

CITY OF FENTON COUNCIL SPECIAL WORK SESSION PROCEEDINGS
Monday, April 14, 2014
City Hall Conference Room
301 South LeRoy Street
6:00 PM

Mayor Sue Osborn called the meeting to order at 6:12 PM.

Present: Bland (arrived at 6:22 p.m.), Grossmeyer, Jacob (arrived at 6:25 p.m.), King (via telephone), Lockwood, McDermott, Osborn.
Absent: None.
Others Present: Lynn Markland, City Manager, Stephen Schultz, Legal Counsel, Mike Burns, Assistant City Manager, Cindy Shane, City Treasurer and Rick Aro, Police Chief.

CITIZENS COMMENTS None.

REVIEW FIVE YEAR FINANCIAL PLAN

Paul Stauder of Stauder, Barch & Associates, Inc. reviewed the City's five year financial plan. He stated when the City first started a five year plan it was not something rating agencies asked about but now one of the primary things every rating agency asks is what kind of financial forecasting is done; it is something the rating agencies expect and is a critical rating factor. The plan is a great tool to see what's coming down the road and to make adjustments.

Stauder reviewed the charts on page 2 of the plan that show the projection of the General Fund operating condition. He commented fund balance has not grown a lot, but it is not in the negative. Page 3 shows the General Fund income statement projection and indicates the operating surplus has been positive the last five years and is projected to be positive in 2014, but significant draws on fund equity are projected thereafter. The City has done a lot over the last several years to deal with falling revenue including, reduction in health care and departmental costs and staff reductions. In the years ahead, the long term forecast indicates pension costs will continue to elevate and utility costs will go up. The City also has deferred capital and maintenance needs that can't be put off forever and those items are accounted for in the plan. Updating public safety equipment continues to be a priority and is something the City is addressing in the budget forecast.

Stauder stated revenues have been declining but revenue sources are starting to stabilize, but are not trending upward. Property tax revenue is also stabilizing but growth continues to be weak. This is expected to continue as the property tax cap suppresses the ability of the tax base to produce additional revenue and the loss of personal property value from taxation will further erode property tax base revenue. He next reviewed the chart on page 8 that represents historical revenue and expenditure information and projections through 2018. Annually, revenues are expected to grow 1.83% and expenditures grow 4.4%. The personal property tax revenue that is lost is expected to be reimbursed by the State with some inflationary increase provided. In the future, the City will not see the value of new personal property investment in terms of additional tax revenue.

Stauder next reviewed pages 10 and 11 showing the General Fund surplus/deficit. In past years there were reductions in police overtime costs, various fire department costs and health

care costs. The cost of future employment benefits are a concern as they are projected to increase 6% per year but noted prior forecasts had health care costs increasing 10%. The revenue environment is stabilizing but is not expected to produce a lot more revenue. Once values start to come back and grow, the City will not see the benefit of that additional revenue as it will be suppressed by the cap. He stated if a valuation increase happens and accelerates and inflation stays low, there may potentially be a further rollback on the millage rate with Headlee to offset any revenue growth.

King asked Mr. Stauder how he feels the City Council is doing in obtaining grants to get projects complete and if they are going down the right path. Stauder responded it is critical to the overall effort to make badly needed improvements affordable.

Stauder reviewed pages 12 and 13 concerning property tax revenues which show what is expected in terms of revenue and what the value is after inflation. Although property tax revenue is increasing, it isn't providing substantial new revenue. He next reviewed fund balance projections. With the projected budgets, fund balance would reduce down to the 7% range by 2018, which is below the City's fund balance policy. He stated the City has made significant efforts to control, and reduce, expenditures as revenues have fallen.

Stauder stated potential new sources of revenue in the General Fund are largely going to be a restoration, or an increase, in the tax rate. The rate has fallen from 13 mills to 10.6 mills due to Headlee reductions. The only way to restore it is to ask voters for an increase and noted income tax is another option for communities but that also requires a vote of the people.

Jacob stated hopefully all the economic development projects taking place will draw people to the City. He asked how much effect home sales would have on Headlee; would the revenue on the property have a snap back effect. Stauder commented it can actually hurt the City. Where the Headlee rollback kicks in is on valuation increases on existing property. If a new building or housing development is built, the City gets the additional revenue from that without having to roll back the tax rate, but the inflationary market value increases on property, the City doesn't get the benefit of that in the calculation; it's counted as additional revenue when determining what the millage limit is.

Stauder stated areas that the City can ask voters to restore tax are in the charter tax rate and police and fire pensions. Schultz commented the City cannot levy millage beyond what is authorized by the charter.

Markland commented this year's projection made sure there weren't any additional personnel or large item purchases. The projection looks at how operations are today and is it sustainable over five years. A lot of cuts were made and there is about 20% less personnel than five years ago. Services have also been contracted out reducing operational costs. He is not sure where the cuts would come from over the next five years to overcome what is projected.

