



May 9, 2016

BUDGET MESSAGE

Honorable Mayor Scrace and Council Members:

In accordance with the provisions of the City Charter, submitted herewith is the 2016-2017 Annual Budget for the Fiscal Year starting July 1, 2016.

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 continue to be serious economic and fiscal conditions that merit attention.

OVERVIEW

ECONOMIC TRENDS

While the economy has now stabilized, the recent national, state, and regional economic situation greatly impacted the City's finances and will do so for the foreseeable future as municipal governments come to terms with a new normal, a significantly lowered baseline of revenue. The City has been impacted by the trend dating back to 2002 where revenue collected and sent from the State of Michigan to cities had declined, estimated by the Michigan Municipal League to cumulative loss of revenue sharing to the City of Grosse Pointe of \$1.5 million between 2003 and 2013. 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 with assessments rising more than 6% on average this year. This will be the fourth year with an increase in residential assessments. However, the City will not experience a commensurate uptick in property tax revenues. The

cap on increased taxable value for any property is the annual inflation rate, under the Michigan Constitution, which is a miniscule 0.3% in the upcoming Fiscal Year. Combined with flat commercial values this year, also attributable to the after effects of the last recession, the City's real property tax revenues will increase only \$22,920 in this upcoming 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 is recovering, 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. Without major tax base expanding redevelopment it will take more than a decade from now just to get back to pre-recession levels of 2006.

PROCESS

The Council provided general direction to staff on developing a budget that met the goals of the Council during the preliminary budget discussion in March. With that direction the department heads submitted their budgetary needs and estimates and the draft budget was compiled.

Notwithstanding the increasing expense environment, the Fiscal Year 2016-2017 budget is balanced without dipping into General Fund reserves or increasing the General Fund operations property tax levy (prohibited by the Headlee Amendment without a vote of the populace). Some minor General Fund fee increases are proposed in the upcoming budget, including some small increases in the parks and recreation department related to the swimming pool which will require maintenance work and also the birth certificate fee to cover costs in the clerk's department. The solid waste property tax levy also remains unchanged (and unable to be increased due to the Headlee rate cap). However, the City needs to consider assessing fees for services in the Solid Waste Fund to avoid having to tap the General Fund to pay for future operational and capital needs.

Parking fees remain unchanged. Water and sewer rates are budgeted to increase with the rise of the cost of wholesale water produced by Grosse Pointe Farms as well as the operational costs of running the system. The Capital Projects Fund will be tapped for new Public Safety and Public Service vehicles this year as well as needed building repairs and the Fisher Road Streetscape project.

The transmittal of a balanced budget is becoming slightly less challenging than it had been in the past few years. State revenue sharing was down more than 35% since 2001 when payments were about \$227,000 per year higher, but is expected to continue to be stable. The expected State of Michigan contribution from motor fuel taxes toward the City streets is estimated at \$398,670, still requiring the City's General Fund to contribute nearly \$236,000 to the Highway Fund for street maintenance costs. While revenue options are virtually non-existent 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 retirees and legacy costs.

While the economy has stabilized and the housing market is rebounding, the underlying fiscal conditions raised above will still create budgetary challenges as expenses that have been

put off come due. Unfunded needs to provide for infrastructure improvements and retirement costs continue to skyrocket, upcoming budgets will require priority setting, service level adjustments and changes in the way local government has administered things in the past. As the State of Michigan has still not significantly increased support for roads, this year's budget does include for the second 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 2.5 mils devoted solely toward roads, 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. With the decline in the equity markets during the major downturn, the pension system has gone from significantly overfunded of more than 150% before the Great Recession down to 104% and has rebounded to an estimated 122.9% in the pension fund at the beginning of the last fiscal year. The City will not be actuarially required to contribute City funds in the Pension system this year due to recent investment returns, a stark contrast to the nearly three hundred thousand dollar bill from three years ago. The most significant challenge is paying for the already promised retiree health care. Premiums for Medicare age retirees increased 12.8% for 2016 over the previous year. With the retiree health care trust depleted to approximately a year's worth of benefit payments, the City has now for the second consecutive year been able to budget 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.

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 56% of the General Fund budget, most efficiently yet at the highest service levels possible given the increasingly limited resources. This is particularly important as major fire apparatus and facilities needs loom on the horizon.

GENERAL FUND

The proposed budget as submitted balances revenues with expenditures. Total General Fund outlays are proposed to increase 2.16 % compared to last year. The charts which follow this budget message summarize proposed General Fund revenues 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 for the 2016-2017 budget year. It cannot be increased due to the Proposal A/Headlee limit.

The City's taxable value for 2015 is estimated at \$331,186,774, an overall increase from last year. Property tax revenue, real and personal, is budgeted at \$3,920,953, an amount \$29,011 higher than budgeted last year. This is only 0.8% more than last year due to the Headlee inflation cap and the flat commercial values.

State Shared Revenues are estimated at \$473,043. State Shared Revenue provides 8.2% of general fund operations.

Overall, the City's General Fund budget is proposed to be \$5.8 million, an increase of \$121,524 over the budget in 2015-2016.

