
DEPARTMENT OF FINANCE



TO: City Council
FROM: Michael Kennedy, Director of Finance/Treasurer
VIA: Mayor Hammoud
SUBJECT: 2023 Proposed Budget
DATE: April 13, 2022

The City of Dearborn proposed fiscal year 2023 budget and the 2024 through 2025 forecasts are presented for your review. This memo accompanies the proposed budget fund summary reports with supplemental reports and schedules provided to help with your review. The Mayor has scheduled a series of briefing sessions to provide further detail and context for individual departments and policy areas of interest. Background detail will also be provided with each meeting.

Proposed Budget Status, Assumptions, and Proposals:

- ✓ The City total proposed tax millage is 22.85 mills, which is 3.82 mills less than the current year. The operating millage was reduced by 3.50 mills to 15.00 mills, while the garbage and rubbish millage of 1.91 mills, and library millage of 1.69 mills remain the same as the prior year. The 2004 voted CSO debt service millage decreased .02 mills, and the 2018 voted CSO debt service millage decreased .30 mills.
- ✓ The City Assessor has completed the annual property valuation process. Taxable value growth is limited by the 1994 Proposal "A" annual inflation cap which is **3.3% (1.033)**. Pre-March Board of Review estimates for real property taxable value growth is 3% increase inclusive of property additions and ownership turnover uncapping.
- ✓ The State of Michigan Local Community Stabilization Authority (LSCA) distribution is estimated at \$12.64 million for the General Fund, \$1.33 million for the Library Fund, and \$3.26 million for the CSO Debt Fund based on the past distributions (with the General Fund estimate adjusted for the 3.50 mills reduction).
- ✓ One mill is expected to generate approximately \$3.76 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 22.85 mills, the city taxes for this home equate to \$2,285. The 3.82 mill decrease represents \$382 less property tax per year for this scenario.

- ✓ In FY2020, a change to the methodology for calculating the water and sewer rates was proposed and enacted, shifting the fixed and variable portion of the utility rates from 40/60 for sewer and water to 35/65, and removing the water-billing rate.
 - FY2023 Rates were affected by 3 situations as follows:
 - Increase to the number of customers.
 - Estimated usage went down 2.7% in volume.
 - Annual increase from Great Lakes Water Authority (GLWA)

These changes equate to sewer capacity charge increase of 1.91% and a sewer commodity charge increase of 3.75%. Additionally, a water capacity charge increase of 2.83% and a water commodity charge increase of 6.4%. The overall impact on an average residential customer's utility bill is an increase of 4.0%.

- ✓ The General Fund staffing is proposed to increase 2.48 full-time positions and decrease -7.92 part-time FTE, for a net overall reduction of 5.44 FTEs. The other funds' staffing is proposed to decrease -1.48 full-time positions and decrease -2.01 part-time FTE. Compensation packages and staffing levels represent a majority of the cost for most departments and the General Fund overall. The attached detail contains more information.

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

- ✓ 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 Medicare Advantage and Humana PDP health care programs, which are required to be fully insured. Stop-loss coverage for single high-dollar claims is purchased for the self-insured health care plans.

The self-insuring approach has been unfavorable over the past two years and resultant increases have been applied to the City's rates. The proposed budget includes an \$1.1 million dollar increase for health care costs charged to departments and employees. The overall City contribution for active employee health care is \$7.3 million from the General Fund and \$1.7 million from city-wide employees. Inclusive of retirees, this number is close to \$22.1 million for aggregate health care costs.

We currently project a fiscal year 2022 reserve balance of \$451 thousand dollars. Vendor illustrative rates have been increased as the result of unfavorable performance of our self-insured policy. The reserve balance is not sufficient to meet the needs of the program based on forecasted revenues and must be increased.

- ✓ The Post-Employment Health Care Fund is a Public Act 149 Trust. This allows for monies to be invested the same as the pension system, but monies can only be disbursed for retiree health care. With the recent enactment of Public Act 202 of

2017, legislation now requires annual filing of the trust financial position each year within six months of the fiscal year end. The Act defined the term “funding status” which applies to City’s defined benefit retirement systems and post-employment health care plan. In 2017, a unit of government post-employment health care plan was determined to be “underfunded” if the unit of government’s funding level does not exceed a 40.0% status when reported to the Michigan Department of Treasury.

The post-employment health care fund as of June 30, 2021 assets increased to \$162.9 million compared to \$126.1 million in assets for the prior year. The City issued \$35 million dollars in bonds to help increase the funding level in December of 2018. As of the last actuary report, the City’s unfunded liability was estimated on June 30, 2021 at \$90.7 million. The funding level as of the last actuarial report was 63.8%.

The post-employment health care contribution has been budgeted to fund the actuarial recommended contribution (ARC) level. The General fund contribution to fund retiree health care is \$4.3 million of the citywide total contribution amount of \$6.1 million for fiscal year 2023. Full funding of the plan at the actuarial determined contribution level would require a contribution by the City of \$16.1 million, for the current retirement health care benefit packages offered. Changes in those benefits would impact the recommended funding level. The result of funding below the ARC will increase the accruing liability. The funding as a percentage of payroll in fiscal year 2023 for eligible active police and fire employees is budgeted at 14.21%, and the funding for all other active general employees is 11.50%. The Water and Sewer funds are full funding in fiscal year 2023 at the ARC amount consistent with past practice.

