



# City Budget Presentation

May 5, 2009

Richard E. Haberman, City Manager

Proposed FY 2009/2010 Budget



# Budget as policy document

- ✓ Budget is a statement of Council policy
- ✓ Budget workshops are an opportunity for Council and Administration to collaborate for betterment of community
- ✓ Council prioritizes and implements goals through spending authorizations



# From Clawson Officials Goal session in 2009

- ✔ Maintaining current level of City services
- ✔ Continue pursuing partnering and service sharing opportunities with neighboring communities
- ✔ Improve internal & external communications
- ✔ Develop marketing strategy to market City to continue economic growth
- ✔ Work with service providers to provide single source of information regarding Senior services.
- ✔ Develop walking and biking trail system to interconnect with other communities



# Key Goals from Clawson Officials Goal session for 2008

- ✔ Continue upgrading and maintenance of streets, water and sewer infrastructure
- ✔ Pursue cost-savings options for active and retiree health insurance to preserve sustainability.
- ✔ Assessment of all public facilities to determine what needs exist to modernize them to meet current requirements.
- ✔ Review development ordinances and update to meet customer needs and improve efficiency
- ✔ Continue focus on attraction of commercial and industrial developers and investors



# Key goals accomplished past year

- ✓ City issued bonds for infrastructure improvements for second part of two-year construction plan
  - City's bond rating improved to AA-
  - City received interest savings on first and second bond issues
- ✓ City hired architect for review of all public facilities
  - Library completed seeking millage for improvements
  - City seeking Stimulus funds for all public facility improvements.
- ✓ Labor agreements approved for five-year term
- ✓ Healthcare changes resulted in first year savings of more than \$500,000 or 30% cost reduction.
- ✓ Development codes updated streamlining development process throughout City.
- ✓ New policies and procedures to stabilize City finances and improve internal processes.
- ✓ Sewer assessment completed for entire City.



# Key goals accomplished past year

- ✔ City continues to fine-tune and implement strategies aimed at attracting new business investment throughout community – two commercial centers at 14 Mile Rd. and Crooks.
- ✔ Several new restaurants and businesses locate in downtown and others upgrade facades and properties
- ✔ N. Main reconstruction and several local streets in second year of infrastructure improvements.



# Budget Overview for 2008

- ✓ This overview will focus on summary of fiscal limitations and City's response to fiscal challenges using a variety of strategies since 2000



