

**City of Ferndale
Financial Planning Committee
Final Report**

January 10, 2011



***"GOOD
NEIGHBORS"***

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Charge of Committee – Review of General Fund Budget

On August 23, 2010, Ferndale City Council created a Financial Planning Committee, appointing twelve citizens representing the Community to review and make recommendations to the City Council on financial issues as they relate to the general fund only. This Committee's charge of seeking financial answers is the same process many, if not all, Cities in Michigan are faced with today. Local Governments are wrestling with the same line items we are, asking the same questions and calling on similar adjustments in expenditures. Ferndale, as a mature City, faces additional costs that make adjustments more challenging.

While the City of Ferndale faces financial challenges today, the Committee recognizes that many improvements have been made in recent years as City government has overseen revitalization and restructuring. However, there is a cost to retaining the City Vision and to maintaining the infrastructure that is vital to the progress we have enjoyed over the past 10+ years. As an advisory Committee charged with providing policy recommendations to City Council on financial issues, it is our wish that we retain the personality and culture and safety of our City as we make these recommendations. *The Committee has decided to focus its efforts on the immediate to intermediate time frame through December 31, 2015. **This is when the City's Bond Debt Service Millage will expire, providing Citizens with a reduction in property taxes of an estimated 7.2-7.4 mils.** (Currently at 6 mils but expected to increase as property values decline).*

To achieve the goal of creating a balanced budget, the Committee understands that simply raising revenue (a millage increase), is not the sole solution (short or long term). A combination of *Cost reduction* and *Revenue* generation will be required to eliminate the Budget shortfall. Without considerable sacrifice, a balanced budget is not feasible. Our review of expenses and revenues are suggestions for a more in depth proposal. Although some suggestions may appear to be insignificant to the overall budget, together they add up to a sizeable amount.

Because the City Manager and Assistant City Manager/Finance Director/Treasurer are more familiar with the City operations, it is the Committee's recommendation that these Department Heads (along with Council) determine the best ways to achieve the targeted numbers identified in this Report and whether cost reductions should come from personnel or non-personnel categories.

What is the purpose of local government?

Historically, residents have become stockholders in the business enterprise of the settlement. Forming partnerships, settlers united to protect each other and their commerce from the hardships of their environments.

This purpose, of course, has evolved throughout history. The Federal government handing the definition of local governments to the State level; State government defining local governing bodies through requirements in voting, appointing and serving, and local governments being defined by the people who reside in that municipality. A solid local government ensures the quality of life by having public safety, value in property, quality roads and education. The local government works to attract industry, business and families, leading to a positive growth and economic situation for its citizens.

To help answer the questions of what is the “Purpose of Local Government”, listed alphabetically is a list of standards and benchmarks that help define a local municipality:

1. Accounting/finance
2. Economic development / tourism
3. Emergency management
4. Emergency medical services
5. Fire
6. General counsel/city attorney/
risk management
7. Housing
8. Human resources
9. Information Technology
10. Municipal court
11. Parks & Recreation
12. Police
13. Public works
14. Transportation
15. Urban planning / zoning

The Finance Committee took very seriously the purpose of the local government and kept this as a focal point as we reviewed line items in the general fund budget. **City Council** must continue to ask itself, “What is the purpose of Local Government?” as they manage the Budget and pass ordinances. **Residents** of Ferndale must decide what **they** want from their City by educating themselves with the reality that Governmental revenues decline as property values fall and by accepting the current and future state of revenues.

Executive Summary

The Committee's charge to seek answers to the City's financial dilemma is a similar process that is going on throughout the State of Michigan. The Committee invested collectively over 1,000 hours into this process. With unemployment at record highs, property values falling and reduced State Revenue Sharing, local governments are asking the same question, "How can the City offer its residents a high quality of service when revenues have been reduced?" Ferndale, as a mature community, faces additional legacy costs that make this more challenging.

The current financial crisis is due in large part to declining property values in Ferndale. The City of Ferndale may have been hit harder than other neighboring communities during the ongoing regional downturn, for a number of reasons. These include the average age of the City's housing stock, the smaller average size of its homes and certain other factors that result in Ferndale homes selling for less per square foot. The end result is that Ferndale does not report as large of a tax base as several nearby communities.

City	Average Value of Homes	Average per square foot	Area in Square Miles
Ferndale	\$83,000	\$108	3.9
Royal Oak	\$113,883	\$128	11.8
Birmingham	\$262,648	\$246	4.8
Pleasant Ridge	\$162,000	\$199	0.6
Huntington Woods	\$234,826	\$190	1.5

**Data is estimated. Source is Zillow (November 2010)*

Oakland County Department of Equalization projects that the average County resident will not see their property value improve until 2013. With this projected shortfall in property tax revenues, the Committee has focused its efforts on not only raising City revenues but to recommend that the City continue its efforts to further cut expenses across the board.

Ferndale's **Land Use Master Plan** reflects what was valued by its voters in 2008, but in 2011 many of those services are no longer affordable at the current revenue levels or cost structure. When looking at local government, one must evaluate and balance what are needs and what are wants. No one wants to decrease the quality of service, civic, or public safety, as this could lead to further deterioration of our property values and the desirability of our community, however excessive tax increases can have exactly the same affect. We must strive to find a balance to keep our city strong and desirable.

Ongoing Efforts to Streamline Operations & Reduce Costs

In an effort to reduce expenses in the past twelve months, City hall has seen a **28% reduction in staff**, the reorganization of work flow and responsibilities, a new software program and the renovation of city hall offices for enhanced efficiency. The committee commends the city on these actions and encourages them to continue to implement their plan achieving the maximum benefits from these changes.

Near-Term Targeted Expense and Revenue Actions

Detailed recommendations included in this document represent an overall decrease in expenses and an increase in revenue. We are relying on the expertise of each Department Head to develop their own ideas and initiatives to reduce expenses and create new revenue streams.

- Expenses-Target of 10 % reduction of the General Fund
- Revenues-Target of 5 % increase to the General Fund via efficiencies & other revenue opportunities.

Sighting the success of other cities that have increased their collections by significant amounts, the Committee believes there is additional revenue to be generated.

Long-Term Targeted Expense and Revenue Actions

Long-term projects are precisely that, but the need to get them instituted is paramount. As the Committee solicited ideas from Department Heads, Union representatives and residents, the following are some examples of what the Committee believes need to begin:

- Regionalization of Public Safety services (Police/Fire)
- Regionalization of Court system and Jail facilities
- Auto Parking structure
- Encourage Public – Private Partnerships
- Ongoing use of new computer system to fully realize its potential to save

Conclusion

Even after successful implementation of the various targeted cuts and revenue actions, there is a budget shortfall. The Committee considered several options to raise additional revenue and is recommending a Headlee Override proposal up to 5.452 on the May 2011 ballot, with a restriction of 3 mil implementation in the first year and additional adjustments up or down as necessary based on economic conditions and current status of the City cost structure. Furthermore, the entire Headlee Override proposal shall sunset on December 31, 2015.

