MINUTES
ST. CLAIR SHORES CITY COUNCIL STUDY SESSION
JANUARY 10, 2011

City Council Study Session, held in the Council Chambers, located at 27600 Jefferson Circle Dr., St. Clair Shores, Michigan.

Present: Mayor Hison, Council Members McFadyen, Rubello, Rubino, Rusie, Walby and Frederick (arrived at 7:13)

Also Present: City Manager Hughes, City Clerk Kotowski, Directors D'Herde, Haney and City Attorney Ihrie

1. CALL TO ORDER, ROLL CALL AND PLEDGE OF ALLEGIANCE

Mayor Hison called the meeting to order at 7:00 p.m. Ms. Kotowski, City Clerk, called the role with a quorum present. Ms. Kotowski mentioned that Mr. Frederick would be arriving late. The Pledge of Allegiance was recited by those in attendance.

Mayor Hison asked for a moment of silence in remembrance of the six innocent people killed and fourteen wounded in Tucson, Arizona tragedy.

Mayor Hison said that we have already begun preparing for the 2011/2012 budget year and we still need to balance this year's budget. We need to discuss the 5% salary reduction for the police and the fire overtime. Council has already met with Mr. Hughes and Mr. Haney on issues that will be discussed today. Today's study session is to determine where we are at and to get a picture of what the next three to five years would be like. We have done many good things to have a reserve fund. In the last few years, we have done really well administratively to cut costs. Many communities are facing receivership and we are doing much better than many communities in the surrounding area.

Mr. Hughes stated that City Staff begins preparing for the next budget in December and January. The City holds the budget hearings in the beginning of May to discuss the upcoming budget year. We are holding the study session now to get a direction for us to move forward. He informed Council that he asked the Management Team to come tonight should there be any specific questions.

2. AUDIENCE PARTICIPATION ON AGENDA ITEMS (2 MINUTE TIME LIMIT) - NONE

3. BUDGET REVIEW

Mr. Harrington and Ms. Manetta, Plante Moran, gave an overview of the budget review. Mr. Harrington discussed the general economic conditions of cities in southeast Michigan and determined what is coming forth for St. Clair Shores. He said we are trying hard to balance the budget and doing what we can to face financial difficulty.

Mr. Frederick arrived at 7:13 p.m.

Mr. Harrington explained the largest revenue in the general fund is the property taxes. Over the years, a number of things have affected this number, such as, foreclosures and current real estate market. We have seen the values on the homes decrease. This decrease affects the taxable value on the homes and decreases the City's revenue from property taxes. Most parcels in this community will show no difference in 2012 in terms of property taxes. Every time a house was sold, the house was revalued and now the houses are valued much lower than when purchased years ago.

Mr. Harrington discussed the corporate impacts on communities and how the utility companies have sued almost every community. The economy is forcing businesses to close and that causes loss of revenue for the City. There have been a number of legislative threats, such as "super cap regulation", which means if the value of the house goes down than the property taxes can't go up. If a law comes out that inhibits property values from increasing it could negatively affect future property tax revenue. The City could review and possibly increase some fees, such as, for court fees, permit fees and recreational fees. The Construction Act does not allow us to increase revenue on one service to cover revenue on something else. The State shared revenue consists of the Constitutional component and the Statutory component. These formulas have been used to balance the State's budget. He referred to the "Three-Legged Stool" in their presentation material and said that property taxes and State shared revenue are not stable.

Ms. Manetta explained property values and how there will be no gap in 2013 and 2014 between the State equalized value and taxable value. By 2014, there will be a 24% decrease in the City's property tax revenue.

3. BUDGET REVIEW (Cont'd)

Mr. Harrington said the 2009, 2010 and 2011 property value numbers are actual and there is a 12.13% decrease in 2011. There is a 7% decrease in 2012, which comes from the City Assessor's best estimate. In 2013 and 2014, it is projected that there will be a 4.25% decrease and a flat decrease after. The 2013 projected number is based on sales of homes in 2010 and 2011 and expecting this trend to continue.

Ms. Manetta discussed the City's taxable value based on the historical increase of 2.507%. The 2010 and 2011 numbers are actual and it is projected from 2012, 2013 and 2014. If the taxable values would go up 2.5% by 2014 and we start to recover, we would be at $1.4 billion. Even once these values start to bottom out and start to recover; it is a long time to get back to the numbers we saw in 2009.

Mayor Hison expressed the difficulty in trying to explain why we need the revenue when so many people in this country are suffering and may have lost their job and home. We have to understand both sides, which is why we are reviewing the budget now.

Ms. Manetta explained that the 2006 through 2010 property tax revenue numbers are actual and the 2011 and 2012 numbers are estimated (this does not reflect the police and fire millage fund). The property tax revenue was approximately $17.6 million and in 2012 is estimated to be approximately $15.3 million (this is a decrease of approximately $2.3 million).

