City Budget Presentation

April 14, 2016

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City Manager

Proposed FY 2016-2017 Budget

Budget as policy document

- Statement of policy
- Council prioritizes goals

Goals accomplished in 2016

- City continues to maintain services
- Cost cutting measures continue in current round of Collective Bargaining
- Grants for boundless park and Senior Activity Center improvements
- Successful bond campaign for street improvements
- Continued focus on economic development

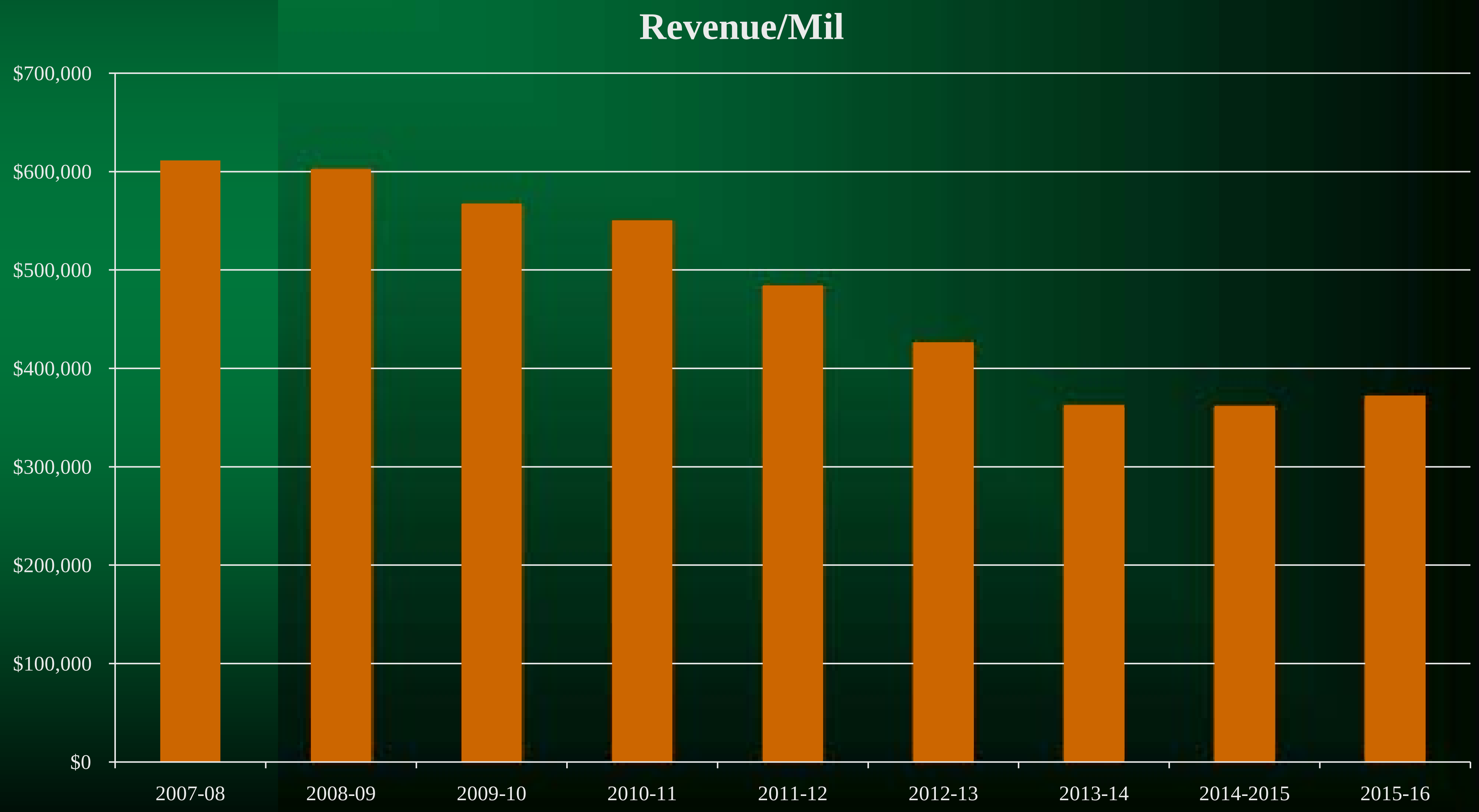
Still Uncertain Financial Environment

- State budget problems have reappeared, Federal budget issues continue
- Rebound of real estate markets is not reflected in Tax Revenue due to Headlee
  - This year tax revenue increase is 0.3% while costs increase more than 2%
- State statutory revenue loss cost Michigan cities more than $6 billion since 2003
  - For Fraser this is about $550,000 for the current FY or nearly 1.4 mils at local tax rate.

Still Uncertain Financial Environment

- State eliminates personal property taxes on business and industry
  - Estimate flat line based on current data, <u>but that could change during the FY</u>
- Headlee and Proposal limits ensure costs will outstrip revenues significantly
- UNSUSTAINABLE FORMULA