How Taxes are collected

Taxes are collected from property values of almost two years ago (18-24 months in arrears). Therefore, once home values increase, there will be approximately two years before the City reaps the benefits (additional revenue) from this property appreciation.

In 2015, property values may not be sufficient to fund the City Budget and may require the proposed millage to be extended for a period of time allowing property values to increase to levels that will fully fund the City's needs.

Current Property Tax Breakdown – Ferndale

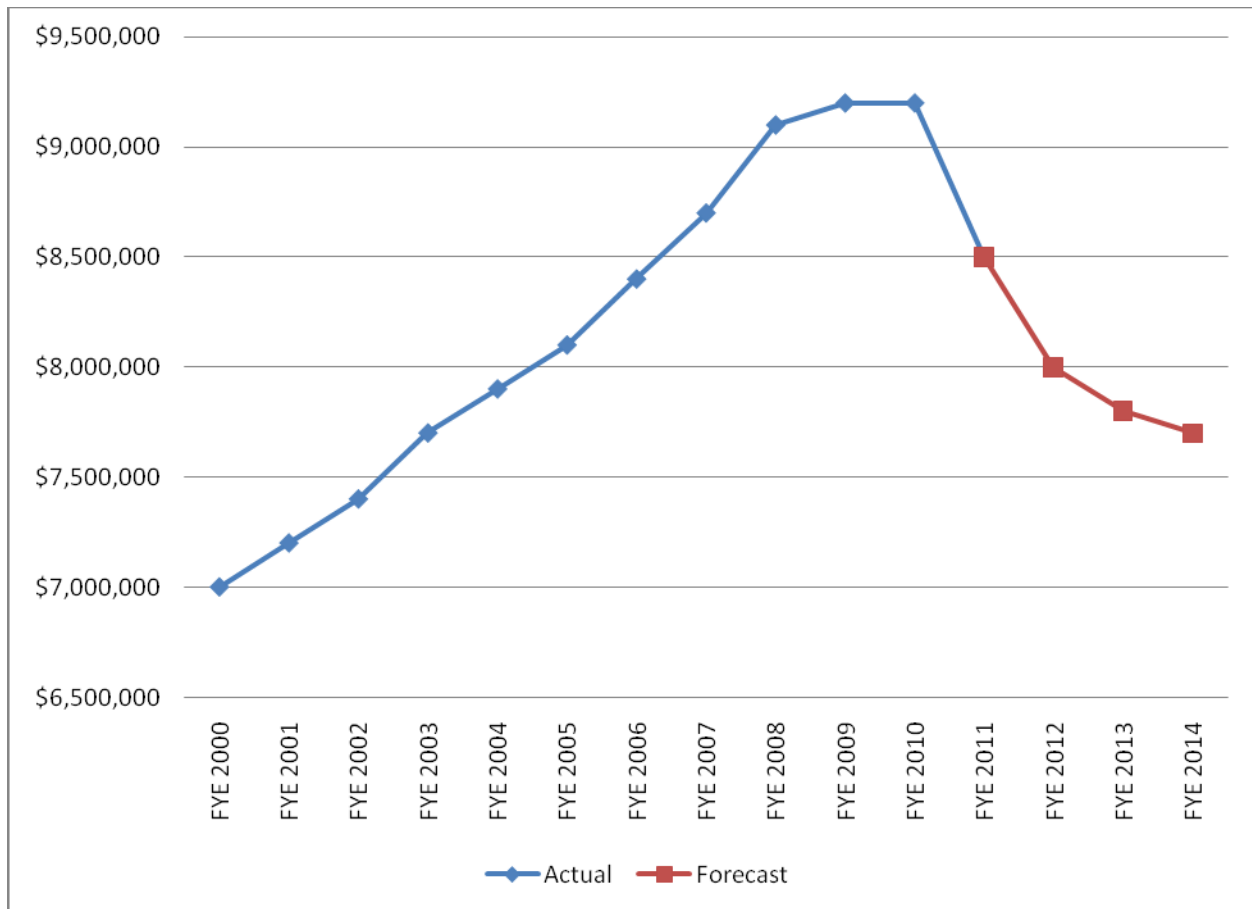
Tax	Tax Rate	Taxable Value	Tax
City Operating	14.5448	\$50,000	\$727.24
Refuse	2.1815	\$50,000	\$109.08
City Debt	6.0000	\$50,000	\$300.00
Publicity Tax	0.0825	\$50,000	\$4.13
Library	1.9601	\$50,000	\$98.01
<i>City Subtotal</i>	<i>24.7689</i>		<i>\$1,238.45</i>
Homestead School	13.0000	\$50,000	\$650.00
Intermediate School District	3.3690	\$50,000	\$168.45
Community College	1.5844	\$50,000	\$79.22
OCPTA	0.5900	\$50,000	\$29.50
Combined	4.7461	\$50,000	\$237.31
<i>Non-City Subtotal</i>	<i>23.2895</i>		<i>\$1,164.48</i>
Total	48.0584		\$2,402.92

The tax rates shown here are those actually levied in 2010. The taxable values and taxes are for illustrative purposes.

