
DEPARTMENT OF FINANCE



TO: City Council
FROM: James J O'Connor, Treasurer/Director of Finance
VIA: Mayor O'Reilly 
SUBJECT: 2017 Proposed Budget
DATE: April 11, 2016



The City of Dearborn proposed fiscal year 2017 budget and the 2018 through 2019 forecasts are presented for your review. Attached is the required budget filing document and the Executive Summary. Supplemental schedules and information will be provided to help with your review as the documents are completed.

Proposed Budget Status, Assumptions, and Proposals:

- ✓ The City total proposed tax millage is 26.85 mills, which is .40 mills more than the current year. The operating millage of 18.50 mills and the CSO debt service millage of 4.25 remain the same as the prior year. The total city millage includes fully funding the library system with 1.78 mills, up from 1.54 mills due to: increased costs, the phase out of personal property tax, and the State reimbursement program based on the lowest millage rate since 2012 which was 1 mill for the library. The cost of the street sweeping and leaf programs remain in the garbage and rubbish millage of 2.32 mills, up from 2.16 mills. Increased Neighborhood Services part-time staffing and cleanliness programs are driving the millage increase. In November 2011 the voters approved a 3.5 mill increase to the operating millage and also a 1 mill increase for the library system with 2012-2013 being the first fiscal year to levy both voted millages. Fiscal year 2017 is the last year to levy the supplemental operating millage and fiscal year 2022 the last year to levy the additional library millage. For fiscal years 2018 and 2019, the expiring 3.5 voted operating mills are not reflected therefore presenting at least an \$11 million structural budget challenge.
- ✓ The City Assessor has completed the comprehensive property re-evaluation. Taxable value growth is limited by the 1994 Proposal "A" annual inflation cap which is .3% (.003) with actual residential taxable value growth .97% inclusive of property additions and ownership turnover uncapping. Property development and redevelopment continues to be pursued.
- ✓ Total taxable values are estimated to decrease from \$3.5 to \$3.2 billion, with a 9.94% overall decrease per the April 5, 2016 Assessor report. This is primarily due to the State of Michigan action to phase-out personal property tax. Personal property taxable value decreased 37%.

- ✓ The budget also reflects reimbursement revenue from the Statewide Essential Services Assessment (SESA) that will be billed by the State of Michigan to businesses in lieu of the personal property tax. The State reimburses other government units based on the lowest millage from 2012 forward. Also, if the 3.5 supplemental operating mills are not renewed, the reimbursement for 2019 will be based on 15 mills instead of 18.5 mills. The FY2017 budget reflects SESA reimbursement of \$6,932,000 resulting in a net decrease in funding (Property Tax and SESA) of \$.5 million. The combined loss of funding in FY2018 is estimated at \$10.8 million and an additional \$1.1 million in FY2019 if the 3.5 supplemental operating mills are not renewed.
- ✓ One mill is expected to generate approximately \$3.1 million. For a home with a taxable value of \$100,000 (approximate market value of at least \$200,000), one mill represents \$100 of taxation. At 26.85 mills, the city taxes for this home equate to \$2,685. The .40 mill increase represents \$40 of additional property tax per year for this scenario.
- ✓ The water rates are proposed to increase 6.8% compared to 5.5% the prior year and the sewer rate to decrease 6.2% compared to an increase of 3.2% the prior year. The average customer bill is estimated to decrease 1.4% for the coming year as the sewer rate decrease exceeds the water rate increase.
- ✓ Most labor contracts are settled except for the Fire IAFF labor group with ongoing negotiations. The budget pay adjustment assumption is 2% per year.
- ✓ The firefighter contract expired June 2015 and the police contracts will expire June 2017. The general employee contracts expire June 2017. The public safety group compensation packages have kept pace with market. A consultant is comparing the general employees' compensation package to market, and given the lengthy period of minimal adjustments and cost sharing concessions, may warrant some adjustments to enhance the City's ability to compete for talent and retain high performing people.
- ✓ The General Fund full-time staffing is proposed to increase 12 full-time positions and decrease 3.71 part-time full-time equivalents. The other funds' part-time staffing is proposed to increase 4.26 full-time equivalents for an overall increase .55 part-time full-time equivalents city wide. Compensation packages and staffing levels represent a majority of the cost for most departments and the General Fund overall. The migration of police patrol to full 12-hour shifts resulted in production capacity increase equivalent to 4 full-time officers. This schedule is an 84 hour bi-weekly cycle at straight time per the special public fair labor standards act public safety exception.