# Uncertain Financial Environment

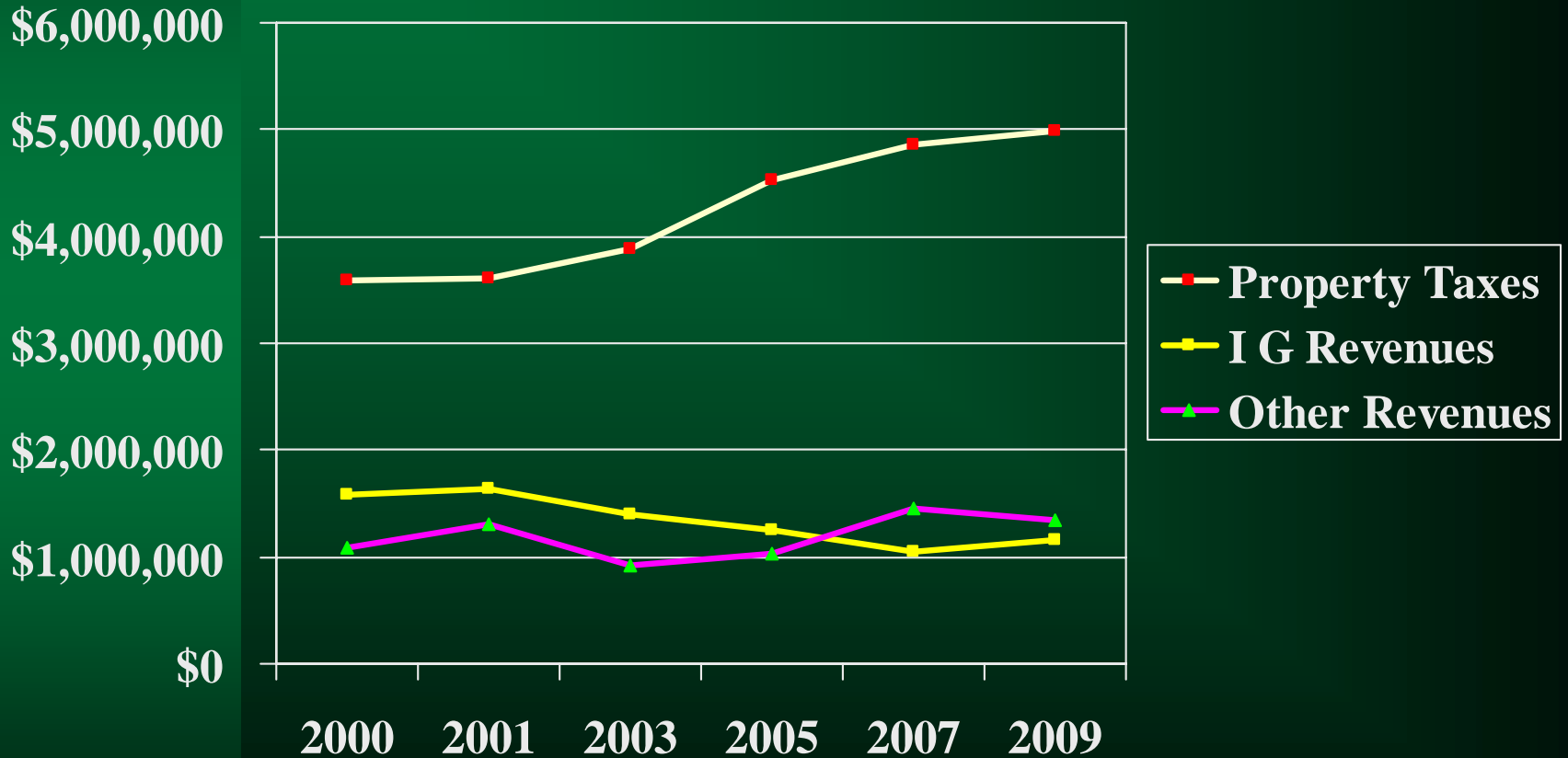
- ✔ Chronic State budget problems have continued since 2000 to this day
- ✔ Lansing's inability to resolve chronic problems causes concern
- ✔ Add to this continuing unfunded mandates
- ✔ If continued could leave the City with two alternatives, local tax increases and/or service cuts




# Revenue changes since 2000

- ✓ Current property taxes increase has averaged \$145,780 each year or 4%
  - This includes referendum for 2 mil Headlee Override
  - This year revenue will decrease 1.8%
- ✓ The continued reduction of Statutory State Shared Revenue cost the City \$299,000 each year or \$2.99 million since 2000
- ✓ Interest income down due to uncertain economy
- ✓ Net effect is that overall revenue gains from the 2003 Headlee override did not offset all revenue losses
  - Proposed budget is only \$119,245, or 1.6%, more than 2000 budget
  - Represents revenue gain of 0.16% per year


# Annual Revenues





# State & Federal Unfunded Mandates Continue

- State & Federal Storm water regulations cost Clawson more than \$630,000 per year for debt service costs associated with George Kuhn Drain projects
- Various State and Federal mandates add to construction cost
- Legislative acts implementing Headlee and Proposal A prevent the City from gaining full value for home sales and new commercial development



# State & Federal Unfunded Mandates Continue

## Legislative acts enacting Headlee and Proposal A (cont)

- “Uncapped values” were not included in the definition of exempt property for the purpose of Headlee roll back calculation when the legislature amended the General Property Tax Act in 1994.
  - The effect of this Act penalizes communities that have had substantial market growth in existing property values by rolling back their millage rates.
    - This is important in Clawson where Commercial redevelopment has been strong.
  - The combination of treating uncapped values as growth on existing property with limiting individual property taxable value growth to the rate of inflation produces a double reduction that was never intended by the voters on Proposal A in 1994.