Revenue Forecasts

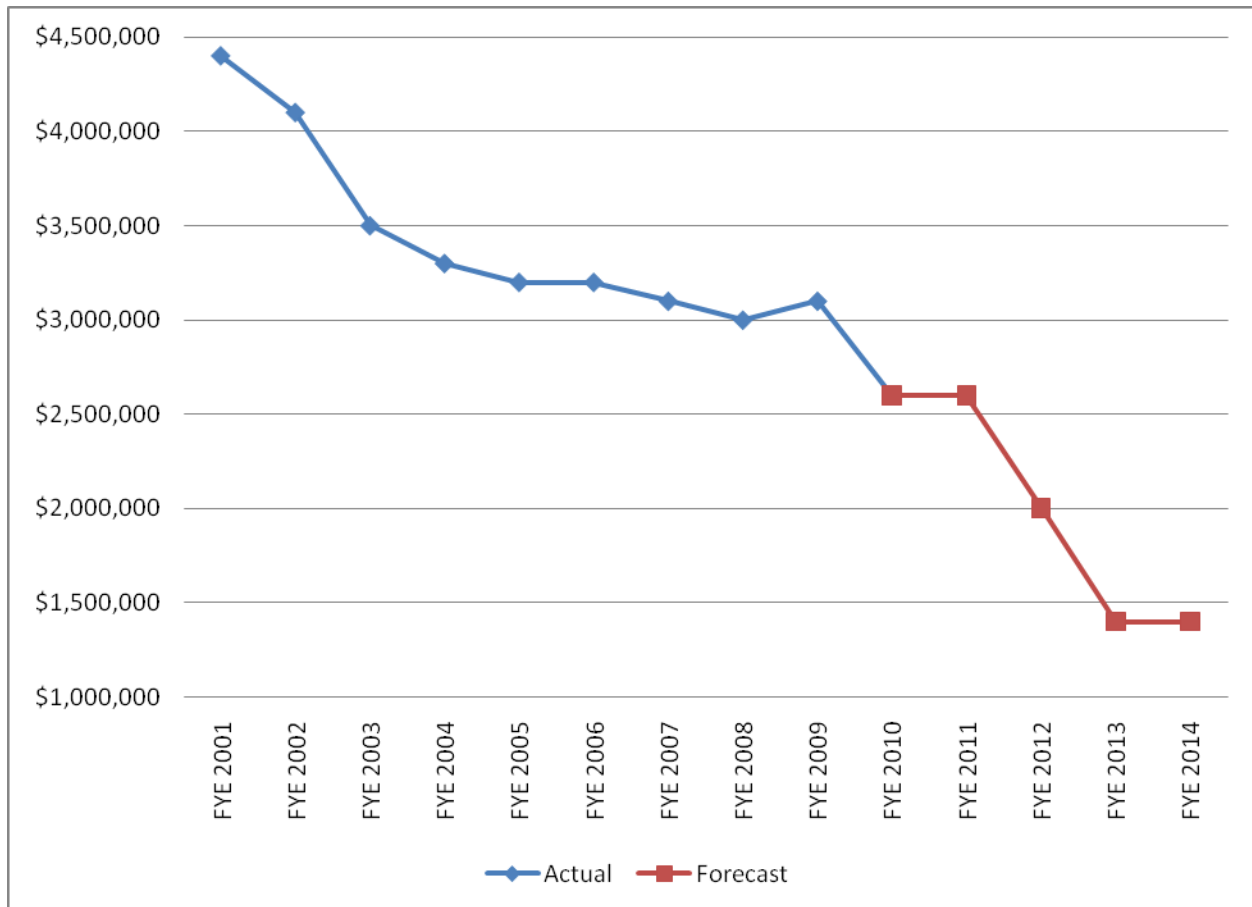
Property taxes and State Revenue Sharing account for more than 60% of FYE 2011 General Fund revenues. Property taxes peaked in 2008 (FYE 2009), declined slightly in 2009 (FYE 2010) and are expected to continue declining for the next three years. Statutory State Revenue Sharing has been declining since FYE 2001 and will likely be eliminated in FYE 2013 or FYE 2014.

Property Tax Revenue Forecast



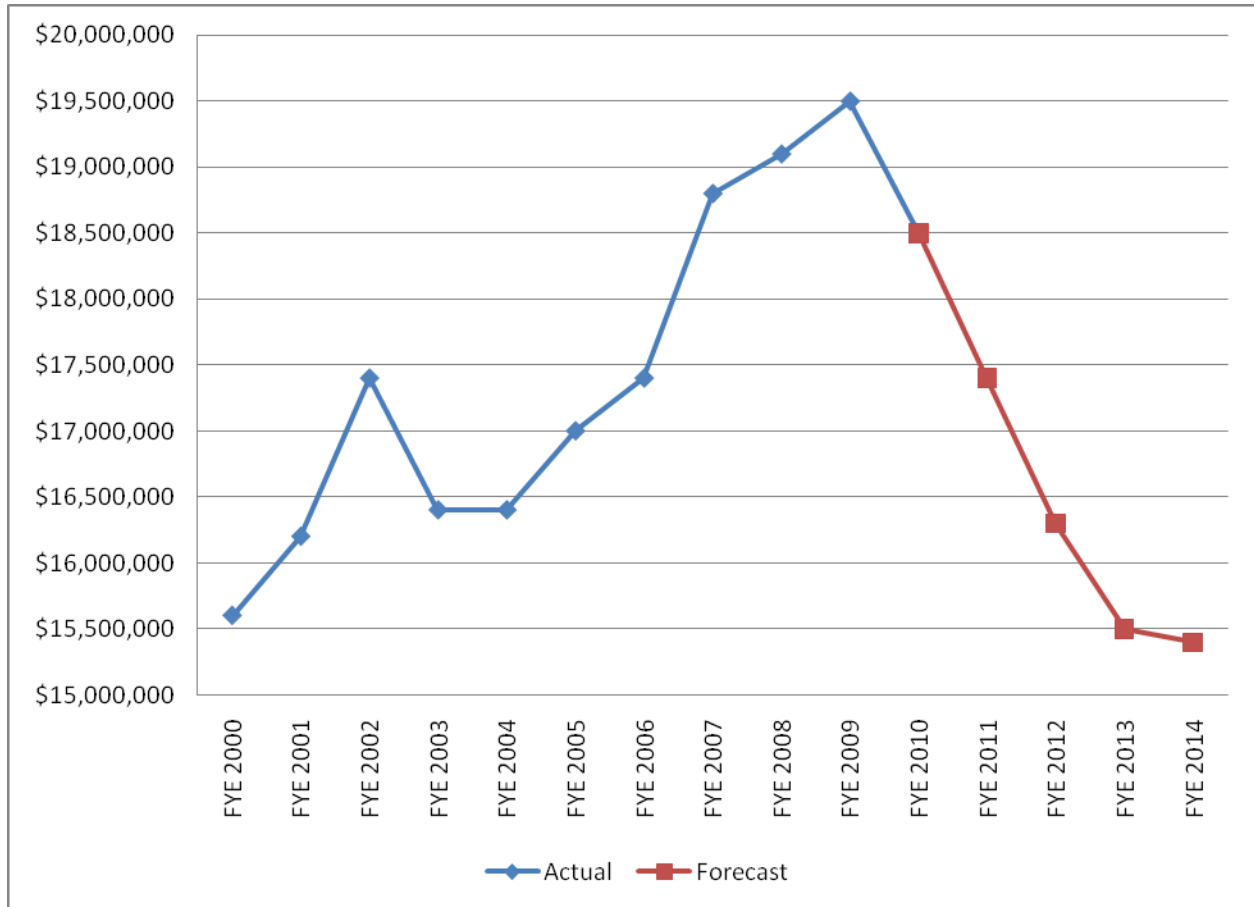
See the attached “Headlee Rollback and Headlee Override” One-Pager Plus information sheet from the Michigan Municipal League for more information regarding how the 1978 Headlee Amendment and Proposal A of 1994 affect property taxes.