Osborn commented health care costs keep rising and asked if the City has to provide healthcare or could each employee be given 'x' amount of dollars to buy their own policy. Schultz responded if there are fewer than fifty full time employees, the Affordable Care Act doesn't apply, which means the City doesn't have an obligation under federal law to provide health insurance. As far as providing a stipend instead of actual coverage, that is a matter for the Council to decide. He stated there will be significant practical impacts in doing that, for example, recruiting police officers; the City would be competing against other communities who may be offering a significant health care plan. Osborn commented this isn't something she wants to do, she is just curious to know how cuts can be made to keep from going deeper in the

hole. Schultz stated as long as the Affordable Care Act doesn't apply, there is no statutory obligation to provide healthcare.

Osborn asked what percentage of the budget is for police. Shane responded about 45%. Markland commented police and fire together accounts for about 50-60% of the budget.

Markland stated health care costs are again being looked at. One of the things being looked at is increasing the deductible; there was significant savings last time that was done. He thinks it is possible to get some savings on health care costs.

Grossmeyer asked if there would be any savings in health care costs if the City was to look at partnering with other municipalities to be part of a larger group. Markland commented he doesn't know if the law would allow that. Schultz commented the City could go into a plan like the Michigan Municipal League where the City would be pooled with a larger group.

Markland commented he was in a League plan before and that doesn't necessarily reduce the premium, it reduces some of the overhead cost by going through one administrator. Schultz commented the way insurance is developed and rated is changed by the Affordable Care Act.

Lockwood commented over the next five years, revenues are projected to grow by 9.1% and expenses by 22%. She thinks the City has done a good job overall cutting expenses and feels the revenue issue is concerning because with all the new construction and businesses coming, it was thought that would be a major increase in revenue but because of the tax cap, the increases won't be what was expected.

Osborn asked about pension legacy costs. Is it possible to make adjustments? Schultz responded changes to pension could be bargained on a go forward basis. Any changes bargained would apply to future years of service, not existing years so there would be an effect over time, but not in the short run.

Markland noted concessions have been received in all contracts regarding health care and pension and noted pension plans going forward for future employees, including the police department, has changed dramatically.

Schultz stated the City charter has a 13 mill limit, but it was drafted before Headlee. It states the Council can set the millage up to 13 mills, but the rate can go up to 20 mills by a vote of the people. Both the Home Rules Cities Act and the charter state the cap is 20 mills. Shane stated 13 mills are for City operating. Schultz commented that is correct and before Headlee, the rate could go back and forth up to 13 mills by a vote of Council but that is no longer possible because of the Headlee rollback. Lockwood asked if 13 mills is the rate in effect now. Schultz responded the current rate is 10.6 mills. There could be a Headlee override to go back to 13 mills and if the City wanted to go above that, they could in accordance with section 11.1 of the charter. Stauder clarified both of those actions would require voter approval.

King asked if any outstanding bonds are coming due. Markland responded there aren't any bonds supported by a millage. Stauder commented the bonds are not payable directly out of the general fund.

King asked how much more bonding can be done without putting the City into a bad situation. Stauder responded the limit is 10% of the citywide valuation but cautioned against going into debt using general fund dollars.

Osborn commented a public safety millage is an option. Markland stated from his perspective, the only way to change the picture, short of finding cuts in the budget, is a voted millage of some sort. He doesn't think the budget can be cut to the extent required by what is shown in the plan.

King inquired about possible millages for sidewalks, infrastructure or roads. Markland responded a roads millage would help because general funds dollars are dedicated to roads. Shane stated usually the contribution is around \$400,000 but this year it is around \$260,000.

Aro asked if the operating millage was raised to 13 mills, how that would affect the five year forecast. Stauder responded that would remedy the shortfall. McDermott commented except for the roads. Stauder stated if there was a separate millage for public safety pensions costs, the City would about break even.

McDermott stated this issue doesn't need to be rectified with the current budget so this isn't something that needs to be put on the ballot right away as it is more of a long term fix. Markland responded there are short term and long term issues and he would rather look at solving the issues sooner than later because the longer the wait, the more difficult the problem is to solve. He commented this year's budget will be balanced and the difficulty is going forward after this year and he would like to look at doing something before this time next year.

Lockwood commented the five year plan was implemented a number a years ago and the reason for it was so the City wouldn't be in a position of not having any knowledge of where the City was headed and that's why these plans are so important. She stated all the problems can't be solved tonight but the City knows where it is headed.

Stauder stated revenues aren't easy to predict, but are becoming more predictable given the parameters the City has to operate under. He stated expenditures aren't easy to forecast either, but employee costs are known, which is the bulk of expenditures.

Bland commented the City needs to be careful with what is done regarding employees because they have given a lot in the last four years.

Markland commented there may be marginal savings in the changes being looked at, but that will not balance future budgets and commented the only way to balance future budgets is more revenue.

COUNCIL MEMBER COMMENTS – None.

CALL TO THE AUDIENCE – None.

Meeting was adjourned at 7:15 P.M.

Mayor Sue Osborn

City Clerk, Renee Wilson

Date approved: April 28, 2014