Mr. Harrington noted that there is a millage increase in 2012, which creates a total reduction.

Ms. Manetta said they are showing actual amounts received from State shared revenues through their projections in 2011 and 2012. She noted that in the presentation, the chart shows how far off the estimated amount inflation based and total received State shared revenue is. This revenue is decreasing $4.5 million in 2011 if the State cuts out the Statutory component.

Mr. Harrington explained the Constitutional and Statutory components of the State shared revenue. The State will send less money to the cities. In 2011, the Constitutional amount will be $4.4 million. In 2012, the Constitutional amount will be $3.8 million. In the next few months we will get the census number and if our population decreased faster than the State's population, then we will see the Statutory number decrease. This is a $7 million to $8 million revenue source. What was projected a decade ago and what has actually happened has caused the Statutory numbers to decrease. The amount of money that the State keeps instead of coming back to the cities is substantial. Instead of the expected 6% to 8% increase in money returned from the State, we've seen a decrease.

Mayor Hison said that if the City's population is below 60,000, it would cause us to drop into a lower bracket, and we would receive less money from the State. This will also cause the City to lose millions in the street revenue.

Mr. Harrington said the gas tax (Act 51) would cause the City to spend out of the general fund to support the street fund because this is an older community that has many needs. The census numbers are very important and it is unlikely that the City will see its population number increase.

Ms. Manetta discussed fees, charges and other revenue and how they can vary year to year. We expect a decline in 2011 and 2012 of revenue from fees, charges and other revenue. We are looking at a decrease of approximately $500,000. She explained the expenditures and how Council has taken measures to decrease expenditures. The 5% pay cuts and the decision to not pre-fund Other Post Employment Benefits has decreased expenditures substantially. There is anticipation for 2012 that expenditures will increase.

Mr. Harrington said that this time last year the City's revenues were going down. He commended Council's decisions to cut wages 5%, to cut overtime costs, and to reduce pre-funding the healthcare cost. These were significant decisions that have put the City in a better financial position. We are only in the middle of the storm and it is anticipated that expenditures will be more than revenues by approximately $3 million. The total revenues are projected to decrease by $500,000. Health care costs (not covered by Act 345) for active employees and retirees will increase $500,000 (8%). Pension cost for the general employees to increase $750,000 (projected cost for the pension fund is $.42 for every $1.00). Non-employee cost is $250,000 and $1 million needs to be allocated for the local street fund. The $3 million target is going to be extremely challenging. Some significant changes that will help the situation is dispatch going to the authority (a projected savings of $250,000) and maintaining services with less staff (a projected savings of $75,000 to $80,000 per employee).

Discussion was held on how the average cost of an employee was lower last year and how it is expected that this number will increase as the number of employees decrease since the number of police and fire remains at 140.

3. BUDGET REVIEW (Cont'd)

Mayor Hison commented on how we are trying to maintain our reserve fund. In 2012, the projected results of operations increases to $3,198,901 reducing the fund balance from $14,842,771 to $11,643,870. In 2013, the projected results of operations increases to $5,286,067 reducing the fund balance to $6,357,802. In 2014, it is projected that we will have a shortage of $222,255 if nothing is done. We had a 5-year financial forecast and it's getting more difficult to try to balance the budget. He said that we need to look into if what we are charging for fees and permits is covering our costs. He noted an example of fees as the Zoning Board of Appeals fee of $300 was on the low end compared to other communities. We are not trying to get the highest amount of dollars for fees and permits, but we need to cover our cost, so we are not taking it out of the tax dollars.

Mr. Harrington stated that in a mature community like this, it's not uncommon to see a loss in revenue from permit fees because there is not a great deal of new construction.

Mayor Hison said we need to look into our cost and what we are charging for advertising, grants, permits, fees, Court fines and how they compare to other communities. We need to benchmark the past, the current, and the future demand. We need to look into outsourcing. We need to determine if we should discontinue services, if there is a demand, or determine if it should be a private sector. We need to research if we are using the best technology for the services we provide.

Mayor Hison commented that combining the dispatch services was a good decision because it is saving the City money. We need to consider combining more services, such as, having one waste management contract for Roseville, Eastpointe and St. Clair Shores. Hiring police reserves would reduce our overtime costs. Some communities have changed their hours of operation and went from a five-day week to a four-day week. Some communities have arranged for employees to take one unpaid day off a month. Having longer term contracts would save us money. We need to benchmark benefits to private and other government. We have already reduced our cost for healthcare, but we won't see the results of the reduction for many years. We should explore refinancing outstanding debts and consolidate internal operations. We have over 250 volunteers assisting with many different activities in the City. We need to review assumptions every year. Plante Moran has been working with us for 25 to 27 years and we should continue working with them. We should also work with the consultants from SEMCOG and MML.

