



May 9, 2011

## BUDGET MESSAGE

Honorable Mayor Scrace and Council Members:

In accordance with the provisions of the City Charter, submitted herewith is the 2011-2012 Annual Budget for the Fiscal Year starting July 1, 2011.

### INTRODUCTION

This budget is the first 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 continued to impact the City's finances, and has created significant challenges in developing a balanced budget. 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 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 fifth year in a row:

#### Decline in Residential SEV

2007 – 3.0%    2008 – 9.4%    2009 - 20.7%    2010 – 9.0%    2011 – 5.4%

This decline of 47.5% in the value of residential property assessments has resulted in a major decrease in residential property tax revenues used for general operations for the third 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 second year in a row by an average of 2.2%. Personal property increased

significantly by 13.0% due to the new equipment purchased by Kroger. The overall property value loss in all categories was approximately 8.7% last year and 4.5% this year.

The gap between assessed value and taxable value that grew in the years following the approval of Proposal A has virtually been eliminated. What this means is that declines in property values 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

The Council provided general direction to staff on developing a budget that met the goals of the Council during the preliminary budget discussion on February 14<sup>th</sup>. With that direction the department heads submitted their budgetary needs and estimates and the draft budget was compiled.

Notwithstanding the declining revenue environment, the Fiscal Year 2011-2012 budget is balanced without dipping into General Fund reserves or increasing the General Fund operations property tax levy. Fee increases are proposed in a few specialized areas intended to cover the costs of services offered such as extra refuse collections. The solid waste property tax levy also remains unchanged. This will result in a City property tax decrease for nearly all City homeowners.

Marina fees and parking fees remain unchanged. Water and sewer rates are budgeted to increase as a result of the rate increases that are expected from the City of Detroit and Grosse Pointe Farms. 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 is down more than 42% since 2001 when payments were about \$270,000 per year higher. Governor Snyder has proposed elimination of the remaining statutory portion of revenue sharing. The expected State of Michigan contribution from motor fuel taxes toward the City streets is expected to decline to an estimated \$281,800 requiring the City to contribute nearly \$253,000 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. 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 especially with added costs and unfunded mandates related to implementation of the federal health care legislation.

In light of the above constraints, in order to achieve a balanced budget, expenditures for all departments have been reduced on average 5.5% 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 zero increases wherever possible. For the third year in a row, new initiatives requiring additional spending have not been introduced. Many capital purchases have, again, been deferred or spread out. This budget generally assumes no salary increases for employees as well as plans for increased employee health care contributions as of January 2012. This has resulted in a decrease of total General Fund operating expenditures of 5.56% from last year's budget.

While the economy has begun to stabilize giving some indication of the light at the end of the tunnel, the underlying fiscal conditions raised above will still create an even more significant budgetary challenge next fiscal year. Additional residential property value declines are expected in FY 2012-2013 as well. 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 113% in the pension fund at the beginning of the last fiscal year. For the second year, 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 utilized as a way to pay for these retiree health care expenses -- which now exceed \$400,000 per year. Without replenishment of the retiree health care trust, the General Fund will assume the entire cost of providing health care to retirees in the fiscal year 2012-2013 budget.

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. The City of Grosse Pointe continues to examine potential options for enhancing public safety service cooperation as we look for ways to deliver emergency dispatch, 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 5.97 % 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 2011 is estimated at \$323,606,478, an overall decrease from last year. Property tax revenue is budgeted at \$3,997,361, an amount \$183,210 less than budgeted last year.

State Shared Revenues are estimated at \$396,218. State Shared Revenue provides 7.4% of general fund operations.

All departments were budgeted to spend less by an average of 5.5%. This budget generally assumes no salary increases for employees as well as plans for increased employee health care contributions as of January 2012.

Recreation programs have taken significant budgetary reductions over the last several years. This budget also assumes the elimination of additional programs, such as the Haunted Bathhouse at Halloween and the Michigan Marina Day festivities. The City is exploring creative ways to keep

recreational programming funded. The City is attempting to establish a “Friends of the Parks” committee. A “Friends” committee goal could be to solicit private donations and find any other mechanisms for maintaining recreational programming everything the parks have to offer its citizens.

Overall, the City’s General Fund budget is proposed to be \$5.3 million, down from \$5.6 million in 2010-2011. The City is not purchasing any new Public Works vehicles, or undertaking any major building projects. A new Public Safety vehicle will be funded from Drug Forfeiture monies. On the other hand, all existing Public Safety staff are proposed to be retained, but a vacancy from retirement will not be filled. This retirement will not reduce the number of public safety personnel on duty per shift. Personnel costs comprise 90% of the Public Safety Department’s operational costs.