- ✓ The proposed staffing changes are as follows:
 - Full-Time
 - Legal-Planning-Planner 1 full-time offset by consolidating .7 pt/fte.
 - Finance-Clerical Support 1 full-time offset by consolidating 1 pt/fte (2 positions).
 - DPW-Motor Transport-Clerical Support 1 full-time offset by .7 pt/fte. Succession development for eligible retirement with the understanding to convert back to part-time with actual future retirement.
 - Police-Dispatch-2 Dispatchers bringing the total to back to the 2001 staffing level.
 - Recreation-Dbn. Hills Golf Course-Manager 1 for succession planning as the current sole full-time person will be eligible to retire. The grounds maintenance will be evaluated for outsourcing and if selected it is expected that one full-time position would be eliminated at the same time. This was previously approved.
 - Property Maintenance & Development-Previously approved 5 full-time additions.
 - Historical-Support Staff 1 full-time support position
 - Part-time (notable)
 - Court Security-1 fte
 - Police-Reduction of 4.0 pt/fte's police officers
 - Property Maintenance & Development-reductions and additions net increase of 1.35 pt/fte's for inspection and enforcement.
 - Library-1.58 pt/fte's for business office and operations.
 - Housing-.50 pt/fte for counter service.
 - DPW-Engineering-1.34 pt/fte's for DTE gas line replacement project support.
 - DPW-Building Services-1.40 pt/fte's for in-house janitorial.

For a complete listing of full and part time staffing authorizations and changes, please review the personnel history schedule.

- ✓ Health care premium budget assumptions include a 5% to 8% increase to the self-insured PPO and HMO programs. The overall City contribution for active employee health care is \$5.0 million for the General Fund and \$6.3 million City-wide. Inclusive of retirees, this number is close to \$17.7 million for health care costs. For perspective, a 10% increase in health care consumes more than half of a tax mill. In a two to five year time period, a full tax mill can be consumed by health care cost inflation.
- ✓ Post-employment health care funding has been below the actuarial determined contribution (ADC) level to slightly better than a pay-as-you-go basis. The result will be an accruing liability for the annual financial report. The funding as a percentage of payroll for eligible employees is over 17% and full-funding is over 26%. The General Fund contribution to fund retiree health care is \$9.5 million of the City-wide total of \$13.0 million. The Water and Sewer funds are full-funding at the ADC

fiscal year 2013. General Fund contributions are now budgeted for \$3.3 million, an increase of \$370 thousand from the prior year. This increase is mostly due to recreation divisions joining the fleet replacement model, and target funding for reserves so that sufficient funding is available to replace vehicles when necessary. The target funding is not structured to replace all vehicles at any point.

Fund Specific Budget Information:

- ✓ The General Fund fiscal year 2015 performance was favorable with 4 one-time items: \$2 million from AK Steel to reimburse for the relocation to the Dearborn Administrative Center (DAC) and also \$1 million return from the DAC project as costs were less than budget, \$1 million from FEMA for flood cost recovery, and \$1 million from the closing of the Parking System Fund. In addition there was operational revenue favorable performance and expenditure budgetary savings. The net result is an estimated increase of \$8.7 million to reserves.
- ✓ The General Fund proposed 2017 budget reflects a proposed use of reserves of \$2.6 million with \$3.6 million support for capital reinvestment projects. Please see the capital improvement plan for General Fund supported projects for a listing of the projects and proposed funding.

