



May 14, 2012

## BUDGET MESSAGE

Honorable Mayor Scrace and Council Members:

In accordance with the provisions of the City Charter, submitted herewith is the 2012-2013 Annual Budget for the Fiscal Year starting July 1, 2012.

### INTRODUCTION

This budget is the second that the City Manager and Finance Director have completed together from start to finish. 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

#### FINANCIAL 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. As a result of the State of Michigan's budgetary priorities, revenues to cities continue to decline, a trend dating back to 2002, without allowing cities alternative sources of revenue. As such, cities are highly dependent on property taxes. Grosse Pointe is no different. Due to the strained national and regional housing market, assessed property values declined again. Residential property assessments, the basis for collecting property taxes have decreased again for this budget year by more than 2%. This is the sixth year of residential property assessment decline, cumulatively exceeding 50%. This has caused a significant negative impact on revenues to the City. Adding to the financial challenge are ever increasing costs of fulfilling legacy costs of existing retirees. For the third straight year, but at an amount five times higher than last year (\$164,000), the City will have to contribute in to the

Pension Fund. And for the first time, the General Fund will have to absorb a payment toward paying existing retiree health care costs (\$200,000). Since the City has been at the maximum property tax rate allowed by the Headlee Amendment/Proposal A, staff has again prepared a General Fund budget for the upcoming fiscal year that is balanced through expenditure reductions.

The City's five year financial forecast projects continued significant structural deficits as a result of the factors mentioned above, as well as inflationary cost pressures. If further corrective budgetary actions are not taken to put future revenues and expenditures in balance, the City would deplete the reserves it has worked so long and hard to accumulate. Through service delivery efficiencies, employee concessions, reduced employee head counts, and reduced administrative, consultant and supervisory costs, City services to date have been spared significant service level reductions. This budget takes further reductions to expenditures without a property tax increase or reduction in General Fund fund reserves including the following measures:

FISCAL YEAR 2012-13 (starting July 1, 2012)

- Vacant Public Services position is not replaced
- Contract Building Permits and Inspection Services
- Eliminate adult City provided crossing guard at Waterloo/Notre Dame
- Eliminate City funding of Village Concert series (starting in June 2013)
- Eliminate City funding of Grosse Pointe Woods fireworks (starting in 2013)
- Eliminate City reimbursement of Elworthy field improvements to Little League
- Replace retired Lieutenant with lower paid PSO
- No salary increases for the fourth year for non-union and fifth year for PSOs
- Implemented new State cap compliant active employee health care plan in 2012
- Eliminate maintenance, salting, or snowplowing of any private road
- Substantial reduction of gardening and tree replacement expenses
- Each department's overall budget reduced for the fourth consecutive year
- Sixth straight year of reduced consulting budget expenditures

After five years of increasingly constrained budgets, tough decisions lie ahead. 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 2013-2014 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.

Given that Public Safety comprises 58% of the General Fund, new ways to collaborate with the other Grosse Pointes, particularly on police and fire matters, are being evaluated. Options range from simply coordinating the purchase of the same fire equipment, to jointly operating dispatch operations, to evaluating a consolidated Public Safety Authority with our neighbors. The Grosse Pointes have received a grant award from the State of Michigan to offset the capital costs of consolidating dispatch services among all five Grosse Pointe municipalities. And the City of Grosse Pointe and the City of Grosse Pointe Park have been awarded a grant to evaluate consolidation of their Public Safety Departments this year. Since future revenues, at the current tax rates, will clearly not be able to support the services in the manner historically offered, the City will need to evaluate its service levels and its revenues to ensure the revenues the community chooses to allocate toward its local government are spent on what the community desires most.

Due to the projected multiyear financial forecast of further structural imbalances between revenues and expenses increasing to a million dollars in FY 2013-14, staff has put together in this document a two-year budget. Only the first year can be legally adopted during the budget process for this upcoming fiscal year starting July 1, 2012, but this budget for the first time shows two years of revenues and expenditures. Staff has included a second year budget plan that does eliminate the deficit in the second year, despite the General Fund having to cover the entire cost of retiree health care expenses rising to approximate 10% of the General Fund budget. This is intended to provide perspective and options for advance preparations and discussion of the critical budget issues ahead.

PROJECTED FISCAL YEAR 2013-14 (starting July 1, 2013)

- Implementation of consolidation of 911 dispatch services by July 1, 2013
- Elimination of Police Canine Patrol
- Assumes Consolidation of Public Safety Department with Grosse Pointe Park savings starting July 1, 2013
- Remaining budgetary shortfall would require a millage rate increase of about half a mill to balance budget. If Public Safety Department Consolidation was not ready or not approved yet, the millage rate shortfall would be approximate 1.14 mills.
- Potential elimination of rear yard pickup if purchase of Cushman vehicles is not budgeted

These potential changes are significant and will not happen overnight. However, significant changes in service delivery and/or revenue enhancement will need to be implemented over the course of the next two years.