Charting Tax Revenue per Mil of Tax Rate

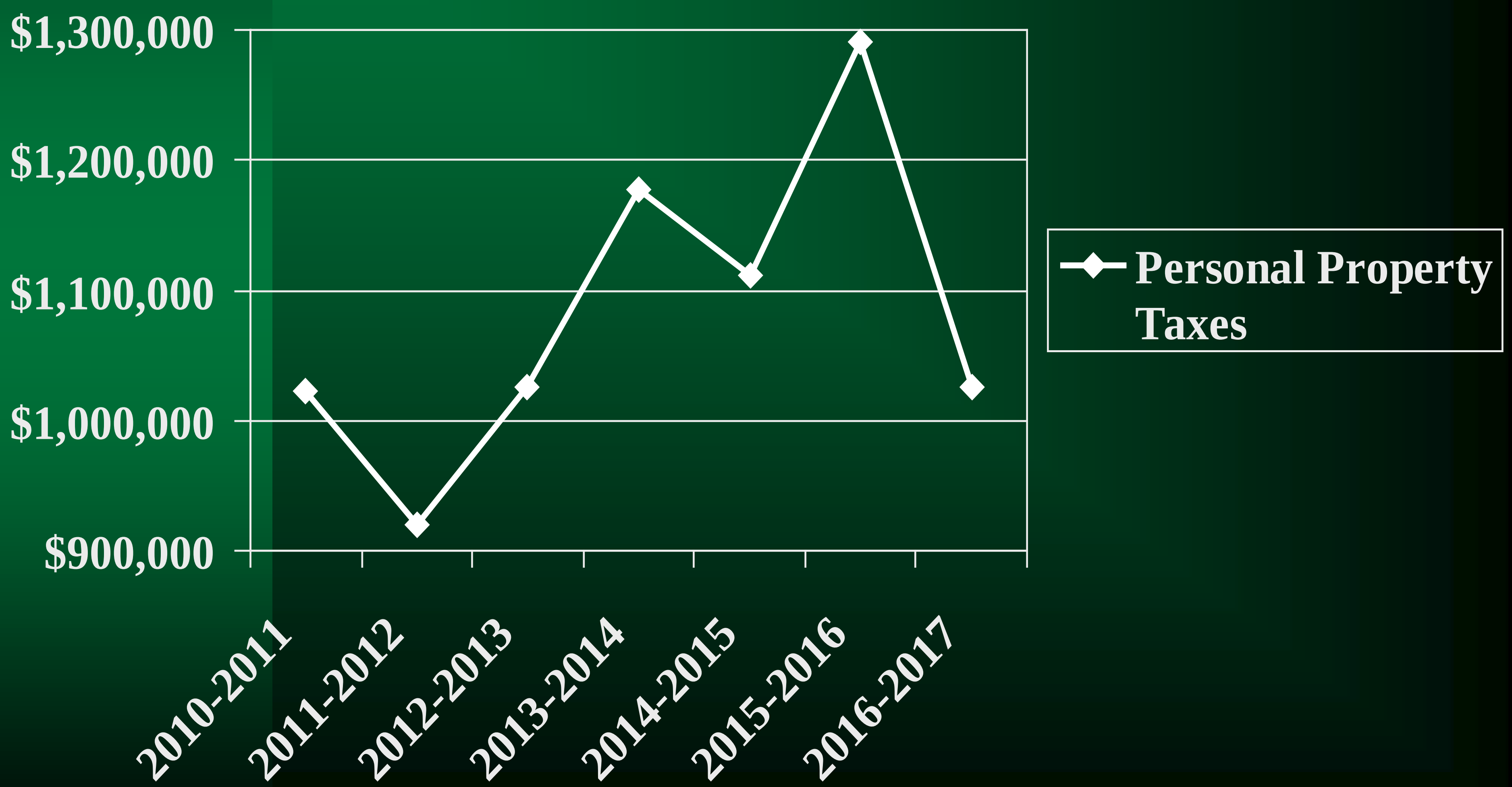


Property Tax Revenues