The fiscal year 2018 forecast presents the loss of the 3.5 mill sun-setting operating millage resulting in an \$11 million loss of income. A millage renewal ballot proposal is anticipated, but not presumed.

The proposed budget includes the final debt service payment for the Dearborn Hills Golf Course and also the final year for the trash cart program. The parking system debt will then be the only general fund debt service which is jointly paid by the West Dearborn Downtown Development Authority (WDDDA). The new corridor improvement districts are supported by the garbage and rubbish millage backed contributions of \$73 thousand for Dix-Vernor and \$135 thousand for Warren Avenue to provide direct funding in addition to the tax capture.

The Historical Department operating subsidy is requested to be \$92 thousand for retired full-time employee legacy cost (\$30K) funding and addition of one full time staff person budgeted at the Curator salary of \$62 thousand. Revenues are estimated at \$256 thousand which includes \$141 thousand from the Guild and/or shared with the Ross Trust for ongoing support. The budget also includes \$23 thousand in other revenue.

The proposed budget does include a base budget for the Fire Training Center , but does not include a budget for the operating income or costs for a consolidated dispatch center, or the replacement of Ford Woods or other outdoor swimming pool.

The proposed budget materials include a fair number of General Fund graphs and schedules with notes. Also provided this year are department financial executive

summaries by department with budget comparisons and explanations. Please see these documents for a complete review.

- ✓ The Major & Local Street Funds reflect the direct Garbage and Rubbish millage tax revenue for the street sweeping and leaf programs. These programs are performed by General Fund DPW divisions, primarily Highways, and then charged using the Act 51 rates and allocated to the street funds. Under this method, street sweeping is estimated at \$535 thousand and the leaf program at \$680 thousand for a combined total of \$1.2 million, or approximately .39 tax mills.

The Major Street Fund continues to support the Local Street Fund as provided by Act 51 with a budgeted transfer of \$3.2 million for fiscal year 2017 with modest increases estimated prospectively.

The Street funds are involved in substantial repair and maintenance projects to maintain the system. The State Public Act 51 revenue distributions are increasing 24% or \$1.6 million per year over the fiscal year 2015 actual revenues with a planned increase for each of the subsequent years. The seasonal changes accelerate the deterioration of the road system and the demand for repair and maintenance continues to outpace the incoming resources. This additional funding will help with this challenge and the General Fund contribution was reduced to \$100 thousand annually which is newly dedicated to the sidewalk replacement program.

- ✓ The decline in Drug Law Enforcement Fund income activity produces a shift in the annual funding of police car replacement of \$500 thousand to the General Fund. The Drug Law Enforcement Fund continues to provide some resources to offset drug enforcement activities.
- ✓ The Library Fund includes the main library and two branches. The operations and facility maintenance are covered by the dedicated tax millage. The fund is in good condition with resources for operations and dedicated for facility maintenance reinvestment. However, resources are not available for major unplanned capital repairs at this time.
- ✓ The Brownfield Redevelopment Authority (BRA) Fund presents a negative equity position as a governmental fund type. The fund recorded the Redico redevelopment financing expense and will recover the cost through future tax captures.
- ✓ The Federal resource allocations for the Community Development Block Grant (CDBG) fund have declined and are estimated to decline in the future. However, the 2017 grant budget is expected to be consistent with the current year. See the CDBG schedule for allocation of resources and programming.
- ✓ The West Dearborn Downtown Development Authority (WDDDA) allocates \$150 thousand annually for parking system debt service, with the General Fund covering the balance of the debt service of \$353 thousand. The WDDDA is directing more resources for the sustainability of the district.