CAPITAL EXPENDITURES

This budget also incorporates a fully updated five year capital improvement plan (CIP). It encompasses capital projects from all the funds from which major capital items are

budgeted. In 2007, the City re-established a Capital Projects Fund by reallocating past savings that exceeded 20% of General Fund fund balance instead of including everything in the General Fund. Then in 2008 the City created a five year capital plan for the first time that made projections and plans for future expenditures from the Capital Projects Fund as well as the Utility Fund (Water/Sewer), and Parking. Then in 2010, the Solid Waste Fund was segregated from the General Fund to account for the solid waste revenue, expenses, and also to try to account and pay for the major solid waste capital expenditures, which are predominately refuse vehicles.

This is the first time since 2008 that the five year CIP has really been reevaluated from ground up. Due to the financial and economic situation, the last three years capital expenditures were severely curtailed. Capital expenditures were deferred and avoided. In fact, just about half of what was projected in that first five year plan was actually spent in each of the last three years. In addition, the Capital Projects Fund assumed the resurfacing costs for roads in 2009 that previously was funded by the General Fund but could no longer be afforded due to the decreased property tax revenues.

The proposed five year CIP does draw down the fund balances in these funds while leaving sufficient cushion for dealing with unanticipated needs, particularly the Capital Projects Fund. Upon review of the outstanding capital needs, it is clear that the capital bill is coming due in many areas. Expenditures are needed just to keep in good repair what the City has now. Space needs and renovation plans for the Public Works and Public Safety departments from studies conducted before the economic meltdown remain indefinitely on hold, probably permanently. However, the City's existing assets do need to be maintained, repaired and replaced. For example, the Public Works building boiler, identified as needed replacement several years ago in the space needs study, simply quit working this spring and must be replaced by winter. The City's fire apparatus, nearing three decades in age, are both beyond the end of the lifespan for even rural trucks that aren't expected to be used as much. In the plan, one is proposed to be replaced with a used vehicle to avoid the cost of a new one. The 10 year life span for the "new" pool floor in Neff Park has expired and need replacement. This is a realistic look at what is needed over the next five years, with some items not even being replaced at all such as the Public Works Vac-all for cleaning catch basins. It should be noted that only the first year of the CIP is actually approved in the budget. The five year CIP is extended a year each budget season and should be actively reevaluated every year moving forward to assess current conditions and needs.

It is important to recognize that there is no recurring source of revenue to replenish the Capital Projects Fund. Its sole revenue is from transfers of any funds left over at the end of the year not needed to retain a General Fund fund balance of 20% of the next year's General Fund budget. With all of the efficiencies that have taken place in the last several years, the end of year savings are not expected to be able to sustain the City's non-revenue fund needs over the long term. While the five year CIP is able to meet the project replacement schedules for vehicles and building repair, the \$225,000 we have been allocating in recent years toward roads from the Capital Project Fund will not be sufficient to keep the City's roads in good condition. Nor is the fund balance in Capital Projects Fund enough to make a dent. If it hadn't been for the federal road grants that the City has been able to

secure, the City's roads would be in far worse shape than they are now. But both the state and the federal transportation dollars haven't been increased in many years, without much sign of fortitude for added gas tax or other revenues from other levels of government. The annual City of Grosse Pointe street condition survey records that the estimated cost to fix the streets requiring reconstruction or resurfacing has now grown to nearly \$10,000,000. Additional sources of funding road repairs are critically needed.

## 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 13<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 2012-2013 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 recreation. Marina fees are proposed to increase to address the maintenance needs that are necessary. The solid waste property tax levy also remains unchanged. This will result in a City property tax decrease for nearly all City homeowners.

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 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 \$208,000 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 for the fourth consecutive year. 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 fourth year in a row, new initiatives requiring additional spending have not been introduced. This budget assumes no salary increases. This has resulted in a decrease of total General Fund operating expenditures of 2.18% from last year's budget.

The economic trends will continue to create significant challenges which will require creativity and flexibility. The City will attempt to deliver services with nearly 15% less employees. 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 will need to continue 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 2.18 % 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 2012-2013 budget year.

The City's taxable value for 2012 is estimated at \$316,003,876, an overall decrease from last year. Property tax revenue is budgeted at \$3,997,361, an amount \$72,735 less than budgeted last year.

State Shared Revenues are estimated at \$420,962. State Shared Revenue provides 7.7% of general fund operations.