# State & Federal Unfunded Mandates Continue

## Legislative acts enacting Headlee and Proposal A (cont)

- “Roll ups” of a local government’s maximum authorized millage rate, limited to the original authorized millage rate were allowed following the Headlee Amendment in 1978, the implementing legislation after Proposal A eliminated Headlee roll ups.
  - The elimination of this self-correcting mechanism creates an almost permanent reduction of the millage authority of local governments.
- As a result of uncoordinated State policy, legislative and judicial decisions, the municipal finance model is broken. Absent changes, local governments are on a financial collision course. (System Failure: Michigan’s Broken Municipal Finance Model, Plante Moran Certified Public Accountants)
  - Evidence in Clawson is average annual revenue growth of only 0.16% each year since 2000



# Cost Saving Measures to offset Revenue Losses

- ✔ Reduction of personnel from 62 to 49 FTE
- ✔ Contracting local dispatch, jail, animal control
- ✔ Police and Public Works reductions results in reduced services
- ✔ Increase in “deferred maintenance” of public streets, infrastructure and public buildings
- ✔ The need to exhaust surplus fund balance to subsidize City operations until 2005
- ✔ Changes in healthcare saving more than \$500,000, or 30%



# Increased Cost of “Doing Business” since 2000

- ▼ Consumer Price Index (CPI) for all goods and services increased 42.3%, or 4.23% per year
  - Represents general increase for cost of items the City contracts for and purchases
- ▼ Cost of retirement benefits for current employees increased \$100,000 per year