- ✓ The East Dearborn Downtown Development Authority (EDDDA) contributes \$465 thousand to the BRA to support the Redico Development parking deck per the original project plan. The authority is dedicating resources to parking system renovations. The lots are deteriorating and a comprehensive sustainability renovation repair project requires approximately a \$10 million investment. Grants and other financing items will be evaluated as plans are developed.
- ✓ The Telecommunications franchise income is allocated to the Telecommunications Fund and General Fund based on a 70/30 split. The Telecommunications Fund is in good financial condition and is being evaluated for consolidation with the General Fund as supporting an independent fund is not required.
- ✓ The Capital Improvement Fund activity has declined with the use of the Facility Fund. General Fund annual contributions are approximately \$1 million dollars with fiscal year 2017 the final year of the garbage cart \$350 thousand internal financing arrangement. See the Capital Improvement Plan (CIP) for specific initiatives and projects.
- ✓ The Sewer Fund is generating approximately \$29 million per year with \$20 million estimated to be paid to Great Lakes Water Authority (GLWA) for transportation and treatment of sanitary system water. System repair and maintenance projects are budgeted at \$3 million annually over the 3-year budget cycle. The Combined Sewer Overflow (CSO) Federal mandate and State MDEQ permit required elimination projects to continue and are included in the systems R&M funding. Debt service accounts for \$400 thousand per year which is a \$1.9 million reduction due to the pay-off of two State Revolving Fund loans leaving under \$6 million for the remaining operating activities of the system.

There are currently \$41 million of undrawn but authorized low-interest State Revolving Fund loans for the CSO. There is currently \$2.2 million of debt authorization that has not yet been used, but is dedicated to the CSO compliance work.

The CSO debt service funding reserves are being drawn down and are therefore producing an offset to the millage requirements. The change in approach from retention facilities to sewer separation slowed the debt activity and corresponding debt service demands, therefore driving an adjustment in funding requirements.

- ✓ The Water Fund is generating approximately \$22 million per year with \$9.3 million to be paid to GLWA for clean water. System repair and maintenance projects are budgeted at \$4.2 million per year leaving under \$9 million for the remaining activities of the system.
- ✓ The Information Systems Fund provides technology operating services and support and also technology advancements. Funding for hardware, software, and ongoing costs are all included. A new plan is being developed and the ongoing funding has been reduced from \$2 million per year to \$250 thousand. The Management

Information Systems Department's activities, technology initiatives, and the technology equipment replacement are charged back to the various using departments. The proposed budget includes adding the Pictometry Imaging product for \$20 thousand with an annual maintenance of \$50 thousand.

- ✓ The Facility Fund operates the shared City facilities, such as the Dearborn Administrative Center, and also provides operating support for most of the other facilities of the City. Costs for independently owned facilities such as the Water and Sewer Fund buildings, and independently occupied facilities such as the Dearborn Ice Skating Center (DISC), are charged directly to the operating budgets to the extent possible.

Major repairs for governmental facilities like the DISC are funded by reserving annual amounts from the operations and accumulating resources in the Facility Fund. Ongoing capital funding models are developed for most locations with annual funding at a fraction of the estimated need. However, this is probably one of the few ongoing future funding models in Michigan.

The DPW Building Services and Powerhouse divisions are included in the Facility Fund. The cost of these operations, insurance, and utilities are allocated to departments based on occupied square footage to the extent costs are applicable.

The Facilities Fund inherited the debt for the Court/Police facility, which is scheduled to be paid off by the end of fiscal year 2016. The refinanced Parking System debt (payoff fiscal year 2026) and the Dearborn Hills Golf Course debt (payoff fiscal year 2017) are also both included in this fund.

The capital improvement plan and the 3-year budget include a major replacement and improvement to the Powerhouse HVAC systems for the Police/Court, Centennial Library, and Ford Community & Performing Arts Center facilities. The HVAC systems were evaluated by URS Architects/Engineering firm and a comprehensive report was presented with a series of recommendations mostly related to distributions systems and components at the individual facilities. The project does include components at the Powerhouse facility as well. The project is estimated to cost \$12 million and proposed to be financed in fiscal year 2018. The initial design work is scheduled for fiscal year 2017 with construction occurring over the following 2 years. The initial cash flow for the design work is proposed to come from the Facilities Fund working capital and then be reimbursed by the bond issue.

