

MINUTES
ST. CLAIR SHORES CITY COUNCIL BUDGET WORKSHOP
January 23, 2016

City Council Budget Workshop held at the St. Clair Shores Country Club Golf Course, 22185 Masonic Blvd., St. Clair Shores, Michigan

Present: Mayor Kip Walby, Council Members Peter Accica, John Caron, Ronald Frederick, Peter Rubino, Candice Rusie and Chris Vitale (arrived at 8:10 a.m.)

Also Present: City Manager Michael Smith, Assistant City Manager William Gambill, Deputy City Clerk Kathleen Suydam, Controller Laura Stowell, Parks & Recreation Director Greg Esler, Finance Director Doug Haag, and City Attorney Robert Ihrle

1. CALL TO ORDER, ROLL CALL AND PLEDGE OF ALLEGIANCE

Mayor Walby called the meeting to order at 8:06 a.m. Ms. Suydam, Deputy City Clerk, called roll with a quorum present.

2. BUDGET CALENDAR

Mr. Smith rolled out the 2016 Budget Calendar:

January 23 - Initial Council Budget Workshop
March 16-17 and March 22-24 - Internal Department Budget Meetings
April 18 - Finance Department submits budget to Council
April 25-26 - Budget Hearings with Council
June 6 - Council adopts budget

Mr. Vitale arrived at 8:10 a.m.

3. FIVE YEAR FORECAST

Mr. Smith presented the 5-Year Forecast. We need to completely rebuild the millage system. Last fiscal year the rainy day fund ended at \$16 million which is the highest it has ever been. To ask for more money when we added to the fund balance is not a good idea. We need options to bridge the gap. We believe we can go another 3 to 5 years with a millage increase much less than the 6.5 mills we discussed last year.

If we move forward without the Police and Fire (P&F) Millage and without funding OPEB but funding all Capital, the fund would be at \$(4,892,256) in 2019 and \$(12,716,044) by 2020. To extend the current P&F Millage at 2 mills, the balance would be \$(4,400,506) by 2020. Increasing the current P&F Millage to 4 mills from the current 2 mills puts the fund at \$3,915,032 by 2020. By increasing the current P&F Millage to 5 mills from the current 2 mills, we are at \$9,208,157 in 2018, \$8,966,974 in 2019 and \$8,072,801 in 2020. If we increase the current P&F Millage to 6 mills from the current 2 mills, we will be at \$12,230,570 by 2020.

We are self-insured, and we have made some positive changes in that area. The changes we made have helped hold the costs, but costs will still go up because many of these changes were one-time fixes.

In 2005, our OPEB liability was \$96 million. OPEB is at \$125 million (combined P&F and General). It goes up because we continue not to fund it. At some point, we need to address this.

Mr. Caron asked how to determine how many employees are in the Utility Fund. Mr. Smith said it is based on slots currently in our budget.

Mr. Smith said our Actuary recommends that we should be contributing toward OPEB. We are funding something in P&F and something in General. Governmental Accounting Standards Board (GASB) rules only affect that we have to declare that we have this liability. The total unfunded amount includes Water and General.

Without funding OPEB and paying Capital, which means we will take care of what we have right now and not add anything new, we run out of money in 2018 if the millage fails. With the current P&F Millage, we will make it to 2019. We always budget minimally in Capital. Historically, we have averaged a 3% to 5% positive budget variance.

If we go out for 5 mills, we would have a fund balance of \$8 million in 2020. If we want more long term, we could increase the millage to 6 mills, but that is more of an increase than we need at this time.

Item 3 (Cont'd):

If we want to fund OPEB, the impact is different. If we move forward without the P&F Millage but funding all Capital, the fund would be \$(16,458,860) by 2020. To extend the current P&F Millage at 2 mills, the balance would be \$(8,143,322) by 2020. Increasing the current P&F Millage to 4 mills from the current 2 mills puts the fund at \$(1,532,053) by 2020. By increasing the current P&F Millage to 5 mills from the current 2 mills, we are at \$6,484,614 in 2018, \$4,881,660 in 2019 and \$2,625,716 in 2020. If we increase the current P&F Millage to 5.75 mills from the current 2 mills, we will be at \$5,369,427 by 2020. They are not recommending going out for a super millage because of the Fund balance.

Going out for a millage takes a great deal of education, but we are now limited because of a recent change in legislation. If we do go for a P&F Millage, we would have to get Letters of Understanding from the Union. We are hoping for a change in legislation soon, but as it is written today, we cannot use any of our resources, including manpower, to educate voters on millages within 60 days of the election. We cannot even put material in the Library because it is a public library. We will have to use private contributions to fund any education.