State Revenue Sharing Forecast

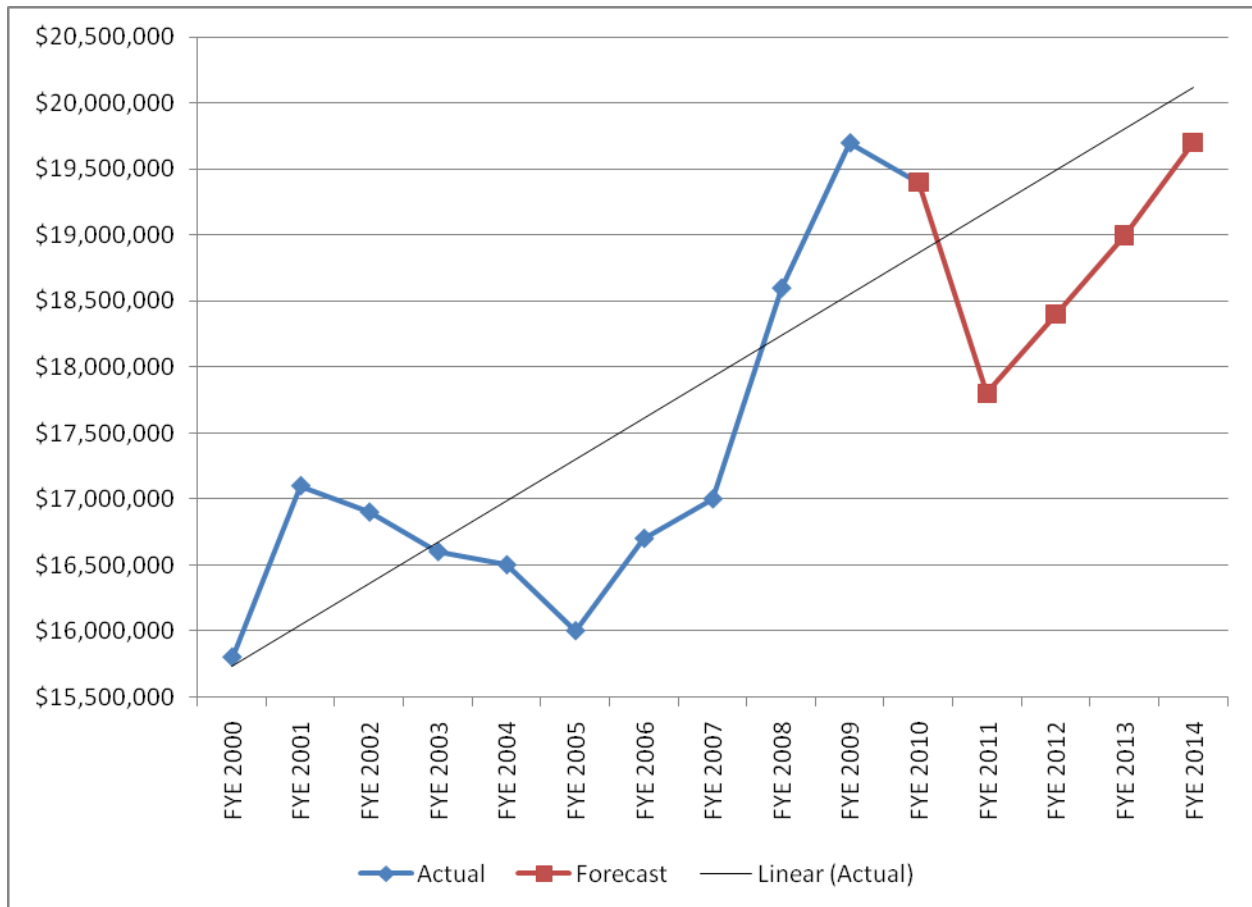


General Fund revenues are expected to decline from an estimated \$17.4 million in the current fiscal year (FYE 2011) to \$16.3 million in FYE 2012, \$15.5 million in FYE 2013, and \$15.4 million in FYE 2014.