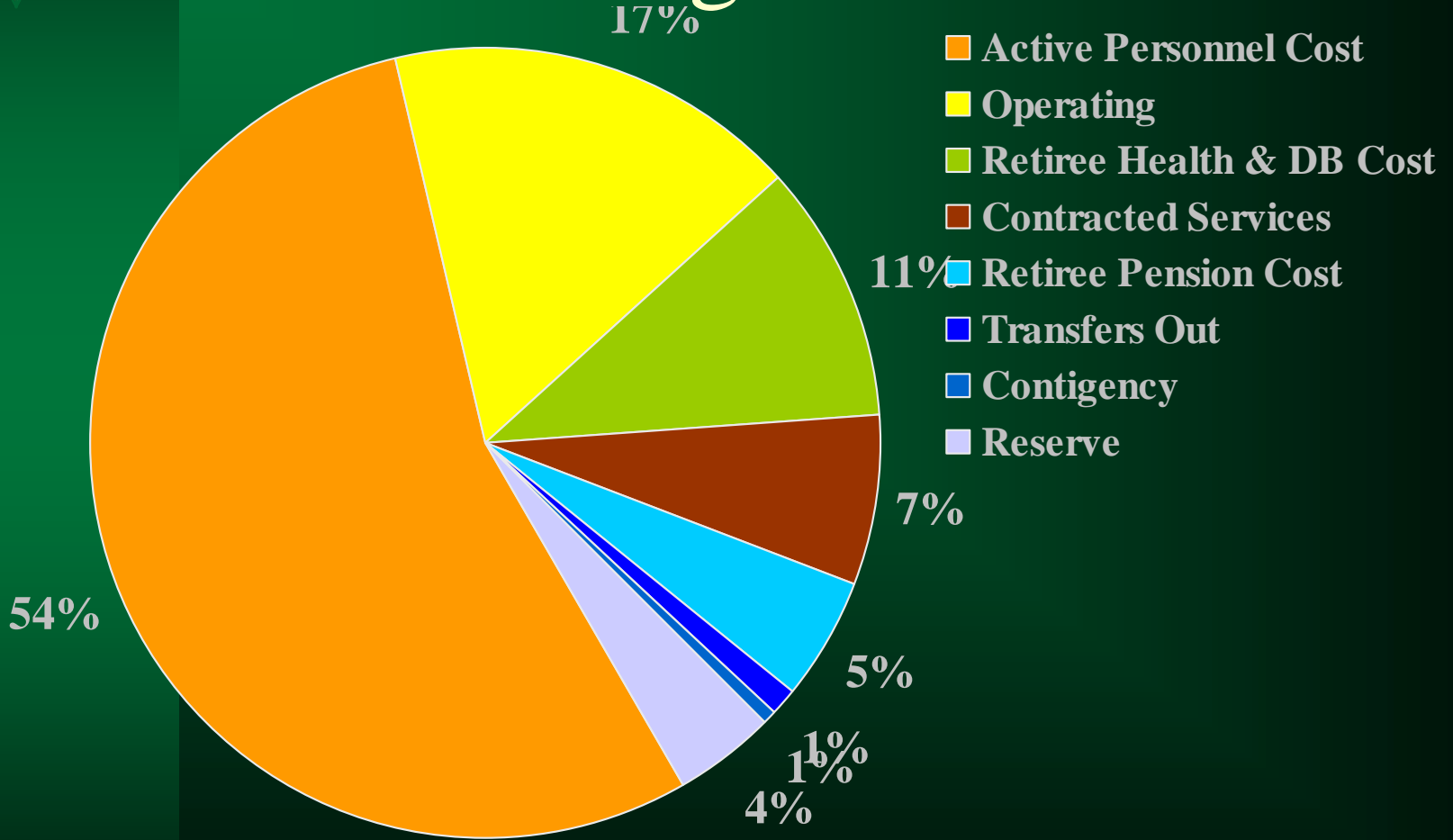


# Increased Cost of “Doing Business”...summary

- ▼ Thus, before looking at departmental budget requests we are faced with significant “built in” cost increases



# “General Government Budget Breakdown”





# Historical Strategy

- ▼ Budgets since 2000 struggled with annual revenue cuts and cost increases through:
  - Headlee override approved by Clawson taxpayers in 2003
  - Reduction of personnel and maintenance budgets
  - Significant cuts in operating budget
  - Elimination of many capital expenditures
  - Use of all existing fund balances

