

Where do we go now?

City of Clawson's Budget Shortfall and Property Tax Millage Dilemma

Things we've already done to help

- Two of the biggest topics of discussion these days concerning tax dollars and public employees are health care costs and pension costs.
- One might ask, what has Clawson done to address health care and pension costs?
- The following items will discuss some of the changes we have made here in Clawson.
- The history of public employment has generally been employees tend to be below average in wages, but above average in benefits.

Things we have already done...

- A Wage and Compensation Study completed back in 2006-2007 showed that we were in the low to mid-range of wages in our prospective fields of municipal government .
- Just as we thought, we were below the private sector for similar job positions.
- Also as expected, our other benefits were on par or slightly above those in the private sector.

Things we have already done...

- A health care committee was formed to address the rising costs of health care in 2007-2008. Significant changes were made to our active and retiree health care plans as a result of agreements through that committee that have since saved the City over \$1 million.
- Employees took wage freezes and agreed to forego contracted wage increases in 2009-2010.
- Employees took a 10% wage cut and agreed to pay more out of pocket costs for health care in 2010-2011.

Health Care Costs

- The State of Michigan has enacted legislation to mandate that government employees share in health care costs.
- Clawson employees and retirees are now sharing in the cost of our health care to help ease the burden of the rapidly rising costs for all health care related services.
- We will continue to work with the active and retired employees to save more each year on health care and once again when our current contracts expire in June 2013.

Health Care Costs, cont.

- Prescription drug plans are now more cost-efficient utilizing mandatory generic and formulary drugs to save costs.
- More importantly to the future of Clawson by eliminating legacy costs, all new hires are enrolled in a retirement health savings plan and will not receive City paid retiree health benefits.
- Upon retirement, the City will no longer pay for health care benefits.

Retirement Costs

- The City of Clawson has two pension plans in place. One is a defined benefit plan and the other is a defined contribution plan.
- The defined benefit plan is closed to new hires because the defined contribution plan has no legacy costs upon retirement.
- In fact, since 1999 both the non-union and AFSCME union personnel agreed that all new hires would be enrolled in a defined contribution pension plan that carries no liability after retirement. The police unions also agreed to that same policy for new hires in 2004.

Retirement Costs, cont.

- The defined benefit plan utilizes a formula to maximize retirement benefits at 80% of final average compensation (FAC). An employee must work 32 years in order to reach the full retirement benefit of 80% of FAC.
- I am pleased to report that no employees have ever retired from Clawson with any form of balloon or bonus payment to unfairly inflate their retirement benefit.
- The current average annual pension for retirees and beneficiaries in our DB plan is \$29,000.

Retirement Costs, cont.

- However, we do still have a significant commitment to fund our defined pension liability.
- Our retirement system, Municipal Employees Retirement System of Michigan (MERS) has increased our funding requirement in an attempt to bring us closer to 100% funded in our plan.
- Unfortunately, the accelerated funding schedule comes at a horrible time as taxable property values are plummeting.
- We must continue to make our required payments each year to avoid default.

Retirement Costs, cont.

- The current plan has our required contributions increasing steadily each year until approximately the year 2019.
- At that point our required contributions will steadily decrease until all of those eligible for the plan have exhausted their benefits.
- When the payments decrease from approximately 2020 through 2030 the millage needed to make those payments will decrease.
- All of those currently in the defined contribution plan have no pension costs after retirement.

What does all that mean?

- In general terms it means that we have made changes to adapt to rising health care costs and eliminated our legacy costs in the future.
- The problem we are facing now is that our revenue losses are too severe to overcome without drastic changes.
- Since nobody wants to look at outsourcing the Police Department or DPW, we now have to look at additional millage to offset our losses.
- The following are some alarming facts...

Property Tax Revenue Losses

- In 2008 Clawson hit its peak in taxable value of \$408,484,640.
- The estimated taxable value in Clawson for 2012 tax collection is \$308,242,430.
- That's a **loss of over \$100 million or nearly 25% in taxable value in just four short years.**
- To compare, we had a higher taxable value for taxes back in 2002, so we've lost 10 years of taxable value gains in four years.

