

**MINUTES  
ST. CLAIR SHORES CITY COUNCIL WORKSHOP  
JANUARY 30, 2010**

Mayor Hison called the workshop to order at 8:00 a.m. at the St. Clair Shores Country Club, 22185 Masonic, St. Clair Shores, Michigan with the following members present:

Present: Mayor Hison, Council Members Frederick, McFadyen, Rubello, Rubino, Rusie and Walby

Also Present: City Manager Podolski, Assistant City Manager Smith, Deputy City Clerk Irvine, Director Haney, Controller Schuster, City Attorney Ihrle, Plante Moran Frank Audia and Dave Herrington

Mr. Podolski introduced Mr. Audia and Mr. Herrington from Plante Moran for the benefit of the new Council members and recapped the reason for meeting this morning.

**1. ECONOMY AND FINANCIAL UPDATE**

Mr. Audia said the City has always looked at things realistically and are ahead of most other communities by educating the residents on what is happening on the state level and in the City. We also look at macro trends and the five year forecast.

In the fall of 2008 things changed and the concern turned to local government. The market is now inverted which is a new dynamic for government to manage under. When we look at where the country is compared to where it was, it seems as though things are getting better and gaps are starting to narrow. As the economy begins to recover, the public doesn't understand that the worst is yet to come for government.

Discussion was held on unemployment and how the statistics are not accurate due to the numbers look as though people are finding jobs instead of the benefit period expiring.

There is a lag between tax assessment dates and the tax collection period. We are seeing mounting tax appeals. The State has a structural deficit and hasn't found a permanent solution. Our statutory State shared revenue is basically gone.

The City has made the Michigan Municipal Finance Model work for us but this model won't work in the current environment. The model takes into consideration property taxes, state shared revenue and other revenue. Property taxes are 68% of our general fund and the state has used the state shared revenue to balance their budget. Raising fees to generate revenue was discussed and the fees have to be based on actual costs.

Discussion of the Headlee Amendment and Proposal A noted that there would be no new taxes without the vote of the people. Headlee tried to control the growth on existing property community wide limited to inflation. If existing property values increased less than the rate of inflation, a "roll up" in the maximum authorized millage rate, limited to the original authorized millage rate, was allowed.

Proposal A was a constitutional change in 1994. The inflationary cap was now on a parcel by parcel basis. The treatment of transfers had no benefit during rising markets. Senior citizens felt they were getting taxed out of their homes because if values were rising sharply taxes would go up. With the interaction of Headlee and Proposal A, as long as a person stayed in their home, the value of the property could only go up annually the lesser of inflation or 5%. For the first time since the passage of Proposal A, the inflation rate for 2010 is negative. Due to this, taxes will go down.

Discussion was held on taxable value versus state equalized value. Taxable value drives revenue. Overall there was a projected decline and our budget lived within its means. The City saved more than expected. What we see now is taxable values declining.

Our projections are compared to Macomb County. The real concern is the expectation beginning with this year's assessment decrease percentage. Our numbers from our assessor are an estimate. SEMCOG is projecting an 11% decrease and 4.4% decrease thereafter. We show a 3-4% decrease in 2009 in taxable value. The City should fall at a slower rate than the market value because we do not have a high commercial market.

Mr. Rubino felt our numbers are worse than what is shown.

Since Proposal A, there has been inflationary growth since 2002. Our main revenue source was going up with inflationary increases. This rate is not going to increase. Based on the budget we just finished, the property tax bills went out July 2008 based on the property assessments of December 2007. July 2009 bills went out based December 2008 assessments. July 2010 bills will be based on assessments of December 2009 and so on. The values are just starting to hit the budget process. Since the public doesn't understand this lag, they feel things are fine.

## **ECONOMY AND FINANCIAL UPDATE (Cont'd)**

Other property tax challenges are the impact of foreclosures and a bad real estate market, increased activity in Board of Review and the state education fund. Future taxable value of less than \$1.7 billion returns the City to 2004 levels. For the year ended June 30, 2004, the City's General Fund expenditures were \$35.8 million. The actual expenditures for the year ended June 30, 2009 were \$47.5 million. If the taxable value continues to drop over 4 years, people will get a break in taxes.