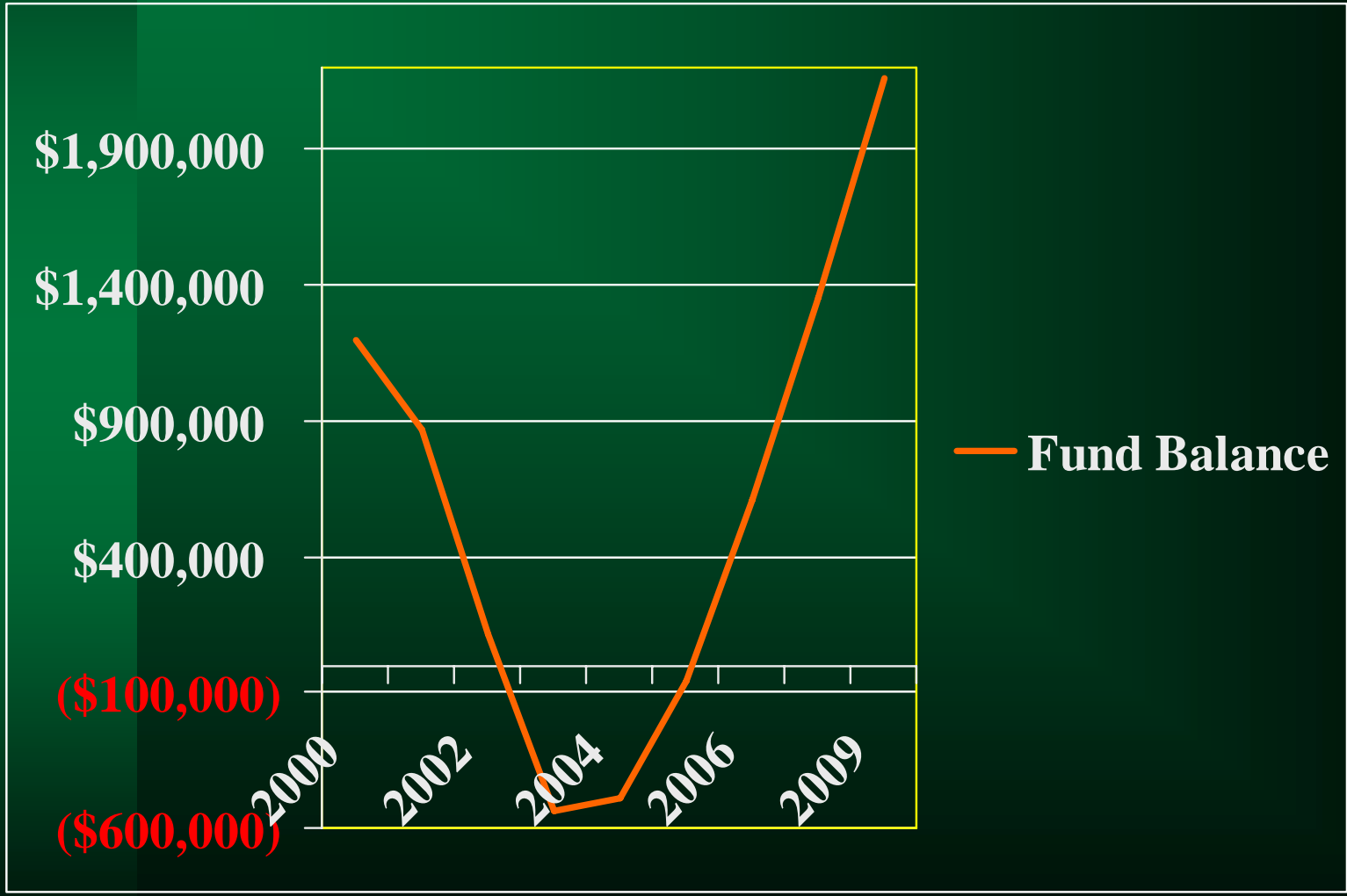


# Historical Strategy...Continued

- ✓ Net effect: Lost ground on personnel needs
- ✓ Net effect: Lost ground on new Capital Equipment and Capital maintenance needs
- ✓ Net effect: Reduction in ability to meet service needs of the community
- ✓ Use of Fund Balance is not a healthy option for fiscal stability
  - The City has not used Fund Balance since 2005 and is finally stabilizing this important rainy day fund



# Historical Strategy...Continued





# Historical Strategy ... Continued

- ✓ Continued under funding Capital Expenses is unrealistic
  - Capital Improvements are always a prime target for budget cuts
  - Results in deferred upkeep and replacement of failing infrastructure
  - Results in trying to use and maintain equipment beyond its useful life, often at a higher cost
  - The City has created a Capital Reserve Fund to help offset these problems, but it cannot correct the core problem without the State addressing the problem.



# Historical Strategy...continued

✦ Failure to budget for Capital improvements creates a “silent deficit.”

- Aging and unsafe equipment
- Deteriorating and unsafe buildings
- Deteriorating water and sewer systems
- Deteriorating streets

✦ **WITH NO END IN SIGHT**




# Current Strategy

- ✔ Bonding of improvements help to immediately remedy years of neglect
- ✔ Investment in City infrastructure attracts private investment in Commercial and Industrial sites
- ✔ Maintaining “motor pool” internal service fund to finance annual capital equipment purchases under Act 99
  - Predictable funds available for meeting capital equipment needs
  - Timely replacement of aging equipment
  - Reduction in maintenance cost more than offsets interest costs to maintain fund
- ✔ Overhaul of Health Care programs to save \$
- ✔ Continue to seek out cost savings in all areas



## Current Strategy (cont.)

- ✔ Seek available State and Federal funds in form of grants and low-interest loans.
- ✔ Set financial guidelines for “rainy day fund” and budget stabilization funds to release surplus funds to fund Capital Reserve Fund for needed capital improvements.
- ✔ Shift Statutory State Revenue sharing as a pass-through in the budget to ensure proper funding of all reserve funds and provide additional capital improvement funds.



