENERAL FUND

The proposed budget as submitted balances revenues with expenditures. To address the economic conditions that are depressing revenues, the General Fund budget has a net zero growth. Total General Fund outlays are proposed to remain flat, with an actual slight decrease of \$4,334. The charts which follow this budget message summarize proposed General Fund revenues and expenditures.

The City's major revenue generator is the general operations tax levy. The 11.8391 mill general levy will be rolled back to 11.5121 for the 2020-2021 budget year. It cannot be increased due to the Proposal A/Headlee limit.

The City's taxable value for 2020 is estimated at \$384,829,571, an overall increase from last year. Property tax revenue, real and personal, is budgeted at \$4,357,171, an amount \$101,199 higher than budgeted last year.

State Shared Revenues are estimated at \$447,597, an amount 16.6% less than prior year due to the effects of COVID 19. State Shared Revenue provides 7.2% of general fund operations.

Overall, the City's General Fund budget is proposed to be \$6.2 million, a decrease of \$4,334 over the budget in 2019-2020.

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)

SOLID WASTE FUND

The revenues of the Solid Waste Levy, which is rolled back to 1.6987 from 1.72650 last year, are allocated in this fund as reserved for only rubbish related purposes. With the revenues from property taxes capped and increased expenses, very little is 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 Cushman's are budgeted to be replaced over the next several years which will continue rear yard pickup. 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 barely sufficient to cover the operating costs and do not allow for any future capital purchases or future increases in expenses.

GENERAL DEBT FUND

The General Debt Fund pays for debt issued by the City of Grosse Pointe. There are two outstanding bond issues: 2011 General Obligation Refunding Bonds for the Neff Park swimming complex; and 2018 General Obligation Bonds for the Public Safety and Public Works Facilities. Total principal and interest payments for fiscal 2020-21 are \$770,900. Both General Obligation Bonds receive funding from voted millages with dedicated levies.

The budget as outlined slightly increases the debt retirement millage rate for the pool by 0.0451 mills but significantly decreases the debt retirement millage rate for the facilities by 0.5423 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.

Some of the purchases budgeted for in the 2020-2021 fiscal year include police vehicles, a refuse truck and for the first time since voters approved the road improvement millage, a contribution to the Road Fund for the street projects. Other items included are the building furnishings and equipment for the new facilities. 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 \$3,957,320 and operating expenditures of \$2,401,332. Operating income is budgeted at \$1,555,988, along with a projected interest income of \$20,000. Capital outlay for major projects and equipment is proposed at \$974,535. This is to repair sewers, change lead water services, and purchase a hilo (a small forklift) for use in the new Public Works facility, new auto-read meter reading system, and sewer camera. The major capital project planned for

2021 from this fund is to completely replace the sewer system from the last century on Loraine. This project will require the replacement of the entire road after the sewer work is completed.

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 slightly 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 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) and contributions from the General Fund support this activity.

State Shared Highway Revenue is estimated at \$558,562. A contribution from major to local roads is proposed at \$48,010 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 \$440,721. 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 a levy of 2.5 mills, dedicated to road repairs, will generate revenues of \$900,000 in Fiscal Year 2020-21. Projected expenditures for the road projects in 2020 will go toward the resurfacing of part of Goethe, University Place, Grosse Pointe Court, and Rivard Boulevard. To complete these projects, many of which required complete reconstruction, the Capital Projects 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 2020 will determine the projects built in calendar year 2021 using any fund balance in the Road Improvement Fund, and FY 2021-22 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 remained consistent over the past years. Nonetheless, 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 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. Transient revenues in the gated lots and the meters have also remained consistent. Parking Fund revenues are budgeted to decrease by 10% compared to last year's budgeted revenues. This is due to the COVID 19 pandemic. The City has budgeted 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 2021 boating season. Marina well fees and kayak rack fees are expected to generate estimated revenue of \$191,604, which is slightly more than the total expenses including debt retirement and capital improvements. Given the high water, there are no marina improvements budgeted for the 2020-21 fiscal year but are planned when water levels retreat.

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.

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 11, 2020 at 7:00 p.m. Adoption of the proposed budget is scheduled for the regular City Council meeting on May 18, 2020.

Respectfully submitted,

Peter J. Dame
City Manager

Kimberly Kleinow
Director of Finance/Treasurer

