
DEPARTMENT OF FINANCE



TO: City Council
FROM: Ginger Burke-Miller Treasurer/Director of Finance
VIA: Mayor O'Reilly
SUBJECT: 2021 Proposed Budget
DATE: April 1, 2020

The City of Dearborn proposed fiscal year 2021 budget and the 2022 through 2023 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.

Proposed Budget Status, Assumptions, and Proposals:

- ✓ The City total proposed tax millage is 26.87 mills, which is .17 mills more than the current year. The operating millage of 18.50 mills, 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 remains at 4.25 mills, but the 2018 voted CSO debt service millage increases from 0.35 to 0.52 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 **1.9% (1.019)**. Pre-March Board of Review estimates for real property taxable value growth is 2% increase inclusive of property additions and ownership turnover uncapping.
- ✓ The State of Michigan Local Community Stabilization Authority (LSCA) distribution is estimated at \$14.3M for the General Fund, \$1.3M for the Library Fund, and \$3.0M for the CSO Debt Fund based on the past distributions.
- ✓ One mill is expected to generate approximately \$3.48 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 26.87 mills, the city taxes for this home equate to \$2,687. The .17 mill increase represents \$17 more 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. FY2021 rates include a .7% and .6% increase in the sewer capacity and commodity charges, and a 3.7% increase in the water capacity and commodity charges. The overall impact on an average residential customer's utility bill is an increase of 2%.

- ✓ The General Fund staffing is proposed to increase 19.5 full-time positions and decrease 11.84 part-time FTE. The other funds' staffing is proposed to increase 5.5 full-time positions and decrease 1.17 part-time FTE. Compensation packages and staffing levels represent a majority of the cost for most departments and the General Fund overall.
- ✓ The proposed staffing primary changes are as follows:
 - Full-time General Fund:
 - 19th District Court – Add 1 Court Management Assistant, 1 Assistant Deputy Court Clerk, & removed 1 Chief Probation Officer.
 - Veterans Treatment/Drug court – 4 positions added.
 - Public Works – Add .50 Deputy Director, removed 1 Office Assistant IV.
 - Police – Added 10 Communications Dispatcher.
 - Property Maintenance and Development Services – 5 positions added & removed 1 Neighborhood Liaison.
 - ECD – Office Assistant III moved from Housing (other fund) to ECD.
 - Total requested General fund increase of 19.5 FTE
 - Full-time Other Funds:
 - Indigent Defense – 1 position added
 - Library Fund – 1 Library System Specialist added.
 - Housing – moved 1 Office Assistant III to General fund.
 - DPW Sewage – Removed 2 Water & Sewer Techs.
 - DPW Engineering – Removed 1 SR Construction Engineering Tech.
 - DPW Water – 1 Water & Sewer Supervisor, 5 Driver / Laborers, 1 GIS Tech, & 1 Plumber added. Removed .5 Deputy Director.
 - Total requested other funds increase of 5.5 FTE
 - Part-time (notable):
 - Court – reducing budget hours by 3.22 FTE
 - City Clerk – increasing budget hours by .41 FTE
 - Finance – reducing budget hours by .82 FTE
 - DPW – reducing budget hours by .5 FTE
 - Fire Dept. – reducing budget hours by .96 FTE
 - PMDS – reducing budget hours by 8.4 FTE
 - Recreation – increasing budget hours by 1.62 FTE
 - Indigent Defense – reducing budget hours by .7 FTE
 - Library – increasing budget hours by .69 FTE
 - DPW water – reducing budget hours by .93 FTE

- Total requested part-time decrease of 13.01 FTE

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 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 \$860-thousand-dollar increase for health care costs charged to departments and employees. The overall City contribution for active employee health care is \$7.1 million from the General Fund and \$1.8 million from city-wide employees. Inclusive of retirees, this number is close to \$20.9 million for aggregate health care costs.

The Health Care pool unassigned reserves are currently targeted to be \$3.5 million dollars to absorb a larger than expected claim year. We currently project a fiscal year 2020 reserve balance of \$1.3 million dollars of which 300 thousand dollars is unassigned. Vendor illustrative rates have been increased as the result of poor performance of our self-insured policy, which has eroded this forecasted reserve and is insufficient to the targeted amount.

- ✓ 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, 2019 assets increased to \$124.3 million compared to \$82.0 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, 2019 at just over \$129.0 million. The funding level as of the last actuarial report was 49.06%.

The post-employment health care contribution has been budgeted below the actuarial recommended contribution (ARC) level, but better than a pay-as-you-go basis. The General fund contribution to fund retiree health care is \$11.1 million of

the citywide total contribution amount of \$13.7 million for fiscal year 2021. Full funding of the plan at the actuarial determined contribution level would require a contribution by the City of \$15.7 million. The result of funding below the ADC will increase the accruing liability. The funding as a percentage of payroll in fiscal year 2021 for eligible active police and fire employees is budgeted at 17.5%, and the funding for all other active general employees is 21.6%. The Water and Sewer funds are full funding in fiscal year 2021 at the ADC 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 \$3.8 million \$398 thousand dollars
15.0% of Payroll Normal Cost for active employee members, plus 5.0% non-refundable employee participation.