Total General Fund Revenue Forecast



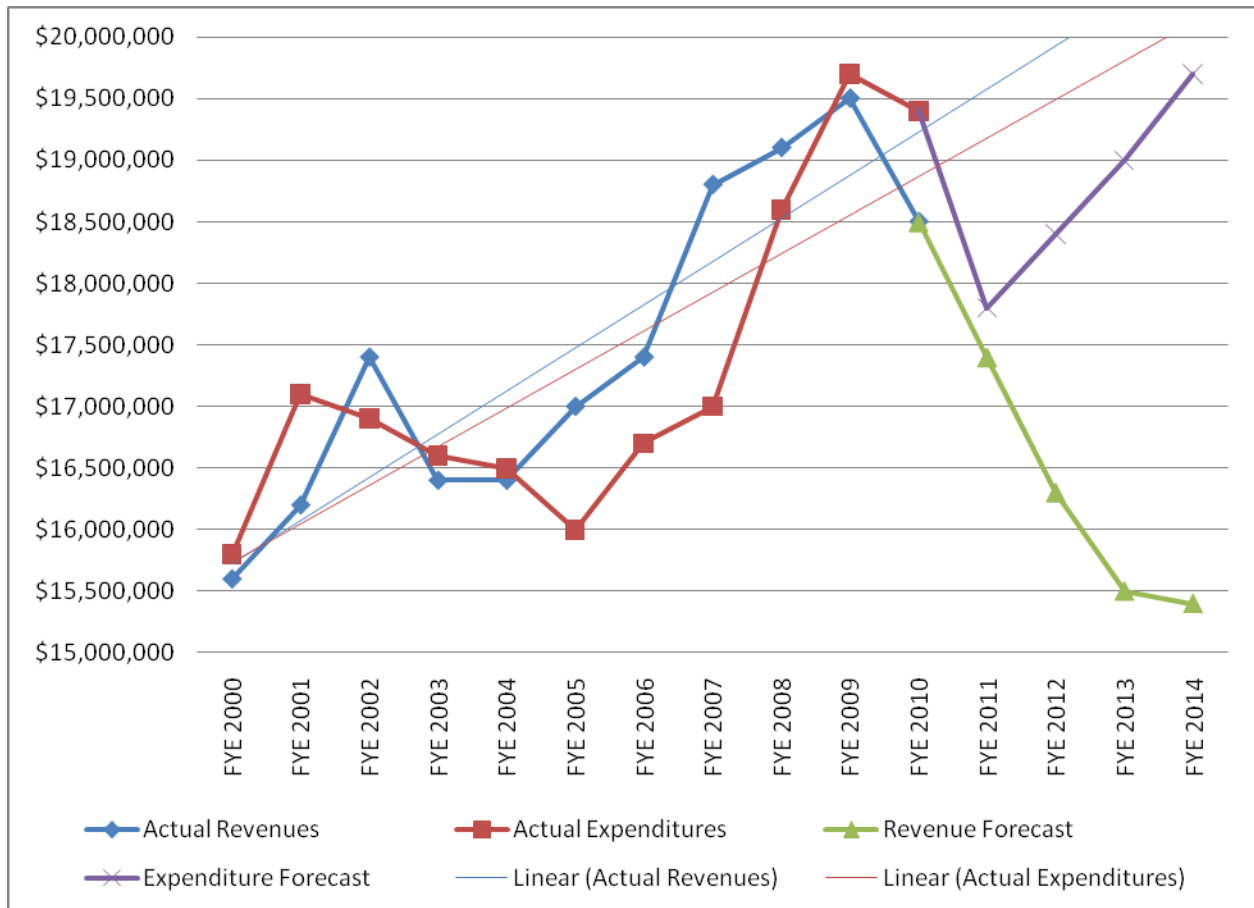
Expenditure Forecast



The cost of maintaining current service levels is expected to increase from \$17.8 million in the current fiscal year (FYE 2011) to \$18.4 million in FYE 2012, \$19.0 million in FYE 2013, and \$19.7 million in FYE 2014.

Financial Balance Analysis

Although the City reduced nonunion employee pay and benefits and reduced its workforce by 20% in 2010, the City's General Fund expenditures are expected to exceed revenues by \$468,000 in the current fiscal year (FYE 2011). The City's General Fund is expected to have a \$2.1 million imbalance in FYE 2012, \$3.5 million imbalance in FYE 2013, and \$4.3 million imbalance in FYE 2014 without revenue increases and/or additional expenditure decreases.



Explanation of the ‘Sunset’ date (12/31/15)

A “*sunset date*” has been chosen to create a finite ending of any millage passed by voters. This date of December 31, 2015 has been selected because this is when the City’s Bond Service Debt (Nine Mile Bonds) concludes. The use of this date is intended to Bridge the Gap of declining revenues until property values improve:

- (A) “**City Debt**” will come off the tax rolls.
- (B) Ongoing restructuring of City Government costs should show considerable cost reductions thereby minimizing any projected budget shortfall due to a combination of declining property values and / or State Revenue sharing.
- (C) After the City Debt is repaid (12/31/15), Citizens will be able to review:
 - General Fund balance (property tax revenues)
 - Council’s ability to manage City funds during this time frame.

At that time, Ferndale citizens will decide whether to renew this millage (for a term to be determined based upon economic conditions), or let it expire resulting in a possible millage reduction of 10-12 mils (from a potential maximum of 53 mils given the Headlee Override Proposal).

Committee Recommendation

The Committee invested weeks of effort identifying a Core list of “**Suggested Changes by Department**” in Expense and Revenue categories. The Committee considered many potential revenue sources. The following section provides an illustration of the Committee’s ultimate recommendation for a Headlee Override. Additionally this document provides an illustration of a Dedicated Public Safety millage that was considered and an illustration of the effects of No Millage passage.

Headlee Override

The Committee’s recommendation to Council to place a Headlee Override millage proposal on the May 2011 ballot, has received consensus support of the Committee assuming that ongoing cost cutting efforts, efficiency improvements and various revenue generating actions continue. The expense reductions listed below are in addition to the Committee’s Core expense reduction recommendations as seen in the Section labeled “**Suggested Changes by Department**”. The core expense reductions were identified as necessary to reduce the cost of running City Government regardless of other actions. Given the limitations on revenue generated with a Headlee Override, the Committee has identified additional cost cuts, over and above the Core expense reductions, necessary to balance the budget under this revenue recommendation.

Expenses

- Reduce \$ 750,000 from Public Safety Department's budget.
- Consider a 2-3yr wage freeze for both union and non-union employees.
- Consider further consolidation of Department heads.

Revenue

- Propose to increase the City Operating tax by “**up to 5.4552 mils per household for a term not to exceed December 31, 2015**”. This is the maximum the City may raise this tax under state law and the Committee is recommending a cap of 3 mils for the first year, as previously stated. The millage assessment will raise an additional \$2.5 million to \$3 million (avg. per year) over the recommended time frame. These revenues, along with other cost reductions will allow City Council to balance the City’s budget over this time frame as property values decrease.
- Additional revenues from Commercial properties and DDA district. (est. \$ 84,000)

Public Safety Millage

A Public Safety millage would raise funds dedicated exclusively for the Police and Fire Departments. Unlike a millage passed based upon a Headlee Override, a Public Safety millage would not be limited to 5.4552 mils. This millage would also take into consideration any events that reduce the operating costs of the Police and Fire Department. This would include consolidating services with another municipality or significant reductions achieved through contract negotiations. If such cost savings were achieved, the millage would be reduced to reflect the savings.

Under this illustration two options were considered:

Option A: Propose a Public Safety millage that would be 5 mils. This millage amount would still require cost cuts in the Police and Fire Departments. (Same expense reductions recommended in the Headlee Override proposal including the Core cuts and the three additional recommendations on the prior page.)

Option B: Propose a Public Safety millage that would eliminate the need for any cost cuts in the Police and Fire Departments. The Committee determined that an additional 10 mils would be required to cover the current cost structure. Therefore, no expense reductions to Police and Fire were considered under this option, but would not provide any additional staffing in Police and Fire.

Beginning July 2012 through 2016 - Projected Deficit as December 2010: (\$18,500.000)

Option A: Cumulative Five Year Impact of a 5 mil Public Safety Millage	\$13,398,276
Option B: Cumulative Five Year Impact of a 10 mil Public Safety Millage	\$26,000,000

Option A would require further cuts in revenue but represents a millage rate that may be accepted by voters and approved.

Option B represents a millage rate that exceeds what the Committee believes is justifiable and would not likely be approved by voters. Without cuts or an adjustment to the cost of running City Government, costs would continue to escalate and we would likely need to look at another millage increase within 5 years.

No Millage Illustration

The recommendations the committee have presented thus far have been based on the assumption that a millage, at some level, would be passed by the voters. Given the substantial decreases in expected revenues and the continuing anticipated increases in the cost of providing city services over the next several years, the committee believes that the following could be events that are forced upon the city without choice.

