



May 13, 2013

## BUDGET MESSAGE

Honorable Mayor Scrace and Council Members:

In accordance with the provisions of the City Charter, submitted herewith is the 2013-2014 Annual Budget for the Fiscal Year starting July 1, 2013.

### 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.

### OVERVIEW

#### ECONOMIC TRENDS

The recent national, state, and regional economic situation has impacted the City's finances, and has continued to create significant challenges in developing a balanced budget. The City has been impacted by the trend dating back to 2002 where revenue collected and sent from the State of Michigan to cities has declined. Most significant of all is the drastic decrease in property tax revenue. On the horizon is the State's proposed elimination of the personal property tax without a full replacement source of revenue for municipalities.

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. Cumulatively, this cut values in half for residential properties. Residential values have turned the corner with assessments rising more than 5% on average. This will be the first year without a decline since 2006. However, since the City of Grosse Pointe is at the highest tax rate allowed under the Headless Amendment, 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 2.4%. Personal property decreased slightly by 4.3% due mostly to depreciation. So while the real estate market is recovering, City finances must still face the stark financial task of dealing with property tax revenues levels that have reverted to those found in the last decade.

## 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 11<sup>th</sup>. 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 2013-2014 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). Fee increases are proposed in a few specialized areas intended to cover the costs of services offered such as inspections. The solid waste property tax levy also remains unchanged (and unable to be increased due to Headlee), but the commercial refuse fee schedule is proposed to change from a volume based charge to a per pick up fee.

Parking fees remain unchanged. Water and sewer rates are budgeted to remain fairly unchanged. The Capital Projects Fund, which will be tapped for new Public Safety vehicles this year as well as needed 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 35% since 2001 when payments were about \$227,000 per year higher. The expected State of Michigan contribution from motor fuel taxes toward the City streets is estimated at \$305,000 requiring the City to contribute nearly \$239,000 to the Highway Fund for street maintenance costs. 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 those related to retirees and legacy costs.

While the economy has begun to stabilize, the underlying fiscal conditions raised above will still create an even more significant budgetary challenge next fiscal year. As 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. 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 104% in the pension fund at the beginning of the last fiscal year. The City continues to be actuarially required to contribute City funds in the Pension system, a contribution projected to rise significantly over the next several years. Without replenishment of the retiree health care trust, the General Fund will assume

a portion of the cost of providing health care to retirees in the fiscal year 2013-2014 budget and the entire cost in the 2014-2015 budget year.

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 fire and police protection, now comprising 59% of the General Fund budget, 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 increase 1.06 % 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 2013-2014 budget year.

The City's taxable value for 2013 is estimated at \$322,751,515, an overall increase from last year. Property tax revenue is budgeted at \$3,789,287, an amount \$76,361 higher than budgeted last year.

State Shared Revenues are estimated at \$425,000. State Shared Revenue provides 7.8% of general fund operations.

Overall, the City's General Fund budget is proposed to be \$5.5 million, fairly consistent to the budget in 2012-2013. The City is not purchasing any new Public Works vehicles, however is undertaking some needed building projects. Savings include the elimination of City employee dispatchers and instead contracting for dispatch services with Grosse Pointe Park from their location.

### **SOLID WASTE FUND**

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. With the reduced revenues from property taxes, very little has been reserved for future equipment purchases. The existing Cushmans are expected to last another year enabling the retention of rear yard pickup for at least one more year. The City is combining the commercial and residential

pickup schedules to reduce costs, both in capital as well as personnel, and changing to a 4 day residential pickup schedule.

### **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 2013-14 are \$399,185. 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.

Due to the taxable values increasing for fiscal year 2013-2014, the budget as outlined decreases the debt retirement millage rate necessary to generate the funds to fulfill the debt service requirements. This also allows the City to continue 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 seven 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. No Public Works vehicles are proposed for purchase in this budget; instead, the street sweeper will be reconditioned to extend its life several 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.

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

The budget projection for the Water and Sewage Disposal System shows total revenue of \$2,329,236 and operating expenditures of \$1,915,304. Operating income is budgeted at \$413,932, along with a projected interest income of \$5,000. Capital outlay for major projects is proposed at \$3,950,000. This is to address the critical and high priority sewer repairs, as called for in the long term water and sewer capital improvement plan. The City qualifies for the SRF funding through the State of Michigan.

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 remain fairly unchanged due to the City making as many cost cutting measures as possible. Commodity charges have also remained fairly stable, due to usage being reduced. The Debt service component of the rates will also remain fairly unchanged. The anticipated issuance of bonds for the City's critical and high priority sewer repairs will not require principal and interest payments until budget year 2014-2015.

### **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 \$305,000. The General Fund Contribution is proposed at \$238,697 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 \$276,120 from the Capital Projects Fund will cover the cost of planned local street resurfacing. Tree replacement activities have been significantly curtailed in the past years.

Operating expenditures are proposed at \$497,408, an increase of 6.56%, while capital outlay is proposed at \$351,120. The work planned for this summer is to repair Goethe from Fisher to Washington, a failed street requiring complete reconstruction.

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 8<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 failed, poor and fair condition (ranked 2, 3 and 4 on a scale of 10). In order to pay for street projects, significant funding continues 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. Lot 2 construction is included in the 2013-2014 budget. An analysis of Lot 5 is expected to be completed in the

upcoming budget year, with anticipated repairs of approximately \$60,000 budgeted in the 2013-2014 budget year as a result.

### **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 were increased for the 2012 boating season by 5% to address rising maintenance needs. Rates have been budgeted to remain unchanged for the 2013 boating season. Marina well fees and kayak rack fees are expected to generate an estimated revenue of \$160,200, which is slightly higher than the total expenses including debt retirement. This surplus will be added to net assets for unanticipated 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. 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 13, 2013 at 7:00 p.m. Adoption of the proposed budget is scheduled for the regular City Council meeting on May 20, 2013.

Respectfully submitted,

Peter J. Dame  
City Manager

Kimberly Kleinow  
Director of Finance/Treasurer