✓ Pension system contribution and change amounts are as follows:

(Normal cost actuarial required contribution % and active employee participation %)

- General Employees \$3.0 million \$(566) thousand dollars
14.40% of Payroll Normal Cost for active employee members, plus 5.0% non-refundable employee participation.

- Police \$6.3 million \$(1.8) million dollars
47.10% of Payroll Normal Cost for active employee members, plus 5.0% refundable employee participation.

- Fire \$6.4 million \$(1.3) million dollars
54.19% of Payroll Normal Cost for active employee members, plus 5% refundable employee participation.

- MERS Public Safety \$2.2 million \$(200) thousand dollars
10.57% Police/ 10.95% Fire of Payroll for eligible members, plus 5 % non-refundable employee participation (exception with recent POAD contract negotiations new hires as of 1/1/2017 move to a 7.5% non-refundable employee participation to the plan).

The three closed defined benefit system trusts' income assumptions are based on the systems' assumed rates of return; 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, 2021 is as follows:

Chapter 22 General Employees	87.0%
Chapter 23 Police Revised	75.8%
Chapter 23 Fire Revised	72.4%
Chapter 21 Police & Fire	396.0%

The General Employees and the Police & Fire Revised Retirement Systems are managed by their respective boards. The Policemen's & Firemen's Retirement System, Chapter 21, is managed by the City Council. All systems are administered daily by the Finance Department.

Chapter 22 contributions budgeted in fiscal year 2023 decrease -\$566 thousand dollars for a total budget amount of \$3.0 million. The Chapter 23 contribution is budgeted to decrease -\$3.1 million for a total of \$12.7 million. Chapter 23 decrease does include a reduction of -\$1.9 million as a result of pledging the excess assets of the overfunded Chapter 21 system.

- ✓ The Facilities Fund operates the shared City facilities, such as the Dearborn Administrative Center, and 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.

Asset life-cycle based funding models have been performing well. The funding for facilities has been pared back to minimal levels. The Facility Advisory Board coordinates and develops the plan for reinvestment. Members recognize that funding is inadequate, and recommend that the annual funding be increased in future years.

Major repairs for governmental facilities like the DISC are funded by reserving annual amounts from the operations and accumulating resources in the Facilities Fund. Ongoing capital funding models for most locations with annual funding at a fraction of the estimated need have been discontinued for the past two consecutive years.

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

Bonds were issued in the spring of 2017 for the construction of the Wagner Place parking deck in coordination with the BRA Wagner Place redevelopment project for the total amount of \$7.7 million. The final principal payment for the 30-year bond is scheduled for 2046.

Bonds were issued in the spring of 2017 for the replacement of the Ford Woods Swimming Pool and supplemental streetscape and electrical infrastructure work associated with the Wagner Place downtown redevelopment project in the combined total amount of \$10.8 million. The final principal payment for the 15-year bond is scheduled for 2032.

Bonds were issued in the fall of 2017 for the conversion of the Dunworth Swimming Pool diving well to a water slide operation and also to replace the current bathhouse. The principal amount is \$3.5 million and the final principal payment for the 20-year bond is scheduled for 2038.

Bonds were issued in the spring of 2018 for the upgrade of the Powerhouse and the HVAC system in the campus buildings (FCPAC, DAC, HFCL, Police/Court). The principal amount is \$14.5 million and the final principal payment for the 20-year bond is scheduled for 2038.

- ✓ The Capital Improvement Fund activity has continued to decrease with the use of the Facilities Fund. This Fund is proposing \$993,250 of capital projects in the FY2023 CIP budget with a corresponding contribution of \$934,000 from the General Fund.

The Capital Improvement Fund will have limited unappropriated liquid resources, however, as the \$3.3 million land inventory is sold, funds will again accumulate. The General Fund is the primary funding source and project contributions are proposed for the following fiscal year and going forward. See the Capital Improvement Plan (CIP) for specific initiatives and projects.

- ✓ Major capital projects proposed for fiscal year **2023** include:
 - \$1,171,800 for the replacement of the roofs and drains, and safety rail installation at Hubbard Manor East & West.
 - \$676,000 for the replacement of the Self-Contained Breathing Apparatuses (SCBAs) for the Fire Department.
 - \$500,000 for a Facility Assessment of all City facilities.
 - \$382,000 for the NOVAR Controls Upgrade at Hubbard Manor East & West.
- ✓ 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 sufficient in any given year but not to have monies to replace every asset in the fleet at a given point in time. The fund has a pre-funding model currently based on what is needed to replace the estimated vehicle purchases for the next 3 years. Items are replaced when appropriate, not necessarily based on the funding model. The failure of a major component or major damage from an accident will result in re-evaluation of the asset life cycle and the replacement plan may be modified accordingly.