Mr. Harrington stated that some communities are making money on permits, but St. Clair Shores is not. There is about a $390,000 difference in what was charged for permits and the cost of permits.

Mr. Rubino asked about the fees, charges and other revenue show an increase in 2012. He asked if anybody is funding Other Post Employee Benefits, because he read that 95% of the Counties in Michigan are not. He asked when Mr. Harrington thinks the "bottom will fall out" for other cities.

Mr. Harrington said the estimated amount in 2012 incorporate charges for services from the finance department for services they provide for funds other than the general fund. The option to fully fund Other Post Employee Benefits is currently not available, so he believes that it is correct that 95% of the Counties in Michigan are not. He stated that most likely we would see other cities "falling" in November or December of 2012.

Mr. Harrington stated that the City's undesignated fund balance of $14.5 million is a good start. In general, most communities have about 24 months. Even if we were to balance 2012, we have to look at 2013 and 2014. Until State shared revenue and property tax revenue changes, we have to watch and track what's going on in Lansing in regards to home sales and collective bargaining. In whichever way Lansing "leads" will let us know how to make decisions regarding healthcare.

Mr. Rubino said that Plante Moran are predicting deflation in property taxes and he asked what would happen if we start seeing inflation.

Mr. Harrington replied that the City's labor costs are the largest expense and the value in property taxes can only increase 5% assuming that the home values go up.

Ms. McFadyen mentioned that the new governor of Michigan is considering freezing the wages and benefits of State employees. She asked if Mr. Harrington has heard anything to that affect.

Mr. Harrington stated that the State is looking into everything including collective bargaining.

Mr. Rubello asked if it's possible for a community to "wean" themselves off the State shared revenue. He asked if we should plan as if we would not receive the State shared revenues.

3. BUDGET REVIEW (Cont'd)

Mr. Harrington replied yes, but it's in the Constitution and there are only a number of small townships that have been able to do that.

Mr. Smith explained that three years ago, the City factored out the State share revenue. Council said that we were very conservative and that every year our numbers were off. We have taken the conservative approach before and we can take that approach again moving forward. That is how we have $14 million in the rainy day fund.

Mayor Hison noted that statutory revenue sharing is not included in the 2012 numbers and moving forward. It is factored out and if we get it than it would be a "plus", but if we factor it in and don't get it, then it would hurt us.

Mr. Smith stated that this Council has been very conservative about how they budget and we will continue that trend. Our finance department has been accurate. When they say our number are going down or up, they do. We have used the tools provided to us by Plante Moran for many years.

Mayor Hison said in this budget and going forward three to five years, not much capital has been plugged in. He suggested that a ten-year capital be done to figure out when the fire trucks, police cars, Department of Public Works vehicles, roofs and heating will need to be replaced. A matrix should be done, because if we don't acknowledge what the forecast could be, then we could end up in a bad position.

Mr. Smith commented that we realize that every vehicle has a lifespan, but we don't want to fix things unless we have to and now we are going to look at trying to extend the life of the vehicles.

Mr. Rubello asked what type of outstanding bonds the City currently has. He mentioned that the City of Utica rolled their bonds into one for a cost savings.

Mr. Haney explained the County refinanced the Clean Water Initiative bonds throughout the County. The Arena bond expires in 2012. We have bonds for the park, the water main (outstanding to 2017), Harper road (from 2006 and is not capable of being refinanced), sewer bonds that have not been issued yet, a note for the Golf course and irrigation system, and a motor vehicles highway bond for 12 Mile Road (from 2001). He stated that we continually look at refinancing.

Mr. Harrington stated that it's fair to say the bond counsels are looking at all their communities. This City has lower rates already than many communities do, because the City's outstanding debt is less than many others and our bond rating is still very strong.

Mr. Walby stated that we are $642,000 short this year and we still have not received the 5% pay cut from police, which is about $345,000 and there are still overtime costs that are an issue.

Mayor Hison said there are issues that we need to hear suggestions on that would reduce expenditures in this current year. We have to discuss if we will use money from the undesignated fund to keep a balance. There are things that may change because of arbitration. We need to figure out how to balance next year's budget. He asked if we should look at a two-year budget.

Mr. Harrington commented that it is appropriate to look beyond twelve months for budgeting purposes. Based on decisions made now for beyond twelve months, locks the City in and could put the City in a tight spot at the thirteenth month. It's very important to look way beyond twelve months. The City would need to be strategic to attempt a shorter time.

Mr. Rubino commented that we have a great opportunity here, if there are other cities going down in 2012 or sooner. We have the opportunity to be the best community that has all these amenities. It's important to keep it going for the next five years, so our City will appear more enticing.