We are here today to decide how to move forward. We can do a P&F millage, but for how long? Will we address OPEB? We also need to talk about Capital. None of this is new. These are items that need to be done. We continue to delay Capital spending, which is approximately \$1.75 million a year although each year is different. To not fund OPEB is the cheapest way out. If we go for 2 mills, we cannot make it 3 years. Three-fifths of our workforce is P&F, and we are guaranteeing that manpower.

All of the charts presented assume the General Fund will subsidize the Library. The Library number is not going up, and the Library millage does not have any money to fund OPEB.

The unfunded liability right now per employee is \$16,709 annually if we want to fund OPEB.

The Library is at .9 mills. Mr. Frederick stated the community would pass a Library millage. Mr. Smith explained that this is capped at 1 mill by law. He would hesitate to put two millages on one ballot. In order for us to move forward with a P&F millage there would have to be Letters of Understanding with the Union, and both sides would have to agree. They would not be subject to arbitration.

Mr. Smith explained that the graphs and figures presented at this meeting explain where all the budget figures come from, and there is detail by department. These are taken from Plante and Moran's Five Year Forecast which we have tweaked. We have built a little bit of a buffer in for homes assessed value versus taxable value. Nobody's home has gotten back to where it was in 2009.

Capital each year is a total number under Capital Outlay (per capital plan) \$2.3 million in 2020. This is based on each departments request at Fiscal year-end last year. This is just maintenance needed for each department. There are some Capital Outlay investments that we can delay, but not all of it. We have a 1987 fire engine and our newest is a 2008. The oldest front line vehicle is a 1996. Now the frames are bending and/or breaking. An alpha unit has 103,000 miles, and the warranty has expired. The current repair bill is estimated at over \$20,000 for the engine. There are issues with HVAC units, and Central Fire Station has a new kitchen, but where the employees sleep needs work.

Mr. Caron asked about the large increase under Information Systems.

Mr. Smith said our phone system is not voice over internet. Our current carrier is ATT. The system itself has dropped calls etc., and we cannot correct any more. Currently, we cannot transfer to other buildings. A new system would allow us to transfer resident calls from building to building, also there will be an ultimate savings. Replacing the system would be done by an RFP bid. Mr. Smith will provide more information on this to Council before it comes to them in the budget.

The other large expense is for in-car computers which is run through IT, but it is a Police expense.

Mr. Smith asked if anyone disagreed that a Super Millage is a bad idea. No one disagreed.

Mr. Smith said that to go out five years sounds good, but if we cut it too close and we end up with negative revenue, we have a problem. Also, if we go out too high, it is possible that the people would say no. OPEB is at \$125 million today, and this is the first year we funded through the Water Fund. This is just the general employees.

Unfunded liability is amortized over 30 years. Mr. Caron asked if we continue to pay as you go, is there a bubble with that scenario. Mr. Smith said it is the 75-90 year age range. There is a bubble, but it is outside of his expectancy. Both pension plans made great changes this year. We should have seen a 2% to 3% drop, but the Pension Board changed mortality tables, and instead of a reduction we now expect

Item 3 (Cont'd):

an almost 2% increase in Fire. Because of longer life expectancy and built in survivor benefits, participants collect even longer. Health Care is not as much of an issue for us anymore, it is the drugs, and they are not going to get any cheaper.

Mayor Walby stated it is time to start deciding how to move forward. Discussion ensued, and it was decided that everyone agrees we need to go for a millage and 2 mills is not the answer.

Mr. Caron asked for the breakdown of what revenue comes in.

Mr. Smith explained how each department is covered. It is very important to educate the public that the funding in large part will be for P&F and a smaller portion for Parks & Recreation. Also, every other department would benefit from a millage.

4. MILLAGE ELECTION DEADLINES

Council was provided with the following deadlines:

August 2, 2016 State Primary Election

| <u>Date</u> | <u>Description</u> | <u>MCLA</u> |
|--------------------|---|--------------------------------------|
| March 7 | Council Meeting to call a Special Election and certify ballot wording (for Charter Amendment) Note: if the ballot wording is a charter amendment, the Home Rule City Act requires the Ballot language be reviewed and approved by the Attorney General and the Governor. They ask for 30 days each to review the charter amendment language. | 117.21 117.22 |
| May 10 by 4 PM | Deadline to certify ballot wording to City Clerk | 12 th Tuesday 168.646a |
| May 12 | Deadline to send ballot wording to County Clerk in State Election Year | 168.646a |
| June 3 | 60 days prior to Election Campaigning prohibition | PA 269 of 2015 |
| June 16 | AV Ballots available for Military and Out of Country | 168.759 (45 days prior) |
| Aug. 2 | Election Day | |