Mr. Audia explained the two types of State Shared Revenue, Constitutional and Statutory. Constitutional is what the State is required to pay by law. There is a formula for the statutory portion but in the law there is language that states it is subject to annual appropriation. Unless the State budgets for this piece, they don't have to pay it. Since 2004 the state has been keeping \$500 million to balance their budget. The City's annual funding level is now almost \$2.4 million less in fiscal year 09/10 than in fiscal year 00/01. We have an additional \$812,000 statutory funding at risk. Sales tax collections are down some. That money is in the escrow account but they are using it to balance their budget. When the sales tax rate was raised in 1994 from 4% to 6%, the extra 2% went for schools.

Regarding the census, 100% of the constitutional piece of state shared revenue is based on population. From 2000 to 2010, the population is down. If we can improve our population, more revenue sharing will come back to us. Also, the road funding, Act 51 money, is based on miles of street and population. Mayor Hison noted that as long as we are over 60,000 in population things shouldn't change. If population falls below 60,000 there is a percentage that is taken into account. The state has not given anticipated numbers for the census.

Property value declines are negatively impacting the City's largest revenue source and special purpose millages are expiring. The taxpayer burden is increasing in a recessionary economy. The state has a recurring structural deficit and there is no permanent solution implemented. More cuts to the State's budget could impact the City as revenue sharing levels are down 25% before more cuts.

Employee benefit costs are a big part of the City's budget. Mr. Audia explained the difference between the defined benefit and defined contribution pension. The defined benefit is a guaranteed benefit level. To fund the general employees' retirement system the City's contribution has almost doubled from 2003 to 2009, \$1.1 million to \$2.1 million. The City's contribution to the police and fire retirement system has increased 38 times the 2003 level to 2009 from approximately \$100,000 to \$3 million. Projections from the actuary show the general contributions will be \$3.6 million per year and the police and fire will be \$5.7 million. With taxable value going to 2004 levels, this cost is becoming a bigger drain. To fully fund the accounts in 2010 we need \$3.5 million for general and \$3.8 million for police and fire in contributions. To fund police and fire in 2013, we need to be at 6 mills to fund these benefits assuming everything stays the same.

### Questions raised:

- How actuary is doing numbers?
- Was there a drop in investment performance?
- Did we change the actuary assumptions?
- Did our healthcare costs go down? Yes, per Mr. Smith.
- Will the police and fire retirement system be doing an actuary study next year?

Mr. Smith explained that what we thought a year ago and what the actuary told us is that we are decreasing liability. This was assuming we would be making money on what we have invested. If we didn't make these changes, the contributions would be much higher. In 2007 we were not prefunded and our liability was over \$100 million.

Mr. Rubino noted that if we are in a secular bear market, we need to go on assumption we will only earn 6%. We do not have to fund the general employee's pension at what the actuary recommends. The police and fire system has tremendous losses. The systems are using a smoothing method. For example, we lost 50% of our investment but we didn't realize the entire 50%. If we don't fund the GASB liability it does not affect healthcare.

Mayor Hison said we need to start looking at funding now as we will need \$100 million to fund retirements. We need to reevaluate what we want to do and how much we can afford.

Mr. Herrington gave an overview of the reduction in taxable value and the loss of the police and fire millage. The Act 345 property tax revenue can only be used for specific purposes. If we do nothing our general fund revenues go down 30% over the next 3 years.

He discussed the general fund potential structural deficit. The gap between expenditures and revenues is expected to continue from 2014 to the future. The structural deficit is a reflection of the property values. The county's structural deficit is \$20 million and the state's is \$2 billion. Decisions need to be made today on how to get back to break even which equates to the \$6 to \$12 million range. Just renewing the police and fire millage doesn't solve the equation. The reality is that passing 1.5 mills for police and fire will only solve a small piece.

## **ECONOMY AND FINANCIAL UPDATE (Cont'd)**

Some communities have asked employees to give concessions and raised millage to balance their current year budget. They did a lot of cuts but didn't look beyond the current year. The City needs to figure out how to get beyond more than just the current year.

The employees have given concessions such as a zero wage increase. The good news for St. Clair Shores is we have some fund balance, unlike other communities. This gives Council the ability to strategically address the budget.

Mr. Frederick was excused from the meeting to attend other City business.

### **2. FIVE YEAR PLAN**

Mr. Haney said that back on September 28 they ran a 5 year forecast. With updated numbers from the assessor on January 15, our taxable value dropped \$200 million. He thinks things will level off in 2014 in these unprecedented economical times.