# Proposed Fiscal Year 2009/2010 Budget Changes

- ✔ Segregating MERS Defined Benefit costs for retirees and active employees and place in each departmental budget to reflect true personnel costs and overhead.
- ✔ Transfer estimated \$67,000 collection labor cost for leaf pickup from General Fund to Rubbish Fund
  - This will better ensure continuation of this service
- ✔ Placing 100% of Statutory Revenue Sharing into Anticipated Revenue line
  - Revenues are not used, but accounted for in budget
- ✔ Expensing Statutory Revenue Sharing as received in Unbudgeted Reserve line
  - Any funds received are accounted for and expensed, but not used in the budget
  - Used to ensure reserve funds are properly funded with excess available to capital improvements.



# Proposed Fiscal Year 2009/2010 Budget

- ✓ Revenue Highlights
- ✓ Expenditure Highlights
- ✓ Budget Summary
- ✓ Work Plan to Stabilize Budget for future years



# Revenue Highlights

- ✓ Conservative estimates based on analysis, experience, and departmental input
- ✓ Conservative revenue estimates for fee increases
- ✓ Conservative estimates of the impact of mil rate from Oakland County Assessor
- ✓ Conservative Increase of fees in other areas
  - Park and Recreation program fees
  - Various development service fees



# Realistic Expenditures

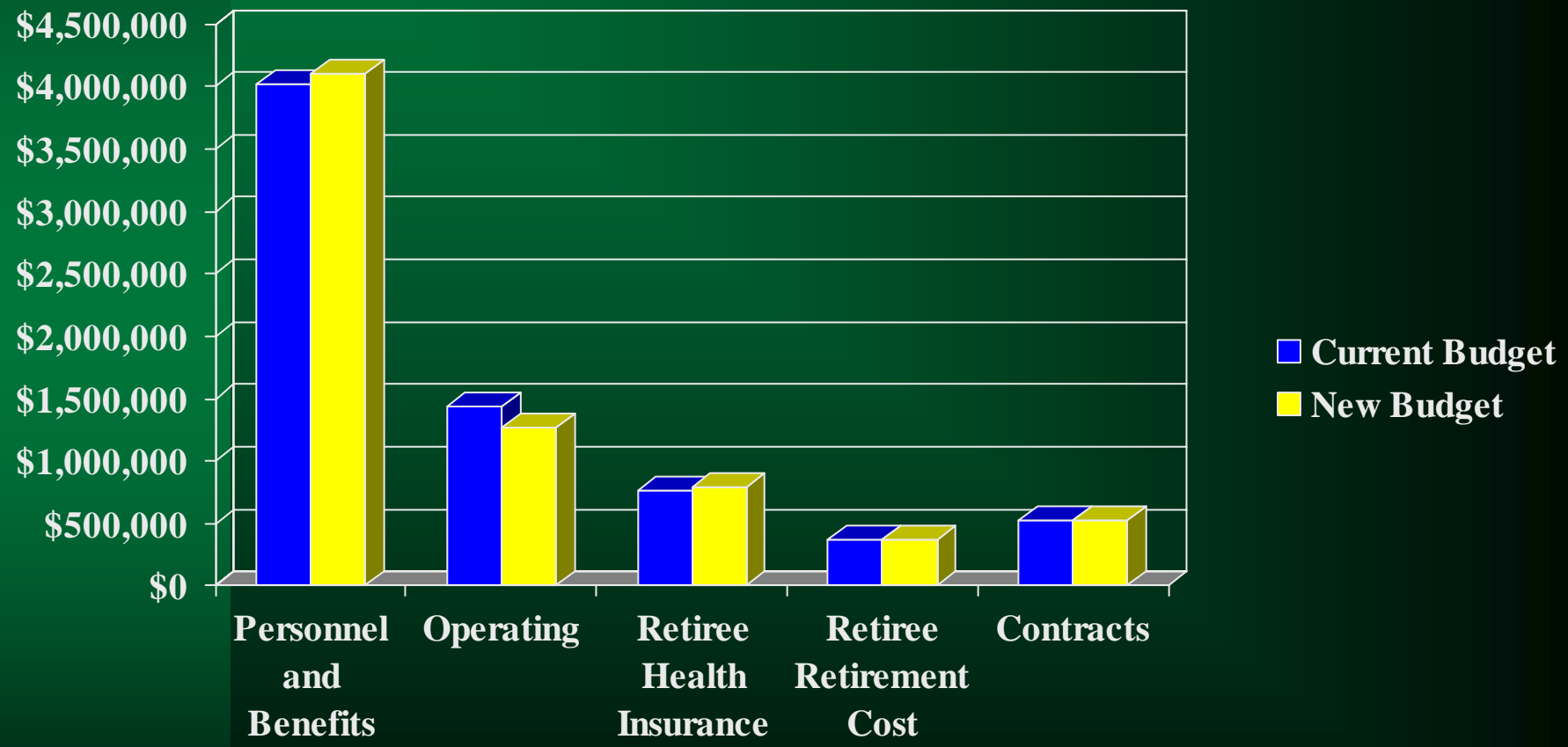
Assumption: Community goal is to maintain the current level of services