In terms of personnel, 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. As a result, a full time court administrator position has been eliminated.

### **SOLID WASTE FUND**

The City has created a Solid Waste Fund to account for all revenues and expenses related to garbage, recycling, and yard waste services. The revenues of the Solid Waste Levy, which remains at the same rate as last year, are allocated in this fund as reserved for only rubbish related purposes. The general fund subsidy of the fund has been eliminated this year. With the reduced revenues from property taxes, very little has been reserved for future equipment purchases. The existing Cushman’s are expected to last another year enabling the retention of rear yard pickup for at least one more year. The City is reviewing different procedures for commercial pickups to make sure that the fees from this service are covering the costs. As an interim measure, the commercial pick-up fee will be increased 10% and imposed on all non-residential entities. Also, the City is proposing assessing a fee for any extra garbage pickups outside of the regular collection day as well as increasing the fee for large metal pickups. The goal of this fund is to make sure that the revenues collected are enough to cover the expenses of solid waste collection.

### **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: 2001 Building Authority Refunding Bonds for new municipal offices, Council-Court Chambers, and Public Safety alterations expiring in 2014; and 2011 General Obligation Refunding Bonds for the Neff Park swimming complex. Total principal and interest payments for fiscal 2011-12 are \$437,875. The Building Authority Bonds are financed with general operating property tax revenue, while the General Obligation Refunding Bonds receive funding from a voted millage with a dedicated levy.

The 2011 General Obligation Refunding Bonds were issued in February 2011 to retire the 2001 General Obligation Bonds, while obtaining an interest rate that will yield savings to the taxpayers. The original 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. While the taxable values have continued to decline for fiscal year 2011-2012, the refunding of the 2001 General

Obligation Bonds yielded savings that exceeded the losses realized due to reductions in taxable values. As a result, the budget as outlined decreases the debt retirement millage rate to realize these savings, while continuing to avoid having the General Fund subsidize the pool project when the demands on the general fund, particularly public safety needs, are so high.

### **CAPITAL PROJECTS FUND**

Capital spending for equipment and building improvement has been pared back significantly from the levels of more than five years ago. The most significant expenditure is for an operating transfer out for street projects. 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 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, or longer whenever possible.

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

The budget projection for the Water and Sewage Disposal System shows total revenue of \$2,850,705 and operating expenditures of \$1,975,903. Operating income is budgeted at \$874,802, along with a projected interest income of \$50,000. Capital outlay for major projects is proposed at \$2,052,159. 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. This project will be partially funded by MDOT streetscape grant money, contingent on the local matching and other requirements. The grant revenue has been included in this budget in the amount of \$639,560. The local matching funds are expected to be comprised of \$250,000 transfer from the Ruth Hoffman Trust donation, bond proceeds in the amount of \$995,000, as well as a special assessment tax from Mack Avenue businesses in an amount of \$100,000.

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. A new water and sewer rate study was done in compliance with the City's obligations under the SRF loan. To mirror the rate process of the City of Detroit, more emphasis has been placed on fixed, readiness to serve charges as opposed to charges based on units used. For the average homeowner this will have a minimal effect on the amount they pay.

### **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 \$281,800, continuing a downward trend of support from the state for roads. The General Fund Contribution is proposed at \$252,552 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 \$250,000 from the Capital Projects Fund will cover the cost of planned local street resurfacing. Tree replacement activities have been significantly curtailed in the past two years.

Operating expenditures are proposed at \$494,352, a decrease of 4.99%, while capital outlay is proposed at \$290,000. The work planned for this summer year is to repair the worst blocks of pavement in the City on Lakeland. Next year, the City has secured grant funds to resurface Waterloo and this budget provides engineering funds for that project.

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 6<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). In order to pay for street projects, for the third straight year, significant funding had to be transferred from the Capital Projects fund, which will only hasten the depletion of those funds. 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 continued to increase 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 the later part of 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 2012 boating season and all wells may not be filled. Marina well fees and kayak rack fees are expected to generate less revenue, an estimated \$151,640, which is equal to the total expenses including debt retirement. The marina fund budget is expected to break even, without much room for unanticipated 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. The Public Safety Department is able to meet some of its equipment needs through purchase of a replacement command vehicle, 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.

## **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, 2011 at 7:00 p.m. Adoption of the proposed budget is scheduled for the regular City Council meeting on May 16, 2011.

Respectfully submitted,

Peter J. Dame  
City Manager

Kimberly Kleinow  
Director of Finance/Treasurer