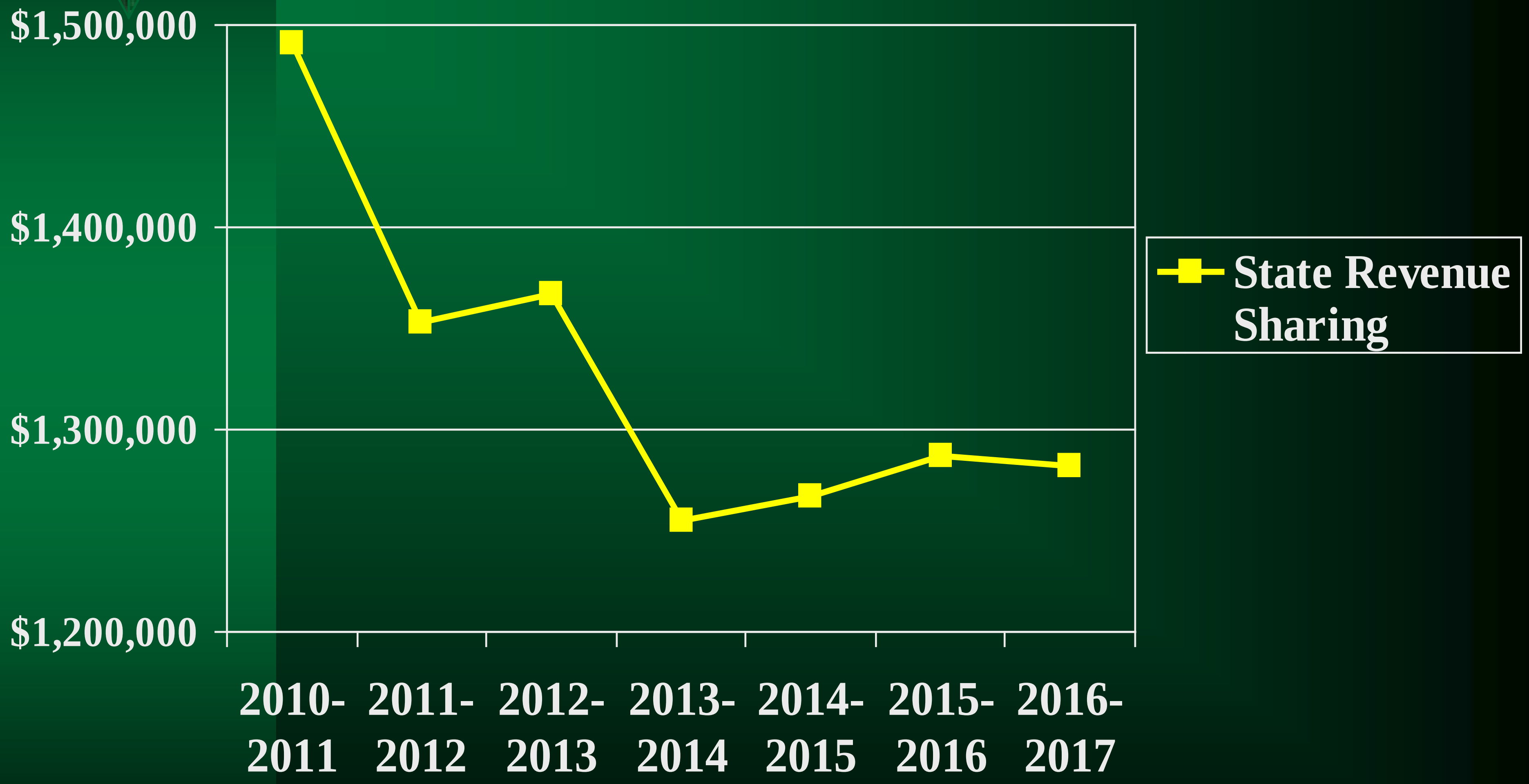
Property Tax Increase versus Increase in Millage