Council will need to consider the following measures if no millage is passed. Beyond these seven measures, departments not individually discussed should plan for a decrease in expenditures by 5% with a desired increase in revenue of 5% year over year. Departments should incorporate these revenue increases and decreases into their budgets each year. The attached hypothetical budget reflects these considerations.

Voluntary Reduction of City Council Pay

In 2007 and 2008, voters elected to increase compensation of the Mayor and Council Members, respectively. These compensations increased from \$800 to \$8000 and \$500 to \$5000, respectively. The committee suggests that the mayor and members of council voluntarily reduce their salaries to pre-2007 levels for the next 5-years. This reduction would reduce the city's debt by \$121,500 over 5-years.

Combination of City Manager and Finance Director Positions

The City's budget has allowed for a City Manager and a Finance Director. Many small communities combine the responsibilities of both positions into one job title. Given the decrease in staff and the reduced budget, the committee believes that The City of Ferndale would be in a position to combine the City Manager and Finance Director Positions.

In 2010, the City of Ferndale spent over \$991,000 combined under the City Manager and Finance Director Budget lines. By taking this action, the City could reduce its expenses

by \$750,000 over 5 years, in addition to reducing department expenses by 5% each year.

Contracting Police and/or Fire Services from a surrounding community

We recommend that Council begin a preliminary investigation to determine any actual savings and the feasibility of contracting our Police and/or Fire Services to several of our surrounding communities, Oakland County, and/or the State of Michigan.

Elimination of the Downtown Development Authority

Although the Downtown Development Authority (DDA) is not within the General Fund, General Fund revenue would increase by \$250,000 annually if the DDA is eliminated. In 2010, the DDA's budget was \$585,000 in revenue with \$558,000 in expenses. This shows that the DDA is able to operate within its own budget. Approximately \$250,000 of the annual revenue comes from the increase in taxable value since the DDA's inception in 1981, which currently is being captured as revenue within the DDA's budget. It should be noted that by eliminating the DDA, the City of Ferndale would lose over \$300,000 in special grants and county revenue.

Elimination of the Parks & Recreation Department

The City of Ferndale provides recreation services to the community through programs held at the Gerry Kulick Community Center. Elimination of the Parks and Recreation Department would require the city to close the Gerry Kulick Community Center and eliminate 5 staff positions. The city would no longer provide youth programs, such as soccer, basketball, ballet; adult programs, such as health & well-being, and parent-child courses. The Meals-on-Wheels program which serves over 10,000 meals annually would be eliminated. The fitness center would be closed and the Ferndale Seniors group would no longer have a meeting location.

Additionally, the many parks throughout the city would be closed for public gatherings. The Department of Public Works would need to minimally maintain the parks through grass cutting and debris pick-up. However, baseball diamonds, basketball courts, and soccer fields would no longer be maintained, and restrooms would be permanently closed due to the elimination of staff to maintain them over time.

In 2010, the city raised \$302,400 and spent \$558,866 in the Parks and Recreation Department. Elimination of this department will reduce the budget by \$256,466.

Suspension of the Sidewalk Replacement Program for 5 Years

The City of Ferndale is required to provide safe pedestrian access throughout the city. Over the past decade, the city has replaced many of the public (non-residential) sidewalk flags that have been cracked or worn down due to weathering and age. The replacement of residential sidewalks has been paid for by the property owners, but the replacement of sidewalks on public owned property is the responsibility of the city.

The city raised \$238,500 and spent \$333,500 on the Sidewalk Replace Program in 2010. Suspension of this program will reduce the budget by \$95,000 a year. The committee is recommending a 5-year suspension of the program, as opposed program elimination, so that council may choose to reinstate the program after 5 years should public sidewalks require major repair. This action would eliminate 1 part-time staff person.

Elimination of the Department of Public Works – Municipal Maintenance

Through the elimination of the Department of Public Works within the General Fund budget, the City could save over \$1,565,000 over 5 years. This action would reduce one part-time staff person and would eliminate the following:

- Maintenance of eleven neighborhood parks and 3 mini-parks with play equipment, 22 ball fields, 3 basketball courts, 6 tennis courts, 5 roller hockey rinks, 6 bathrooms, and 5 park storage buildings.
- Planting and replacement of street trees.
- Assistance with several major special events, including the Memorial Day Parade, downtown events including the Annual Art Fair, the DIY Fair, the Pride fest, and the Car & Truck Show / Woodward Dream Cruise,
- Reviewing and approving engineering permits, review alley and street vacations, update zoning map changes, and provide site plan review assistance,
- Monitoring of roof maintenance and replacement program for about 50 municipal building roofs, covering 94,000 square feet,
- Coordinating underground infrastructure development with public utilities.

It should be noted that the other functions and staff of the DPW (Sanitation, Traffic lighting and signal maintenance, Streets maintenance, Water main and sewer maintenance) are charged in other departmental budgets.

GENERAL FUND - Hypothetical
Revenue

	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	
General Revenue	14,512,292	11,567,998	11,267,115	11,178,161	11,103,705	11,043,871	*
(3) Income from DDA closure	-	250,000	250,000	250,000	250,000	250,000	
(4) Police Department	614,272	-	-	-	-	-	
(4) Fire Department	1,158,407	-	-	-	-	-	
Department of Public Works							
(5) Engineering Tree	23,000	-	-	-	-	-	
(5) Planting/Damages/Misc.	15,000	-	-	-	-	-	
(6) Sidewalk Program	238,500	-	-	-	-	-	
Kulick Center, Recreation	302,400	-	-	-	-	-	
Total Revenues	16,863,871	11,817,998	11,517,115	11,428,161	11,353,705	11,293,871	

Expenses

	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	
City Services & Court	4,034,128	3,879,342	3,734,641	3,599,638	3,473,972	3,357,304	*
(1) City Council	34,780	8,741	8,304	7,889	7,494	7,120	*
(2) City Manager & Finance Director	991,101	791,546	744,469	699,745	657,258	616,895	*
(4) Police Department	6,830,290	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	**
(4) Fire Department	3,822,772	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	**
(5) Dept. of Public Services	415,300	-	-	-	-	-	
(6) Sidewalk Program	333,500	-	-	-	-	-	
Kulick Community Center	558,866	-	-	-	-	-	
Total Expenditures	17,020,737	12,479,629	12,287,414	12,107,272	11,938,724	11,781,319	

TOTAL REVENUE	16,863,871	11,817,998	11,517,115	11,428,161	11,353,705	11,293,871
TOTAL EXPENDITURES	17,020,737	12,479,629	12,287,414	12,107,272	11,938,724	11,781,319
Net Change	-156,866	-661,631	-770,299	-679,111	-585,019	-487,448
General Fund Balance	3,700,000	3,038,369	2,268,070	1,588,959	1,003,940	516,492

- * Assumes 5% decrease year over year
- Assumes 5-year
- ** Contract

If these options are put into effect and the suggested cuts in revenue are implemented, the current General Fund Balance of \$3.7 million will be reduced to little over \$500,000 by 2016. This would be accomplished at the cost of eliminating the Parks and Recreation Department, closure of the Kulick Center, elimination of parks and playground equipment maintenance, elimination of the DDA and the support and maintenance of Ferndale's downtown, a suspension of the sidewalk program for 5 years, and elimination of control and citizen oversight of Police and Fire services for the City of Ferndale.