.... therefore:

- Cost shifting through conservative cuts to operating budget to offset cost increases
  - Example is shifting of leaf pickup costs from General Fund to Rubbish Account
- Personnel and benefit costs reflect current climate
- Prudent and sensible investment in Capital Expenditures



# Proposed Budget Summary





# Summary

## ▼ General Government cost increases:

- Operating \$164,455
- Contracted Services \$3,665
- Retiree Health Insurance \$24,030
- Retiree Retirement Cost \$6,435
- Personnel & Benefits \$92,815
- Other Expenses \$22,030

**TOTAL BUDGET DECREASE \$15,480**

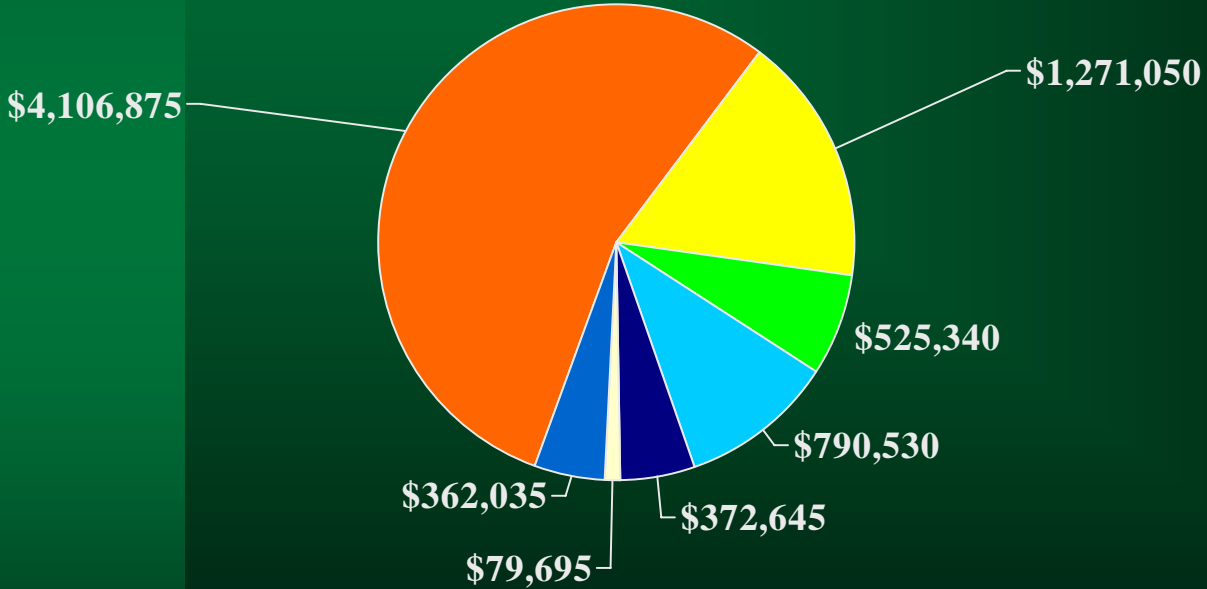
**Percentage Decrease -0.21%**

✓ This follows a budget decrease of 0.27% in the current year



# Proposed Budget

## \$7,508,170



■ Personnel & Benefits ■ Operating ■ Contracted Services ■ Retiree Health ■ Retiree Retirement ■ Transfers ■ Reserves