- For example, in 2009 a particular resident was assessed at $77,411 and had a Summer tax bill of $3,097.
- By 2015 that same resident's tax bill dropped to $2,738 even though their were 3 mils of new taxes implemented in 2015.
  - That 3 mils increased the homeowner's tax bill $185 from 2014 but still $359 less than 2009!!

Personal Property Tax Revenues



State Revenue Sharing



Finances in “Good Old Days”

- Predictable annual revenue increases each year.
- Michigan Cities grew from 1960-2000
  - With growth assumed more services
  - With growth City’s expanded streets, water and sewer infrastructure
  - With growth more personnel and higher personnel costs

Finances in “Good Old Days”

- Virtually all Cities ignored the hidden danger in “business as usual approach” …..
  - With increased infrastructure ignored liability of future repairs and/or replacement
  - With increased personnel costs ignored future liabilities of pension and other post employment benefits (OPEB)

Strategy Used to deal with New Fiscal Realities

- Fraser reduced personnel from 117 employees to 67 over ten years
- Fraser’s operating budget reduced 22% from 2007 due to revenue changes
- Fraser deferred almost all capital needs
- Fraser contracted or privatized some services
- Fraser did use fund balance

Strategy Used to deal with New Fiscal Realities

- Fraser eliminated some services such as brush pick-up and added charges for some services such as recycling.
- No pay increases since 2011.
- Change of Health Insurance for employees to high deductible plan in 2012.
- Similar change to Retirees in 2015

Strategy Used to deal with New Fiscal Realities

- Fraser began to use Act 99 Lease Purchase options to replace equipment reducing the maintenance budget which offset the cost of the leases
- Fraser began annual review of its Fee Schedule comparing fees to costs resulting in substantial increases in some cases.

Strategy Used to deal with New Fiscal Realities

- Fraser reviewed the cost of to administer non General Fund departments such as Ambulance, Streets, Water & Sewer etc. and added and Administrative Services Fee.
  - Administrators of these departments are paid by General Fund so the fee offsets taxpayer money used for this purpose.

Strategy Used to deal with New Fiscal Realities

- Fraser used several "one time" fixes to balance each budget.
- Examples include:
  - Purchase of two vacant factory buildings and reselling them for a small profit
  - Collateralizing of communication tower leases.
  - Use of extra fund balance in Ambulance, Motor Pool, Retiree Health Insurance, and the like to balance budgets

Strategy Used to deal with New Fiscal Realities

- Fraser's use of all of the above, particularly the "one time fixes," underscores that under the direction of the previous Councils, the focus was to reduce the cost of all things to the lowest possible amount and to hunt down every dime that was available to them to avoid a tax increase as long as possible.