The preceding illustrations are based on a certain set of circumstances over a 5-year period. Given the volatility of the housing market, economy and banking industry over

the past 2 years, we cannot be certain that another shift towards a recession, or possibly a depression, could occur over the next couple of years. Should housing prices and tax revenues continue to fall, unemployment increase, and the economy becomes unstable, Council may need to take more drastic actions.

Merging the City of Ferndale with Surrounding Communities

This is not an event that happens often across our country; therefore the committee was not able to determine actual cost savings for this recommendation. The committee understands that this is a delicate subject because it could impact the identity of the Ferndale community. The City of Ferndale has the opportunity to be a leader in this region in how small communities are transformed into larger communities without losing their original identities. This could be obtained through agreements between merging communities to retain their original boundaries as boroughs, while simply merging the administration costs and management of departments together to support all merged communities. At the same time, each community could retain representation at Council level by allowing each community to have equal representation for their community regardless of the size of the original city.

The City of Ferndale is not in a unique situation. Our neighboring cities are feeling the same financial woes as we are, and in some instances worse. The City currently provides services to 21,112 citizens residing in approximately 3.9 square miles. Larger communities, such as Warren (133,939) or Livonia (91,220), are able to provide similar levels of services to its citizens residing in over 34 square miles.

Although these communities are ten times the size (in land) and are employing more people than the City of Ferndale, these cities are not supporting multiple City Halls, City Managers or Mayors, Police and Fire Chiefs, or Departments of Public Works. As an example, merging the 6 communities of Ferndale (21,112), Hazel Park (17,955), Oak Park (30,547), Pleasant Ridge (2,469), Royal Oak Twp (2,106), and Madison Heights (29,531) would equate to a population of 101,624 over 20 square miles, or 5,168 persons per square mile. To put this in perspective, the City of Ferndale currently has 5,413 persons per square mile, while Madison Heights has 4,101 persons per square mile.

Suggested Changes by Department

As referenced in the Committee recommendation for the Headlee Override and Public Safety Illustration, these are the **Core Recommendations** related to the ongoing effort to reduce the cost of operating the City. This section provides suggestions relating to expenses and revenues for further research and consideration. Although many suggestions may represent small components of the overall budget, together they add up to a significant amount.

Regionalization of Public Safety Services

Continue to promote negotiations with surrounding communities and Oakland County to combine Public Safety services for the purpose of reducing expenses. Other communities have already begun this process to create efficiencies. The Committee is aware that this process may take time to actuate but believe that this bold move will benefit those involved.

Consultants

After reviewing Council minutes, the Committee has concerns over the use of consultants costing the City money that may be better utilized. We suggest the City:

- Form a 'Brain-Trust' comprised of citizens that have skills (work experience and or education) that may assist Council with their queries. Other volunteer groups, such as SCORE, should also be considered prior to engaging the services of paid consultants.
- Build relationships with local Colleges/Universities to recruit students to intern with the City to tackle certain municipal issues.

Police Department

With funding cuts, the following suggestions may not be feasible. After initial cuts, Council may need to review each recommendation to assess its feasibility.

- Recommend that Police staffing be reduced by an additional 20% thereby saving the City an estimated **\$700,000 per year**.
Negative effects include:
 - (1) Slower response time for incident/calls
 - (2) Reduced revenue resulting from discontinuing operations with entities like ATF and Narcotics units.
 - (3) Longer wait times for insurance/personal reports taken at the Police Station (smaller staff).
- Examine Adjustment of Police shifts to reduce costs.
- **Individual bars/DDA** to pay for Police presence during peak bar times (Thursday, Friday and Saturday) from 10pm until 3am to offset costs incurred by the popularity Ferndale bars/Clubs have enjoyed.
- Increased DDA revenue resulting from the Headlee Override could be directed (1) back to the City's General Fund or to pay for the 'Bar Patrol' or 'Drunk Driving Patrol'.
- That City Council calls upon the Oakland County Sheriffs' Office to quote the cost of policing the City of Ferndale. (ie Rochester Hills)

Police - Suggestions that require additional personnel:

- According to *Chief Collins* and *Police Union Representative Moore*, three Officers dedicated to enforcing traffic violations will not only cover the cost of these Officers (with benefits) they will create a positive cash flow of about \$ 300,000 that is received into the Courts Budget. (**Public or Traffic Safety**)
*(Due to pressures upon the Police personnel budget, Council should consider that monies collected should be directed back to the Police Departments budget to offset costs it incurs throughout the course of its daily operations).
- Potential income (from serving warrants) is sitting uncollected in the 43rd District Court. This may require a dedicated position that may not be available at this time.
- There is room to increase patrols targeting drunk drivers. Because Court costs associated with this offense is significantly higher (\$ 2,000) than traffic violations (\$ 100-200), not only would this generate additional revenues but would keep Ferndale streets more safe to walk and motor in. (**Public/Traffic Safety**)

Fire Department

The Fire Chief has informed the committee of the impending retirements of four (4) Engineer Firefighters and that the engineer classification will be abolished upon those retirements. In an effort to save expenditures within the Ferndale Fire Department, in the alternative of not filling those positions with new firefighters, the committee recommends the city council hire 2.5 Part Time Firefighters in the place of each one (1) retiring engineer. Without the added cost of benefits, the city saves approximately \$49,608 per year for each retiring engineer being replaced by 2.5 Part Time Firefighters. This allows the manpower to be maintained at less cost to the city. Please see attached exhibit for further explanation.