Mayor Hison stated that we can't ignore the problem and we need to consider, keeping our employees, services, technology and consolidating services. He said Mr. Walby brought up consolidating services for the Peterson Loader that we purchased. We need to discuss how we can do "it" better and more efficiently. We have received bonds at lower rates because of our rating. He asked administration to collect ideas.

Mr. Walby noted that we need to know what fees and services are not making money. We need to know what the costs are, what the charges are and if we are losing money. We have to pursue the fourth ambulance. We have to discuss if we are going to eventually outsource as people retire in the Department of Public Works. We need a long-term plan on what we are going to do in the Department of Public Works. We shouldn't fill any positions that are currently open.

3. BUDGET REVIEW (Cont'd)

Mr. Smith mentioned that there are 150 positions and there are a number of positions that have been vacant for months. We want to make sure that we can provide the same services without filling those positions, but there may be a good argument on why some positions need to be filled. Fifty positions have been eliminated. We will analyze every open position. We are making many changes and need to be careful on what can be cut without affecting services. He reminded Council that new hires pension costs will be significantly lower.

Mr. Walby stated that good justification would need to be made on why a position needs to be filled. Cutting healthcare and hours of operation is what might have to be done.

Mr. Smith noted 40% of $3 million is healthcare and pension costs. The healthcare numbers were higher nine months ago than they are today.

We have been smoothing and as the market rebounds the pension funds will stabilize.

Mr. Walby agrees with having the SEMCOG and MML consultants assist us. They can give us ideas of what can be done.

Mayor Hison mentioned there will be several budget sessions, so we can be prepared.

Ms. Rusie requested that we get suggestions on how to budget this last five months of this budget year. We need to have a good sense on where we are at financially right now. We need to have a study session on where we are going to get this money.

Mr. Hughes stated that we would be closed to the $300,000 for overtime by the end of January. We have been trying to run a third ambulance to increase revenue about $8,000, but have run into mechanical issues. We are close to presenting to Council the purchase of a fourth ambulance. He said that reducing the firefighters from thirteen to eleven would put one fire engine out of service 70% of the time and would help cut overtime costs. We have started fire contract negotiations early.

Mr. Rubello asked how cutting the fire overtime and reducing staff from thirteen to eleven would cause one fire engine to be out of service.

Mr. Hughes explained that we are reducing the overtime trend from the beginning of this fiscal year. We will come in over budget even with those changes. He will be working aggressively to put options together for Council. Not knowing the arbitrators decision until April will make it difficult to do anything before then. He agrees with increasing fees because the City is on the lower end when it comes to comparing fee amounts to other communities.

Ms. Rusie noted that we have been spending money not allocated in the budget and we need to decide very soon on whether to shift money for overtime costs from the undesignated fund or to move money around from other areas.

Mayor Hison reiterated that we will have another study session to discuss these issues and the fire overtime will be discussed at next Monday's Council meeting.

Mr. Frederick questioned if cable franchise fees can be increased and he suggested that we look into the feasibility of receiving satellite television franchise fees. He suggested offering buyouts for higher paid employees that have the ability to retire. The residents voted to pass the millage to keep police and fire services the same. He hopes we would look at other ways than to take engine one out of service and reducing the number of firefighters from thirteen to eleven. He agrees with Mr. Rubino that we are in a good place and we could be a sought after community. Requesting the SEMCOG and MML Consultants should be done right away. He asked if the five-year smoothing that was done for the police and fire pension boards was done for other pensions.

Mayor Hison stated that smoothing has been the process that we have been using in the General Employees Pension System for many years. The good news is the market is up.

Mr. Smith said we are looking at everything because we have to be careful not to drive up the assumption that could hurt us.

Mr. Rubino said that he would like every department head to have a goal of cutting 2% to 5% out of their department's budget. He agreed that early retirement buyouts should be considered. He suggested maintaining our services, but not all of them year round. He said to make services available for when they are used the most.

Mayor Hison mentioned that the golf course opening is dictated by weather and when the weather permitted it to

3. BUDGET REVIEW (Cont'd)

open in January or February, we raised funds by opening. At the last Golf Course meeting, ideas were being discussed and reviewed. This week, Thursday, we will be reviewing Parks and Recreation master plan. He thanked staff for working hard with less people. He noted that Warren increased their fees because they evaluated and they are too low. This is our first meeting and we will have more meetings to discuss the budget.

4. AUDIENCE PARTICIPATION (5 MINUTE TIME LIMIT) - NONE

5. ADJOURNMENT

Motion by McFadyen, seconded by Frederick to adjourn the meeting at 9:25 p.m.

Ayes: All – 7

ROBERT A HISON, MAYOR

MARY A. KOTOWSKI, CITY CLERK