- ✓ 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 \$3.5 million consisting primarily of public works, police, fire and recreation replacement vehicles. In addition, the proposed budget includes \$165 thousand in the Drug Law Enforcement Fund and trucks and equipment totaling \$205 thousand in the Water and Sewerage Fund.
- ✓ Funding for fleet replacement has fluctuated over the years with the intention to have funding in any given year to replace the vehicle stock on a planned basis. Reserves have accumulated the proposed budget annual funding is set at the level to meet the year's replacements while considering upcoming replacement years. The target funding is not structured to replace the entire fleet of vehicles at any point. General Fund contributions are now budgeted for \$2.7 million, an increase of \$2.4 million from the prior year.

General Fund Budget Information:

- ✓ The General Fund fiscal year 2021 performance finished with a surplus of fund balance of \$8.0 million. The net result is a fund balance of \$28.7 million with \$500 thousand non-spendable inventory, \$1.2 million restricted for Telecommunications PEG Fees and \$1.1 million assigned for Retiree Death benefits.
- ✓ The General Fund 2022 projected budget reflects a surplus of \$3.3 million.
- ✓ The 2023 proposed budget estimated fund balance use is -\$2.5 million. Fund balance usage is mostly due to the revenue loss of 3.5 mills supplemental millage not renewed by the voters. This lost revenue is associated with approximately - \$13.1 million of property tax capture and another estimated decrease of Local Community Stabilization Act totaling -\$2.5 million relating to the same supplemental millage not renewed.
- ✓ The fiscal year 2023 proposed budget includes no contributions from other funds to the General Fund.
- ✓ The proposed operating budget includes continued staffing to support the permits and inspections for the 10-year Ford Motor Company capital improvement plan.
- ✓ The Historical Department fiscal year 2023 proposed operating budget subsidy is requested to be \$127 thousand dollars for retired full-time employee legacy cost of \$22 thousand dollars; for one full-time Curator position budgeted at \$60 thousand

dollars, debt service of \$12 thousand and utilities of \$26 thousand dollars. Revenues are estimated at \$190 thousand dollars, which includes \$201 thousand dollars from the Guild and/or shared with the Ross Trust for ongoing support. The budget also includes \$19 thousand in other revenue.

- The proposed budget materials include General fund graphs and schedules with notes.
- The prior year format for the department financial executive summaries with budget comparisons and explanations is repeated.
- Please see the capital improvement plan for General fund supported projects for a listing of the projects and proposed funding.
- Please see these documents for a complete review.

Component Units:

- ✓ The Dix-Vernor Business District Improvement Authorities (BDIA) has been capturing property tax dollars. In addition, there is a contribution of \$30 thousand of garbage and rubbish millage tax revenue for eligible work to help keep the districts clean.
- ✓ The Warren Avenue Business District Improvement Authorities (BDIA) capture's property tax dollars. In addition, there is a contribution of \$90 thousand of the garbage and rubbish tax revenue for eligible work to help keep the district clean.
- ✓ The West Dearborn Downtown Development Authority (WDDDA) is planning to support events and promotion efforts through co-op advertising and sponsorships for FY2023. In addition, there is a contribution in \$26 thousand of the garbage and rubbish millage tax revenue for eligible work to help keep the district clean and a general fund contribution of \$9 thousand. The WDDA contributes \$ 219 thousand to the BRA to support the development of the Wagner place.
- ✓ The East Dearborn Downtown Development Authority (EDDDA) is planning to support events and promotion efforts through co-op advertising and sponsorships for FY2023. In addition, there is a contribution of \$41 thousand garbage and rubbish millage tax revenue for eligible work to help keep the district clean. The EDDDA contributes \$261 thousand to the BRA to support the Redico Development parking deck, per the original project plan.
- ✓ All garbage and rubbish millage monies are transferred to the respective component unit from the DPW- Department, Sanitation division.

Sewer & Water Utilities:

- ✓ The Sewer Fund is generating approximately \$31.2 million per year with \$20.7 million estimated to be paid to Great Lakes Water Authority (GLWA) for transportation and treatment of sanitary system water. System capital Improvements and infrastructure projects are budgeted at \$2.9 million for FY2023, and \$10.4 million in FY2024 and \$2.0 million for 2025.

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. The original voter-approved financing authority for the Combined Sewer Overflow repair and maintenance projects has been used, and an additional voter-approved authority was passed in August 2018. About \$23.4 million has been issued of the new authority, with \$36.6 million remaining eligible to be issued in the future. The CSO debt service millage from the original authority 3.82 mills, while the 2018 authority is at .43 mills.

- ✓ The Water Fund is generating approximately \$26.5 million per year with \$11 million to be paid to GLWA for clean water. System capital Improvements and infrastructure projects are budgeted at \$4.2 million per year, with an additional \$1.3 million for lead pipe replacement associated costs in FY2023 and \$4.5 million annually in total for FY2024 and FY2025.

Reports & Process:

There is a general ledger account-by-account report provided in hard copy and also electronically, that is in order by revenues and expenditures and separated by 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 three 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. Supplemental information is provided for the Council Budget Workshops based on the agenda topics. As new 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 313-943-2485 or mkennedy@ci.dearborn.mi.us and we will do our best to provide prompt assistance.