Excluding Act 345, revenues are going down and expenditures are going up as previously discussed. Changes in healthcare have been made. Inflation is being assumed at 3% of the costs.

We are doubling pension contributions based on the actuary assumptions using an 8% return on investments. No retirements are assumed in the numbers. The general employee's pensions are going from defined benefit to defined contribution for new hires. If the police and fire system goes to a 2 tiered system for health care and pension we will see a significant decrease. From now to 2013, thirteen employees are eligible to retire. The positions will have to be evaluated when they become vacant.

Mayor Hison said that other than court, no departments are showing any capital expenditures. Mr. Haney noted there were minor capital expenditures. Mayor Hison stated that every department will be looked at to reach a balanced budget. He also noted that replacement vehicles were not budgeted. We would use motorpool funds for that. Mr. Smith said that we may have to revisit rotation of vehicles.

Ms. McFadyen questioned if there were any more department cut backs that were being looked at. Mr. Smith stated there are and we are looking at reductions everyday. Community Development retirements have been discussed. We are working toward not having to decrease services.

Mr. Podolski explained that the employees driving the ambulances are also medics. He is aware that we can run with two fire stations but what level of service do we want to provide. These are things that will be discussed at the February 27, 2010 meeting. We need to look beyond 2011. If we reduce the number of employees, we have to reduce the services provided and what will this cost the residents.

Considerations for next meeting:

- Look at services to cut.
- There is an immediate need to talk about long term changes now and not later.
- Elimination of positions in Police and Fire.
- Outsourcing of ambulance services. This would affect revenue sources.
- Reduction of library hours. This would affect revenue sources.

Mr. Haney explained what the affect would be on the fund balance if we do nothing given the known facts when the millage expires. Administration took \$1.4 million out of the budget. We are still anticipating better than budget performance.

Mayor Hison noted that it took approximately 20 years to get to this point. The results of any action will not be realized right away. We should do the opposite of what the State of Michigan did. When making these tough decisions, there are no term limits, we are responsible for what happens. We need to know the true picture so we can answer to the people who question our actions.

Mr. Haney discussed what is remaining in the fund balance to cover expenses. Assuming we do nothing, he gave a projection (not reality) of the impact on the millage rate or the number of employees.

Mayor Hison noted that the State's budget and our budget are not done on the same timeline so we have to adjust our numbers when we get their figures.

### **3. CLEAN WATER INITIATIVE TAX RATE UPDATE**

Mr. Haney said we have dedicated 2 mills. We did major sewer repair. Discussion was held regarding the lowering of the rate or leaving it as is. Consensus was to leave it as it is as it is not a big gain for anyone.

Mr. Walby asked if we can remove a tree if it was affecting a sanitary sewer line with these funds. It can only be used for specific items. Mr. Smith said this relieves the burden on the general fund in a legal manner.

Mayor Hison noted that we received approximately \$700,000 back from the county estimates and are still pursuing an additional \$100,000. Mr. Haney said we reallocated debt based on the final costs. We are also looking at refinancing to lower the payment. We have state funding for this as well and we have submitted an application to qualify for more funding.

There are a couple projects for the Milk River and Chapatoon pump stations that are projected to come out of the funds in 2011.

### **4. MILLAGES**

#### **a. Police and Fire Operating last levy 7/1/2010**

There was no further discussion.

### **5. KEN QUESTION FOR COUNCIL WATER BONDING PROJECTS**

Mr. Podolski discussed the cost of water lines and bonding. We want to bond minimal amounts. He said we have \$3.8 million excess working capital because some of the projects came in at half the estimated cost. We can use the funds for water projects without bonding for them. He asked if Council wanted to have a study session with the City's Assistant Engineer and engineering firm for clarification of the cost being less.

Mr. Walby asked for information on the priority of outstanding projects. He feels this can be resolved at the February 27, 2010 meeting. If we need a study session after reviewing the information, we will schedule a meeting.

Mr. Smith gave an overview of the DPW investigation.

Mayor Hison requested information on what we need to look at as far as cuts for the February 27, 2010 meeting.

### **6. ADJOURNMENT**

**The meeting was adjourned at 10:45 a.m.**

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ROBERT A HISON, MAYOR

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KIMBERLY J IRVINE, DEPUTY CITY CLERK