The major capital projects proposed for fiscal year 2017 are:

\$2.5 million for EDDDA parking system improvements financed by a \$500 thousand EDDDA contribution and \$2 million bond with debt service proposed to be paid annually by the EDDDA.

\$650 thousand for the Police Dispatch Consolidation build-out in the Dearborn Administrative Center. This is proposed to be charged to the General Fund Police Department.

The major capital projects proposed for fiscal year 2018 are:

\$7.5 million EDDDA parking system improvements financed by external private sources.

\$10 million for an indoor soccer facility financed by external private sources.

\$12 million for upgrading the heating and cooling systems of the power house and using facilities. This is proposed to be financed by issuing bonds with the debt service charged to the General Fund Police, Court, Recreation departments and the Library Fund as the using departments.

\$1.8 million for the Telegraph Road Fire Station 6 project. This is proposed to be charged to the General Fund Fire Department.

\$750 thousand for Camp Dearborn TV2 Utility Upgrade. This is proposed to be charged to the General Fund Recreation Department-Camp Dearborn.

- ✓ The Fleet Equipment Replacement Fund owns the governmental operations' vehicles and major rolling stock. Vehicle useful lives, conditions, replacement expectations, etc., are evaluated periodically. A funding model is maintained to accumulate sufficient reserves to replace these items when necessary. This is not a full funding model, as resource collection is designed to be enough in any given year but not to have monies to replace everything. Items are replaced when appropriate, not necessarily based on the funding model. The City fleet is maintained by DPW-Motor Transport Division and the fleet is kept in good working condition. The proposed vehicle replacement plan for the coming year is \$2.9 million consisting primarily of public works, police, and recreation replacement vehicles. See the capital request report for a listing of the current vehicles proposed for replacement.
- ✓ The Fleet & General Liability Insurance Fund is an insurance pool: Insurance costs are charged to the various departments, and then insurance premiums and claims are paid by this fund. The City is partially self-insured for some components. The Legal Department is in charge of risk management. The Water and Sewer Funds pay claims independently.

The Fleet and General Liability Insurance Fund includes property tax refunds for the General Fund tax case settlement refunds and prior year uncollectible amounts. Separate reserves are calculated for the insurance and tax liabilities.

- ✓ The Workers' Compensation Fund is a self-insurance pool. The fund is required to have sufficient reserves to cover pending workers' compensation cases. A discount continues to be applied to the rates charged by the payroll system as the fund has

performed well for many years. A third party administrator vendor processes the claims.

- ✓ The Employee Insurance Fund is a dental and health insurance pool. Delta Dental, HAP, and Blue Cross are the self-insured carriers, except for the Medi-Care Advantage health care programs which are required to be fully insured. The self-insuring approach has been very favorable and discounts have been applied to the illustrative rates. The proposed budget includes about a \$1 million increase for health care costs with rates expected to increase at least 5%. Stop-loss coverage for single high dollar claims and an overall claim maximum for the self-insured programs are purchased. Life insurance is fully insured and therefore is no longer part of this fund.
- ✓ The Post-Employment Health Care Fund is a Public Act 149 Trust. This allows for monies to be invested similarly to the pension system, but monies can only be disbursed for retiree health care. The fund currently has over \$60 million in assets invested and the unfunded liability estimated at over \$160 million. While this funding level of 25% may be considered good in the municipal retiree health care world, the funding is very inadequate given the liability. *This challenge is one of the bigger municipal financial model challenges for the future and particularly for the older communities with more retirees than active full-time employees.*
- ✓ The 3 closed defined benefit system trusts' income assumptions are based on the systems' assumed rates of return; so given that actual investment performance can vary, budget variances both positive and negative may be large at times.