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

- o Allocation of funding for a year's retiree health care costs in the total amount of \$500,000, including contributions from other funds proportionate to employee costs from that fund (e.g. Parking and Water/Sewer)
- o Maintaining the number of times the City powerwashes the sidewalks in the Village at twice per year as well as the snow removal services from building to curb in The Village.
- o Budgeting for the part time position of accounting clerk in the Finance Department to assist in the implementation of increased utility billing frequency.

SOLID WASTE FUND

The revenues of the Solid Waste Levy, which remains at the same tax rate as last year, are allocated in this fund as reserved for only rubbish related purposes. With the reduced revenues from property taxes and increased expenses, very little has been reserved for future equipment purchases in the past, and none expected this year. The tax rate cannot be increased due to the Proposal A/Headlee limit. The existing Cushmans 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 will also help to stretch already reduced manpower. The City will need to consider higher and in some cases new fees to help plan for the future operational and capital needs of the Solid Waste Fund. 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 Building Authority and also the City of Grosse Pointe. The twenty year bond issued in 1994 for the City Hall and Council Chamber project was paid off completely in April 2015. This reduced expenditures in this Fund last fiscal year by about \$200,000 per year. The one outstanding bond issue is the 2011 General Obligation Refunding Bonds for the Neff Park swimming complex. Total principal and interest payments for fiscal 2016-17 are \$240,200. The General Obligation Refunding Bonds receive funding from a voted millage with a dedicated levy.

Due to the increase in the Neff Park Pool principal payment for fiscal year 2016-2017, the budget as outlined slightly increases the debt retirement millage rate by 0.0504 mills. This is necessary to generate the funds to fulfill the debt service requirements, as voted by the

public prior to the pool construction. This also allows the City to continue to avoid having the General Fund subsidize the original pool project when the demands on the general fund, including needs to repair the pool, are so high.

CAPITAL PROJECTS FUND

Capital spending for equipment and building improvement has been pared back significantly from the levels of more than eight years ago. 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.

\$111,000 has been allocated to building maintenance needs, both for the Public Safety Building and City Hall. These expenditures have been prioritized from an extensive list of projects to fix City Hall, the Public Safety Building, the Public Works Facility and Neff Park as well as replace needed equipment. The deep end of the main pool is planned to be resurfaced as well as the Fisher Road streetscape project. The Fisher Road project will be funded primarily with the assistance of a \$335,000 MDOT grant and also a special assessment on the business properties on that block, spread over six years. There are also 2 scout cars being purchased as well as other minor public safety equipment. There are significant building projects and equipment replacements that have been delayed during the recent economic turbulence the City has endured. But without a dedicated source of revenue, 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 20% General Fund fund balance.

WATER SUPPLY & SEWAGE DISPOSAL SYSTEM

The budget projection for the Water and Sewage Disposal System shows total revenue of \$2,873,376 and operating expenditures of \$2,249,587. Operating income is budgeted at \$623,789, along with a projected interest income of \$5,000. Capital outlay for major projects is proposed at \$280,000. This is to replace the water mains in the Fisher Road business district as well as a dump truck.

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 to address the increase of the operating costs of the system. Commodity charges are being increased somewhat by the City of Grosse Pointe Farms which produces water for the City, as well as the City of Detroit that processes the sewage. The Debt service component of the rates will remain unchanged.

HIGHWAY FUND

The Highway Fund provides separate accounting for all operation and maintenance 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 \$398,670. A General Fund Contribution is proposed at \$235,347 to cover the cost of winter street maintenance, routine street maintenance, tree trimming and removal and capital outlay for crack sealing and maintenance construction not covered by the state motor fuel tax revenues shared through Act 51. Operating expenditures are proposed at \$590,426, an increase of 5.56%. The budgeted cost of street resurfacing and reconstruction is now shown in the City's new Road Fund. The Road Fund will collect the newly 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 \$827,967 in Fiscal Year 2016-17. Projected expenditures for the road projects in 2016 will go toward the resurfacing of the entire length of St. Paul from Cadieux to Fisher Road, and also for two other blocks in the City. The Road Improvement Fund will create 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 2016 will determine the projects built in calendar year 2017 using any fund balance in the Road Improvement Fund, and FY 2017-18 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 continued to increase over the past year. 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. Due to new gated parking lots in the Village, parking ticket revenue has declined from three years ago (as expected and hoped). Transient revenues in the gated lots and the meters are also increasing with increased economic activity. Parking Fund revenues are budgeted to increase by more than \$55,000 over last year's budgeted revenues.

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 for the 2016 boating season by 3% to address rising maintenance and repair needs. Marina well fees and kayak rack fees are expected to

generate estimated revenue of \$180,169, which is slightly higher than the total expenses including debt retirement. This surplus will be added to net assets for future repairs and maintenance.

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 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.

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 9, 2016 at 7:00 p.m. Adoption of the proposed budget is scheduled for the regular City Council meeting on May 16, 2016.

Respectfully submitted,

Peter J. Dame
City Manager

Kimberly Kleinow
Director of Finance/Treasurer