# Work Plan to Stabilize Budget

- ✓ This year 100% of Statutory State Shared Revenue is held in Reserve
  - Carried as “Anticipated Revenues” on revenue side of budget
  - Expensed as Unbudgeted Reserve, not used to balance the budget
  - Any revenues received assure City of annual surplus at time of audit



# Work Plan to Stabilize Budget (cont)

- ✓ Liability account at 10% of current liability total for Compensated Absences
  - Use surplus funds in excess of undesignated fund balance policy plus annual budget appropriations to replenish fund as needed
  - Current liability amount is \$459,969.
  - Retirement or separation by employees currently paid out of departmental budgets during year creating need for budget adjustments from other lines.
  - This fund will provide necessary funding for this purpose without affecting the budget.



# Work Plan to Stabilize Budget (cont.)

- ▼ Fund Budget Stabilization Fund at 1% of budget to handle contingencies that may arise
  - Backs up Contingency and Reserve Line
  - Use surplus funds in excess of undesignated fund balance policy plus annual budget appropriations to replenish fund as needed
- ▼ Budgeted for additional contributions to retirement plans to stabilize expenses



# Work Plan to Stabilize Budget (cont)

## ▼ Create Major Capital Improvement Fund

- Transfer surplus funds in excess of undesignated fund balance policy plus annual budget liability appropriations and Budget Stabilization Fund
- Fund will save City interest charges
- Fund will allow City to stabilize annual appropriations to respond to bad financial conditions
- Fund will allow City to take advantage of opportunities, such as matching grants or special purchases



# Work Plan to Stabilize Budget (cont)

- ✓ Continue to review and update fees to shift costs for development, recreation, and other limited service programs to program users
- ✓ Continue control over City infrastructure to ensure private contractors are paying for restoration when working in City right-of-way



# Where do we go now?

- ▼ Next year's budget will be challenging:
  - The City has nearly exhausted all areas for cost savings without reduction of services
  - With limitations presented by Headlee and Proposal A the City may not receive back full value for property tax losses due to demolition of old buildings, taxable value increases due to new construction and uncapping properties
  - Conservative estimates are being made for property tax growth next year



# Where do we go now? (cont)

- ✓ The City has two major financial choices before it to resolve future budget challenges:
  - We can depend on an upswing in State economy or additional State Aid to help balance fiscal resources with service needs

Or

- Make deliberate choices to increase our own revenue base
- ✓ Depending on the State to “bail out” the City is unlikely, so only real choice is to increase revenue base:
  - Fee increases provide limited revenue relief.
  - Most revenues are the product of the mil rate times the tax base. Increase either and you increase the revenue base. So ...
    - Do we increase taxes by using a Headlee override?
    - Or, do we look at ways to increase our tax base?
- ✓ **INCREASE OF TAX BASE IS BEST OPTION**



# Strategies to increase the tax base

- ▼ Continue to reduce dependence on residential property tax growth by increasing Commercial and Industrial property tax growth through:
  - Continued investment in upgrading City infrastructure to attract new city-wide business investment
  - Investing in marketing strategies to promote and increase visibility of Clawson
  - Continuation of current strategies to attract new business investment City-wide
- ▼ Continue review of current ordinances and policies to ensure all are consistent with overall development goals



# Why focus on revenue base?

- ✓ Increasing tax base increases revenue without increasing the mil rate
  - For example, using Oakland County figures Rochester gets more than \$600,000 per mil compared to Clawson \$368,000
    - Lower population than Clawson
    - Higher Commercial and Industrial property mix
  - Increasing current level of new businesses in Clawson and redevelopment of Commercial properties moves us in this direction
  - This strategy can result in shifting the tax burden from residential properties to commercial and industrial properties



**Thank You**