- Police \$8.8 million \$293 thousand dollars
51.00% of Payroll Normal Cost for active employee members, plus 5.0% refundable employee participation.

- Fire \$7.8 million \$386 thousand dollars
57.35% of Payroll Normal Cost for active employee members, plus 5% refundable employee participation.

- MERS Public Safety \$2.0 million \$160 thousand dollars
12.24% Police/ 13.51% 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, 2019 is as follows:

Chapter 22 General Employees	83.1%
Chapter 23 Police Revised	73.6%
Chapter 23 Fire Revised	69.2%
Chapter 21 Police & Fire	285.8%

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. All systems are administered daily by the Finance Department.

Chapter 22 contributions budgeted in fiscal year 2021 increase \$1.0 Million dollars for a total budget amount of \$3.7 million. The Chapter 23 contribution is budgeted to increase \$2.8 million for a total of \$16.6 million.

- ✓ 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 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 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 \$105 thousand of capital projects in the FY2021 CIP budget with a corresponding contribution from the General fund.

The capital improvement fund will have limited unappropriated liquid resources. However, as the \$3.6 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 **2021** include:
 - \$1,740,773 for additional costs of the Powerhouse and HVAC upgrade.
 - \$1,200,000 for the Camp Dearborn utility upgrade.
 - \$115,000 for the Dearborn Hills Irrigation System upgrade.
 - \$80,000 for playground equipment.
- ✓ 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 coming year's vehicles. 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 \$4.3 million consisting primarily of public works, police, and recreation replacement vehicles. In addition, the proposed budget includes four SUVs for \$160 thousand in the Drug Law Enforcement Fund and trucks and equipment totaling \$493 thousand in the Water Fund. See the fleet replacement plan for a detail listing.

- ✓ The City's vehicle fleet was again reviewed for condition assessments and replacement planning by the Fleet Accountant and Motor Transport Manager in collaboration with departments and the Fleet Advisory Board. 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 \$2.1 million, a decrease of \$100 thousand from the prior year.

General Fund Budget Information:

- ✓ The General Fund fiscal year 2019 performance finished with a use of fund balance of \$790,000. The net result is a fund balance of \$20.8 million with \$1.6 million non-spendable.
- ✓ The General Fund 2020 projected budget reflects a use of fund balance of \$1.08 million.
- ✓ The 2021 proposed budget estimated fund balance use is \$3.4 million, which is mostly due to increased ARC contribution levels of \$3.8 million above previous year and removal of prior year's negative contingencies of \$1.7 million.
- ✓ Fiscal year 2020 has experienced a return of funds from the capital projects of \$1.5 million, as well as a return of funds from the Library fund of \$1 million, and \$100,000 from the Worker's Compensation fund. The fiscal year 2021 proposed budget includes a return of \$380,000 in funds from capital and technology projects.
- ✓ Notable other expenditures that make up the fiscal year 2021 budget include the facility fund lease of \$1.75M dollars for Powerhouse, Building Services, and Utilities, inclusive of a \$1.5M one-time reduction. Fiscal year 2021 projected budget includes transfer contributions out for the Camp Dearborn TV2 utility upgrade of \$1.2 million, as well as \$2 million for debt repayment.
- ✓ The proposed operating budget includes an expansion of Dearborn Heights joining the United Dispatch Center and continued staffing to support the permits and inspections for the 10-year Ford Motor Company capital improvement plan.

The Historical Department fiscal year 2021 proposed operating budget subsidy is requested to be \$134 thousand dollars for retired full-time employee legacy cost of \$42 thousand dollars; for one full-time Curator position budgeted at \$57 thousand dollars, debt service of \$12 thousand and utilities of \$23 thousand dollars. Revenues are estimated at \$228 thousand dollars, which includes \$200 thousand dollars from the Guild and/or shared with the Ross Trust for ongoing support. The budget also includes \$28 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 FY2021. The WDDDA contributes \$ 344 thousand to the BRA to support the development of the Wagner place. In addition, there is a contribution of \$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 East Dearborn Downtown Development Authority (EDDDA) is planning to support events and promotion efforts through co-op advertising and sponsorships for FY2021. The EDDDA contributes \$448 thousand to the BRA to support the Redico Development parking deck, per the original project plan. In addition, there is a contribution of \$23 thousand garbage and rubbish millage tax revenue for eligible work to help keep the district clean.
- ✓ All garbage and rubbish millage monies are transferred to the respective component unit from the Property Maintenance and Development Services department, Sanitation division.

Sewer & Water Utilities:

- ✓ The Sewer Fund is generating approximately \$30 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 \$2 million annually over the three-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. 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 expected to be issued in FY2021. The CSO debt service millage from the original authority remains at 4.25 mills, while the new authority is at .52 mills.

- ✓ The Water Fund is generating approximately \$26 million per year with \$11 million to be paid to GLWA for clean water. System repair and maintenance projects are budgeted at \$4.5 million per year, with an additional \$1.1 million for lead pipe replacement associated costs.

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. 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 gmillier@ci.dearborn.mi.us and we will do our best to provide prompt assistance.