The actuarial reports for each system are online and provide substantial detail on each system. The funding level for each system as of the most recent actuarial report based on June 30, 2015 is as follows:

Chapter 22 General Employees	83.2%
Chapter 23 Police & Fire Revised	Fire 80.9%/Police 83.5%/Blended 82.2%
Chapter 21 Police & Fire	197.2%

The General Employees and the Police & Fire Revised Retirement Systems are managed by their respective boards; The Policemen's & Firemen's Retirement System is managed by the City. All systems are administered daily by the City.

- ✓ The Retiree Death Benefit Fund is for employees who elect to pay into the program at retirement and during retirement as provided by labor contracts. The death benefits range between \$1,000 and \$2,500 depending on retirement date. This, too, is a self-insurance program. Monies were used from this fund to support the General Fund during the economic downturn and rapid loss of property values. The General Fund is now proposed to contribute \$75 thousand instead of \$50 thousand for fiscal year 2017.

There is a general ledger account-by-account report provided in hard copy and also electronically that is in order by revenues and separated for appropriations, and by fund and department/division. Revenue, Expenditure/Expense, Fund Balance/Retained Earnings/Reserves trend, projection, and proposed budget summaries with fund notes are provided electronically. Governmental and separate Proprietary & Trust single page budget summaries are provided for each of the 3 budgetary years. A substantial number of graphs and data tables with supporting details and schedules are provided online.

The above is an introduction to the proposed budget. A substantial effort is made by all the operations of the City and it is a major task for the accounting team of the Finance Department to administer the assembly of the budget and the corresponding communication materials. The efforts of all are greatly appreciated. At this point, the Council needs to gain comfort with the proposed budget and make decisions. Supplemental and sometimes duplicative information is provided for the Council Budget Workshops based on the agenda topics. As better information is available, it will be incorporated into the budget process and the final budget. If you have any questions or need help managing any of the budget information, please contact me for assistance at 313-943-2119 or joconnor@ci.dearborn.mi.us and we will do our best to provide prompt assistance.

**City of Dearborn
Executive Overview
Proposed Budget for Years 2017, 2018 & 2019**

	Adopted Budget 2016	Proposed Budget 2017	Increase/ (Decrease) over 2016 Budget	Forecast Budget 2018	Forecast Budget 2019
General Fund:					
Revenues & Other Financing Sources	\$ 108,487,071	\$ 110,967,010	\$ 2,479,939	\$ 100,393,781	\$ 99,167,195
Expenditures & Other Financing Uses	108,045,168	113,535,713	5,490,545	116,026,006	116,316,702
Total Revenues & Other Financing Sources over (under) Expenditures & Other Financing Uses	<u>\$ 441,903</u>	<u>\$ (2,568,703)</u>	<u>\$ (3,010,606)</u>	<u>\$ (15,632,225)</u>	<u>\$ (17,149,507)</u>
All Funds (Combined):					
Revenues & Other Financing Sources	\$ 307,390,793	\$ 313,118,474	\$ 5,727,681	\$ 332,326,269	\$ 305,230,598
Expenditures/Expenses & Other Financing Uses	294,390,229	304,619,659	10,229,430	331,688,737	306,637,808
Total Revenues & Other Financing Sources over (under) Expenditures/Expenses & Other Financing Uses	<u>\$ 13,000,564</u>	<u>\$ 8,498,815</u>	<u>\$ (4,501,749)</u>	<u>\$ 637,532</u>	<u>\$ (1,407,210)</u>
Tax Rate:					
General Operating Millage	18.5000	18.5000	-		
Garbage & Rubbish Millage	2.1600	2.3200	0.1600		
Library Millage	1.5400	1.7800	0.2400		
Debt Millage - CSO	4.2500	4.2500	-		
Total Millage Rate	<u>26.4500</u>	<u>26.8500</u>	<u>0.4000</u>		