November 8, 2016 Presidential General Election

| <u>Date</u> | <u>Description</u> | <u>MCLA</u> |
|--------------------|--|--------------------------------------|
| June 6 | Council Meeting to call an Election Nov. 8 in conjunction with State General Election and certify ballot wording (for Charter Amendment) Note: if the ballot wording is a charter amendment; the Home Rule City Act requires the Ballot language be reviewed and approved by the Attorney General and the Governor. They ask for 30 days each to review the charter amendment language. | 117.21 117.22 |
| Aug. 16 by 4 PM | Deadline to certify ballot wording to City Clerk | 12 th Tuesday 168.646a |
| Aug. 18 | Deadline to send ballot wording to County Clerk in State Election Year | 168.646a |
| Sept. 9 | 60 days prior to Election Campaigning prohibition | PA 269 of 2015 |
| Sept. 24 | AV Ballots available for Military and Out of Country | 168.759 (45 days prior) |
| Nov. 8 | Election Day | |

Mayor Walby asked that the group answer two questions. First, should the millage be on the Primary Election ballot or the General Election ballot? Second, will we give Mr. Smith the authority to move forward with negotiating a Letter of Understanding? The Primary Election is in August and the language to be adopted and the MOUs must be done by March 7th so there is time for it to go to the Attorney General for approval. The General Election is in November and the language and MOUs would be required by June 6th. A General Election is a very busy time.

After some discussion, Mayor and Council agreed that they would like to aim for the Primary Election for a P&F Millage. There is not much on that ballot, and we could focus on the millage. If it does go down, we could try again in 2017. They also agreed to give Mr. Smith the authority to go out for the letter of understanding with the Union.

Item 4 (Cont'd):

Mr. Frederick noted that Fire wants another body for an inspector, and he would like to go out for that in the millage. Mr. Smith said that a Fire Inspector would set up a succession plan for when the Fire Marshall leaves. Police and Fire personnel often leave in groups because of how they were hired. It is also important not to drag our feet once we receive applications so that we do not lose the best applicants.

The group took a break from 9:12 a.m. to 9:17 a.m.

5. MILLAGE OPTIONS

There was a lengthy discussion about what should be funded and for how long.

No one agreed with funding all of OPEB or not funding OPEB at all. Not funding OPEB did not affect our bonds in the past, however, as GASB changes, what we have to show is going to impact our bond rating.

Everyone agreed that we should fund OPEB at 50%. It will not go down until we start putting money in. We can also step up how much we are funding 345.

Mr. Smith stated that cost per resident for 5 mills on a \$75,000 home would be \$3.75 for every mill. This would put residents at a little bit above what they were paying in 2009.

Mr. Rubino asked if we can bond the whole thing. Mr. Smith said that legislation has expired.

Mayor Walby said that he thinks Capital is too high. Mr. Smith said Capital is very conservative.

Mr. Smith pointed out that a millage is still just a stop gap, not a long term solution. At 3% growth, we will not get back to 2009 until 2030. To request a Headlee Override is not a good idea because these requests are not successful. Targeted, dedicated millages pass. If we go for a 5-year millage, it puts us going back to back with other millages expiring. A 4-year millage puts us in a General Election year. A 2-year millage is not long enough. A 3-year millage seems like the best option. If we go for it and it does not pass, we have the fund balance to eat at.

Everyone is comfortable with going for 5 mills for 3 years and funding 50% of OPEB at the August Primary Election. Mr. Smith has the authority to get a Letter of Understanding from the Union. If we get two years out and we are still ok, we can fund more than half of OPEB.

Mr. Smith provided Council with the following spreadsheet on 1/26/2016:

| Description | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Status Quo - No Changes | | | | | | | |
| Revenues | | \$30,544,616 | \$30,796,612 | \$31,478,788 | \$32,154,566 | \$32,887,457 | \$33,635,659 |
| Expenses* | | \$32,752,909 | \$36,290,097 | \$35,747,895 | \$37,053,538 | \$38,439,419 | \$39,516,532 |
| Surplus/(Deficit) | | \$ (2,208,293) | \$ (5,493,485) | \$ (4,269,107) | \$ (4,898,972) | \$ (5,551,962) | \$ (5,880,873) |
| Beg Fund Balance | | \$16,021,253 | \$13,812,960 | \$8,319,475 | \$4,050,368 | \$ (848,604) | \$ (6,400,566) |
| Surplus/(Deficit) | | \$ (2,208,293) | \$ (5,493,485) | \$ (4,269,107) | \$ (4,898,972) | \$ (5,551,962) | \$ (5,880,873) |
| End Fund Balance | \$16,021,253 | \$13,812,960 | \$8,319,475 | \$4,050,368 | \$ (848,604) | \$ (6,400,566) | \$ (12,281,439) |
| * Includes pay as you go OPEB and additional capital outlay | | | | | | | |
| Revenues | | \$30,544,616 | \$30,796,612 | \$31,478,788 | \$32,154,566 | \$32,887,457 | \$33,635,659 |
| Expenses* | | \$32,752,909 | \$36,290,097 | \$35,747,895 | \$37,053,538 | \$38,439,419 | \$39,516,532 |
| Changes | | | | | | | |
| Health | | | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$500,000 |
| Unfunded OPEB | | | | \$ (680,886) | \$ (680,886) | \$ (680,886) | \$ (680,886) |
| Additional Millage | | \$ - | \$ - | \$4,157,769 | \$4,157,769 | \$4,157,769 | \$4,157,769 |
| Other | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Addl Capital +/- | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Surplus/(Deficit) | | \$ (2,208,293) | \$ (5,674,371) | \$ (292,204) | \$ (922,069) | \$ (1,575,059) | \$ (1,903,970) |
| Beg Fund Balance | | \$16,021,253 | \$13,812,960 | \$8,138,589 | \$7,846,386 | \$6,924,317 | \$5,349,258 |
| Surplus/(Deficit) | | \$ (2,208,293) | \$ (5,674,371) | \$ (292,204) | \$ (922,069) | \$ (1,575,059) | \$ (1,903,970) |
| End Fund Balance | \$16,021,253 | \$13,812,960 | \$8,138,589 | \$7,846,386 | \$6,924,317 | \$5,349,258 | \$3,445,289 |
| 1.25% positive variance | | | | \$446,849 | \$463,169 | \$480,493 | \$493,957 |
| Fund balance with budget variance | | | | \$8,293,234 | \$7,834,335 | \$6,739,769 | \$5,329,756 |
| Assumptions | | | 0.02 | | | | |
| Annual wage increase | | | 0.05 | | | | |
| Annual benefit increase | | | 0.03 | | | | |
| Annual operating increase | | | | | | | |
| Renewal of P & F Operating Millage of 2.00 mills for 3 years | | | \$1,385,923 | | | | |
| Amount generated by 1.0 mill in FY 2016 | | | | | | | |
| Variables | | | 3.0 | | | | |
| Number of additional mills - 3 years | | | | | | | |
| Note: The above is in addition to the current 2.0 mills for P & F Pension | | | | | | | |

Item 5 (Cont'd):

Mayor Walby summarized that we are walking away today with a commitment to go for a millage for 3 years at 5 mills with funding 50% of OPEB. Mr. Smith will work on Letters of Agreement with Union. This will be on the March 7 City Council Meeting Agenda.

Mr. Smith spoke again about the challenges we will face because of legislation prohibiting us from using our resources to educate voters about a millage. Because we currently sell advertising on our cable channel, someone could sponsor a show dedicated to educating our residents about the millage on that channel. There is a fine of \$20,000 if we are accused of violating legislation. Every group of the City would benefit from this millage even though it is a P&F millage. Without this millage, every group would be adversely impacted.

Mr. Smith will survey Council and determine if another budget workshop is necessary. He will get back with them this week.

6. AUDIENCE PARTICIPATION (5 minute time limit) *“The Views and Opinions Expressed Under Audience Participation are those of the Individual Citizen Only and Do Not Necessarily Represent the Views and Opinions of the Mayor, City Council or Administration of the City of St. Clair Shores.”*

There was a great deal of discussion with the audience about how to move forward with educating the public on the necessity of passing this millage.

Mr. Smith pointed out that anyone can talk about this, but not at work or at a Council meeting. In public, we can talk about it as private citizens. Individuals can pay for fliers and go door to door on their own time. We can have a Town Hall but not at a City facility.

7. ADJOURNMENT

Moved by Council Member Caron, seconded by Council Member Rubino to adjourn at 10:03 a.m.

Ayes: All – 7

KIP C. WALBY, MAYOR

KATHLEEN SUYDAM, DEPUTY CITY CLERK

(THE PRECEDING MINUTES ARE A SYNOPSIS OF A CITY COUNCIL MEETING AND DO NOT REPRESENT A VERBATIM RECORD).