Limits to Strategy Used to deal with New Fiscal Realities

- Reductions personnel affects services
  - Finance Department cuts have been costly
- Some operating needs not met
  - Local streets snow removal only after 3” snow
- Capital needs go wanting
  - Leaking roofs at DPW and Library, tennis courts in poor repair, etc.

Limits to Strategy Used to deal with New Fiscal Realities

- Continued Fund Balance use is unsustainable
  - City has used approximately 30% of its 2007 fund balance over past ten years.
  - Auditors have warned City that the current level of fund balance is below the recommended 20%
  - Further use of fund balance is not recommended.

Decreased Capital Spending Impacts

- Under funding Capital Expenses is unrealistic and more costly over time
- Failure to budget for Capital improvements creates a "silent deficit."
- Failure to keep up with Capital needs means infrastructure failures and additional costs.
  - Examples include streets, water main breaks, sewer line failures, stormwater failures, shabby parks, etc.

The 800# Gorilla in the Room

- Legacy costs continue to drain resources
  - Actuarial value of liability exceeds $70 million
- Steps taken by City to reduce this include:
  - Reduction in Retiree Healthcare coverage in 1999
  - Elimination of Retiree Healthcare in 2009
- Current round of Collective Bargaining specifically aimed at further reductions in future pension and healthcare costs.

The 800# Gorilla in the Room

- Regardless, in the interim, this liability will continue to take a major portion of current fiscal resources.
- Pension contribution = $2.4 million.
- Retiree Healthcare = $1.448 million
- Total = $3.848 million or more than 21% of the General Fund Budget

Overview of FY 2016 – 2017 General Fund Budget

- The March budget workshop resulted in several items proposed for the Council to consider in the upcoming FY.
- These include the following:
  - Addition of 2 FTE for DPW = $195,096
  - Addition of 1 FTE for Finance = $100,921
  - Roof Library and DPW Bldg. = $171,000
  - Replacement mower for Park maint. = $115,000
  - McKinley Park = $200,000 ($100K Grant + $50K FFBC)

Overview of FY 2016 – 2017 General Fund Budget

- These include the following (continued):
  - Addition of IT hardware = $57,500
  - 2% Wage Increase = $94,600
  - Addition of funds for Litigation deductibles, Tax Tribunal and possible retirement = $120,000
  - Two elections = $30,000

- Grand total of additions = $1,084,117

What are the issues this year?

- Budget cut to “bare bones” over years, there are no more “savings” to be realized
- Cost increases due to increased costs of health insurance, goods and services equal 1.1456 mil.
- Workshop additions total $1,084,117 or 2.8544 mil.

Proposed General Fund Budget for FY 2016-2017

- 1 mil = $379,802 up only $7,569/mil from last year
- Recommending the following tax mix for FY 2016-2017 Budget:
  - General Operating Mil <u>reduced</u> from 18.2462 to 14.2462
  - Addition of 5 mil Public Safety Assessment
  - Addition of 1 mil Library Assessment
  - Addition of 2 mil Refuse Assessment

Proposed General Fund Budget for FY 2016-2017

- Total increase is 4 mil
- Based on the earlier example the residence used will see an increase of $239.
- BUT their tax bill will still be $120 **less** than 2009.

Moving Forward

- Property tax growth restricted
  - Under Headlee & Prop A 10 years to return to 2007 at 3% annual increases in value
  - CBO estimates inflation for 2014-2015=1.6-2%
  - This is limiting factor for tax growth
- Is the property tax limitations a real issue?
- Headlee and Prop A affected property tax revenues for decades – why an issue today?
  - Housing market reversal created changing values over several years.
  - Cities responding by downsizing have been playing "catch up"

Moving Forward

- Need to set property tax rate at a sustainable rate for new market realities
  - Will require a multi-year approach and annual evaluation of tax rate performance versus budgetary needs
  - Operating expenses will increase each year
  - Personnel expenses will increase over time
- Legacy costs need to be addressed not ignored as in past
- Infrastructure costs need to be addressed and not ignored as in the past