Each department's overall budget was reduced for the fourth consecutive year. This budget assumes no salary increases for the fourth year for non-union employees and the fifth year for Public Safety Officers.

Overall, the City's General Fund budget is proposed to be \$5.5 million, down from \$5.6 million in 2011-2012. 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.

In terms of personnel, part-time employees and seasonal employees will remain consistent this year. 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 public service position has been eliminated. In addition, health care costs for active employees are flat this year due to improved health claim experience last

year and the reduced benefit health care insurance program that was implemented in 2012, compliant with the state recommended caps on costs per employee.

### **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 Cushman's are expected to last another year enabling the retention of rear yard pickup for at least one more year, if an increasingly smaller Public Works workforce can continue to handle this method of pick while balancing other essential tasks. The City is also reviewing different options for commercial pickups, such as privatization.

### **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 2012-13 are \$420,628. 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 continuing to decline for fiscal year 2012-2013, the budget as outlined increases the debt retirement millage rate necessary to generate the funds to fulfill the debt service requirements as authorized by the voter referendum for the pool when its construction was approved. 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 six 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.

It should be noted that this year's Capital Projects Fund budget does include all the grant money and the expenses related to construction of an All Grosse Pointe dispatch. This artificially inflates the first year's expenditures as it does not show any contributions we

would expect but has not negotiated yet from the other participants. The budget reflects that the City acting as the fiscal agent for the grant. Additional projects include purchase of a used backup fire pumper, a replacement Public Works building boiler, and repairs to the Neff Park pool floor.

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

The budget projection for the Water and Sewage Disposal System shows total revenue of \$2,333,402 and operating expenditures of \$2,033,856. Operating income is budgeted at \$299,546, along with a projected interest income of \$50,000. Capital outlay for major projects is proposed at \$1,570,500. This is to address the most critical sewer repairs, as called for in the long term water and sewer capital improvement plan. The remainder of the critical sewer repairs is expected to take place in the 2013-2014 budget year, assuming 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. A new water and sewer rate study was done in compliance with the City's obligations under the SRF loan. Readiness to serve charges remain fairly unchanged due to the City making as many cost cutting measures as possible. Commodity charges show an increase due to increases from the City's suppliers. The Debt service component of the rates is where residents will see the largest increase and this is due to anticipated issuance of bonds for some of the City's most critical sewer repairs. For the average homeowner, their utility bill will be increased by approximately \$8.61 quarterly, keeping in mind bills fluctuate depending on usage.

## **HIGHWAY FUND**

The Highway Fund provides separate accounting for all operation and improvements to the City streets. State Shared gas and weight tax revenue do not cover the costs and therefore contributions are required from the General Fund and the Capital Projects Fund support this activity.

State Shared Highway Revenue is estimated at \$305,000. The General Fund Contribution is proposed at \$207,4422 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 \$335,000 from the Capital Projects Fund will cover the cost of planned local street resurfacing. This is higher allotment than in previous years, due to unexpended funds in the 2011-12 fiscal year. Tree replacement activities have been significantly curtailed in the past three years.

Operating expenditures are proposed at \$470,195, a decrease of 4.89%, while capital outlay is proposed at \$375,000. The work planned for this summer is to repair Waterloo.

A five year projection of future street projects, based on the continuing current level of capital expenditures at approximately \$225,000 annually, is included. It should be noted, however, that the City's 7<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 fourth 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. The significant capital project to reconfigure, provide automated gates, and beautify Village Lot 3 adjacent to the new Neighborhood Club/Beaumont Wellness Center is included in the budget from the Parking Fund reserve balance for construction in late Summer 2012. Lot 2 reconstruction is also included in the 2012-2013 budget for construction in 2013. An engineering review of the Parking Structure (Lot 5) is budgeted to be conducted in the upcoming budget year, with anticipated repairs of approximately \$300,000 budgeted in the 2013-2014 budget year.

### **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 was no increase for Marina Well Fees for the the last couple of boating seasons. However, with maintenance needs continuing to rise, a 5% increase in Marina Well Fees is expected in the 2012 boating season. Marina well fees and kayak rack fees are expected to generate an estimated revenue of \$152,467, which is equal to the total expenses including debt retirement. The marina fund budget is expected to break even, without much room for any additional 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. 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. Although approximately \$10,000 has been

committed to the canine program from the City's municipal mutual aid partners to sustain this program through this upcoming year, without full cost recovery this program is proposed to be eliminated in the 2013-2014 budget year due to financial constraints.

## **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 very 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 14, 2012 at 7:00 p.m. Adoption of the proposed budget is scheduled for the regular City Council meeting on May 21, 2012.

Respectfully submitted,

Peter J. Dame  
City Manager

Kimberly Kleinow  
Director of Finance/Treasurer