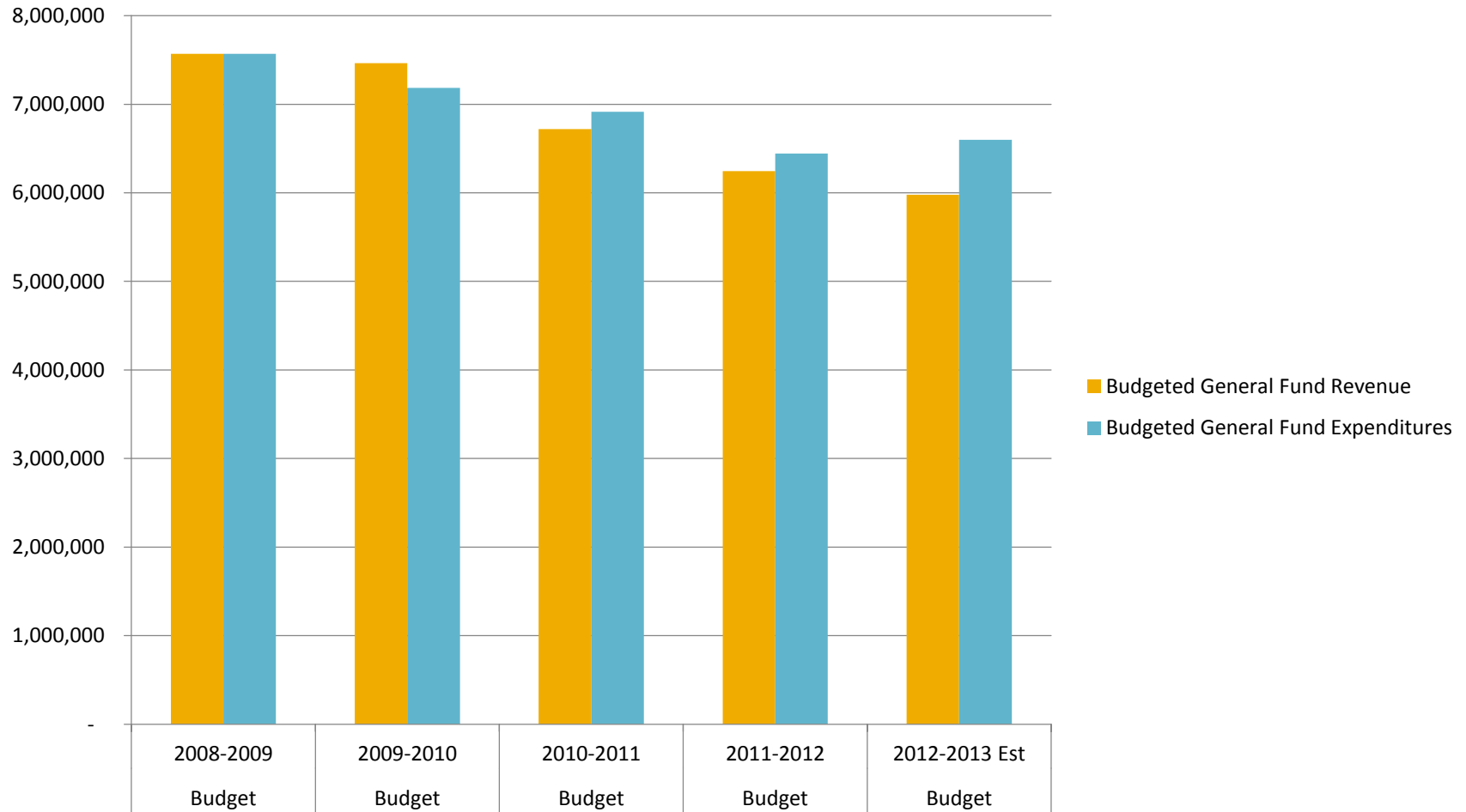
Property Tax Revenue Losses, cont.

- General Fund property tax revenue in 2008-2009 was \$5,247,000.
- General Fund property tax revenue estimated for 2012-2013 is \$4,026,000 when levying the same General Operating millage of 12.6834.
- This means we now receive \$1,221,000 less in General Operating property tax revenue than we did in 2008-2009.
- Filling that type of gap can only be achieved by massive layoffs with service cuts, complete outsourcing of services, or added tax revenue to offset some of the revenue losses.

Expenditure Cuts

- Our expenditure budget in the General Fund back in 2008-2009 was \$7,569,280.
- We have cut expenditures through reduced staff and wage and benefit concessions down to \$6,443,915 in the current budget year.
- We have been fortunate through retirement and attrition to avoid any full-time employee layoffs.
- Unfortunately with the continued loss in taxable values we are now faced with employee layoffs and reduced services.

Revenues & Expenditures



The “New Normal”

- You can see from the previous chart that we have made significant cuts to our budget with the losses in revenue.
- Our General Fund Expenditures have been cut from \$7,569,280 to \$6,512,390.
- Unfortunately our General Fund Revenues have gone from \$7,569,280 to \$5,977,350 in that same period of time.

When Will It End?

- We are dealing with an unprecedented decline in housing values over the past four years.
- 66% or two-thirds of our General Fund revenue is generated by property taxes.
- Our General Operating millage rate has been frozen at 12.6834 during this four year decline in property values.
- Oakland County Equalization estimates another 6.0% drop in our taxable values for 2012 taxes.

What are our options?

- The first way to make up for a \$1.6 million loss in operating revenue is to make massive cuts to personnel and services to balance the revenue shortage.
- Since that equates to laying off 18-20 full-time employees with benefits, we would have to outsource one or more entire department or large portions of two or more departments.
- Since none of us care to discuss outsourcing entire departments, the other option is what we are currently here to discuss. How much do we need to maintain our current services and staffing levels?

What are our options?

- In 2008-2009, 1 mil generated \$408,465 in property tax revenue. The estimate for 1 mil in 2012 is \$308,242.
- Using the same general operating millage rate levied since 2008-2009 of 12.6834 mills, property tax revenue was \$5,247,000. In 2012-2013 the same millage rate will only generate \$4,026,000 in property tax revenue.
- That's \$1,221,000 less revenue to provide the exact same services.

What are our options?

- Currently we levy 10.7602 mills for general operating purposes and 1.9232 for additional general operating millage.
- The additional millage levy of 1.9232 expires in 2013.
- By Charter, we can levy up to 15 mills for general operating purposes.
- Combined, we now levy 12.6834 mills for general operating purposes.

What are our options?

- With the 1.9232 additional operating millage expiring in 2013, we will have total Headlee override millage available of 4.2398.
- We have a couple of options for ballot proposals.
- We can combine the 2 mil renewal with the additional available amount under Headlee rollback of 2.2398 on one ballot question for a total of 4.2398.
- Remember this would only be an increase from the current levy of 2.2398 mills.

What are our options?

- Another option would be to split the ballot into two separate millage requests.
- One request would be to renew the 2 mil levy for 10 more years and the other request would be an additional override of up to 2.2398 for a period of 5 years or longer.
- To make this easier to compare, let's convert the millage figures into revenue dollars.
- The 2.0 mil renewal would produce general operating tax revenue of approx. \$620,000.

What are our options?

- An additional 2.2398 mills would produce general operating tax revenue of nearly \$690,000.
- The estimated budget for 2012-2013 keeps the current full-time staffing levels with wages frozen at the 10% reduction and includes the required increase for defined benefit retirement and maintains health care at the current level.
- Based on those figures we will have an estimated budget shortfall for 2012-2013 of \$622,650.
- That equates to additional millage needed of 2.02 mills just to balance the budget in addition to the 2 mil renewal which is already included in the revenue.

What are our options?

- If we ask for the full Headlee override taking us back to a 15 mil levy allowed by Charter, our projected property tax revenue at the taxable value of \$308,242,430 would generate approximately \$4,820,000 in general operating tax revenue.
- That would be an increase of about \$794,000 in revenue which would give us a surplus of \$171,000.
- I would only recommend levying millage to the level it takes to balance our annual budget until we start to see some increases in property value once again.

How much will it cost Clawson taxpayers?

- If you take the average taxable value in Clawson from 2008 and compare that to the average taxable value projected for 2012 the G.O. property taxes paid will still be lower than those paid in 2008, 2009, and 2010.
- Avg. TV in 2008 was \$68,200 taxes paid on 12.6834 mills = **\$865** G.O. taxes paid.
- Avg. TV in 2012 will be \$47,300 taxes paid on 15.0000 mills = **\$710** G.O. taxes paid.

How much will it cost?

- As you can see from that example using the average taxable value declines in residential values in Clawson, even with the added millage to bring our millage back to 15 mills Clawson taxpayers will still be paying less for the same services that they were in 2008, 2009, and 2010.

Which approach is best?

- We have been entrusted by the residents of this City to spend their tax dollars wisely.
- We have completed over \$28 million dollars in road and infrastructure improvements utilizing over \$5 million in grant monies to supplement those projects.
- Even though those debt millages are increasing as the overall taxable value decreases, the tax amount the residents pay is remaining about the same because their individual taxable value is going down.

Which approach is best?

- I believe the best approach is to combine the millage onto one ballot question for 10 year approval.
- The 4.2398 mil ballot proposal would generate about \$794,000 in additional revenue, but I would recommend that we only levy the amount that we need next year to balance the budget.
- That figure would likely be just over 2 mills.

What if we didn't ask for millage?

- In order to cut \$1.3 million from the budget we would likely have to cut 18-20 full-time employees from our staff.
- That would mean eliminating many of the services we provide.
- Leaf pick-up, tree trimming, snow plowing, parks and right-of-way maintenance, street-sweeping, and other general maintenance functions of the DPW would likely be significantly reduced or would end completely.

What if we didn't ask for millage?

- The Police Department is down to a minimum staffing level without affecting service and response time. If we had to lay off even one officer, we would negatively impact public safety to the businesses and residents.
- I will not even entertain the thought of outsourcing the Police Department in order to save money as history has shown that would not only threaten our public safety, but it would likely be detrimental to my tenure as City Manager.

In Summary

- We can choose to not go out for any millage and cut \$1.3 million from our budget which would likely result in a cut of 18-20 full-time positions thus eliminating major services in Recreation, Senior Programs, City Hall, DPW, and Police.
- We can just ask for renewal of the 2 mil levy for 2013 and if it passes, we would still need to cut over \$622,000 from our current budget.
- Those cuts would also lead to large cuts in services that we currently provide.

In Summary

- Or we can ask for both a 2 mil renewal and up to a 2.2398 mil proposal to cover some of our revenue losses and at least keep staffing and services where they currently are.
- My recommendation is that we combine the millage proposals and ask for 4.2398 total general operating mills for 10 years with the understanding that we will not levy the full amount of additional millage unless our property taxable values continue to decline in 2013 and beyond.
- Wages and benefits would also stay at the current reduced levels for at least one more year.