Paid Regularly Scheduled Part-Time Firefighters

- Firefighters work 9 days a month with 24 hour shifts.
- It would take 2.5 Part-Time Firefighters in place of 1 Full-Time Firefighter**. The Part-Time Firefighters work one 24 Hr Shift a week.
- As the Engineer is phased out and retirements occur (per the Fire Chief) and additional hiring is required, a cost savings can be achieved by hiring 10 Part-Time Firefighters in lieu of 4 Full-Time Engineers/Firefighters.

1 FT Firefighter = Approx \$100,000 (salary & benefits)

2.5 PT Firefighters = Approx. \$49,608/yr (salary & benefits)

Breakdown:

1 PT Firefighter x 24 Hrs/week x \$15/hr = \$360

\$360 x 52 weeks/yr = \$18,720

\$18,720 + 6% (\$1,123.20) Social Security Contribution= \$19,843.20

\$19,843.20 x 2.5 PT Firefighters = \$49,608

(1 FT Firefighter) \$100,000 – (2.5 PT Firefighters) \$49,608 = \$50,392/yr
(4 FT Firefighter) \$400,000 – (10 PT Firefighters) \$201,568 = **\$198,432/yr (Savings)**

Logistics can be worked out via Fire Administration. This is an illustration of the potential cost savings.

Part-Time Firefighters can be members of the union. There is nothing in the law that prohibits Part-Time firefighters from being unionized, of course with the union and the city's agreement.

**Of course the city cannot hire ½ of a Firefighter but this is the mathematical breakdown. If the city/chief chose to have a PT Firefighter work 36 hrs a week, he could implement 12 hrs shifts or one 24 hr shift and one 12 hr shift. If the chief hired one PT firefighter to work 12 hours a week, this would accomplish the ½ of a Firefighter.

SAFER GRANT

If the city of Ferndale is granted the SAFER Grant, this would allow the reinstatement of 4 laid-off Full-Time Firefighters that would be 100% paid from under the grant and therefore would have to be employed Full-Time with benefits. If the city of Ferndale is granted the SAFER Grant, the city could hire Part-Time Firefighters in addition to the grant, as other firefighters retire (per Fire Chief, the 4 Firefighters in the Engineer Classification are retiring soon and that classification will be abolished and replaced with firefighter positions).

- Replace four Fire Engineers (through retirement) with Part Time Certified Firefighters without benefits (24 hour shifts).
- Neighboring Community agreements
The City of Pleasant Ridge has asked and received a reduction in fees for the service Ferndale provides them with. Pleasant Ridge is asking for special circumstances that require service at a lower cost than Ferndale residents pay.
A rollback in fees may be in order to sustain equal pay and protection. It is believed to be possible to break this agreement (12 months for each City to find a new partner or another solution)
- Billing of false alarms. Is the Ferndale Fire Department billing for these false alarms (runs) that create a tangible cost to city taxpayers?

Kulick Center

- Review all fees at the Kulick Center. Are Senior and Youth program fees equitable?
- Regionalize with other Communities.
- Promote alternate use of Kulick center to increase income. Promote use of exercise center by personal trainers, promote use of office and meeting space to home based

businesses. Promote use for community and holiday parties. Review allowing caterers with liquor license to bring alcohol into the Kulick Center.

- Consider the sale of beer wine at events.
- Shuttle program (for a fee) for Ferndale special events.

Dream Cruise Car Show and Special Events

- The cost of extra Police and Fire needed during the Dream Cruise are not included in the budget for the Show, rather the City absorbs this cost.
This needs to be addressed and determine the viability of raising fees or securing a Sponsor to cover this expense.
- There is an inequity of fees being charged to Special Events in Ferndale. New fee structures need to be reviewed and be more consistent.
- City can no longer 'choose' to selectively sponsor an event over one group to another. *(Currently- Dream Cruise only)*
- Based upon the City's popularity, the City must not 'waive fees' for any Special Events.
- Fees must be collected in a timely manner versus collecting fees for the Event in 2008 prior to the 2009 Event – that's 12 months of missed income!(refer to the DDA's method and success)

Department of Public Works

This Department works under three separate budgets. The Committee has concerns that the DPW needs reform it's reporting, providing more clarity and transparency. (I.e. templates)

- Even though many items are considered 'seasonal' and duties may be multi tasked by DPW workers we recommend the following:
 - (1) Snow plowing-Contract out plowing City lots during overtime hours
 - a) Determine what is being contracted out at present
(Which City lots are contracted out? Where does the City plow?)
 - (2) Reducing the frequency of grass cutting in City Parks
 - (3) Create 'Native Grass' walking areas as spelled out in the Parks & Recreation Advisory Board recommendation (master plan) for details on how this may be achieved and monitored (cost reduction.) This would create spaces in some Parks for native grasses and plants to be used as 'walking' space, reducing the amount of grass cutting and maintenance.
 - (4) Park Sponsorship (revenue)
 - (5) Vehicle sponsorship

City Operations

- Consider the consolidation of the City Manager and Finance position (Assistant City Manager/Finance Director/Treasurer). With the efficiencies to be gained from the investment in the new (Enterprise software) computer system, the City may not require both positions. Once consolidated, the hiring of a contracted assistant (at a lower pay rate) may be considered to 'pick up any slack'.
- Utilizing the new software program, CDS and Clerk Departments should improve their operation and handling of collections. Other Cities have seen a 15-20% return on these investments.
- Reduce labor or duplication of steps thereby increasing productivity and processing time.
- Consider a 2-3 year wage freeze for union and non-union employees.
- Review current fees. With improved efficiencies, ensure that all costs associated with permits are accurately reflected in the current fee schedule.
- Create and promote the ability for residents and contractors to transact business online. This will free up City Staff and have an impact upon *productivity and payroll*.
- Landlord Rental permits. Review the costs of landlord permits and ensure that yearly inspections are completed. With more properties converting to rentals, maintenance of these properties is essential to protecting and enhancing Ferndale property values.
- Garbage/Grass and Weed control/Snow removal.
Cite property owners that do not remove their snow and ice. Work can be done by DPW (no overtime) or contracted out. Fines must cover **actual costs** incurred by action (i.e. Wages, travel and paperwork involved in the process).

Sidewalk program

- Recommend a temporary moratorium on City sidewalk programs and a review of Standards for sidewalk replacement.

Auto Parking Fund

- Explore all the research already done on improving the downtown parking system. There is a potential of building a parking deck that would create a significant positive cash flow for the City.
- Work with DDA to create a profitable parking system.

Other Expenses without Revenue Streams

- Self funded insurance; Liability and Health.
 - Is this the best use of “Ferndale Funds? Is there a cost savings outsourcing?
 - What happens to the \$500,000 in the budget if it is not used?
 - Carried over? Used for ‘other’ budgetary items (i.e. patching holes made by deficits?)
- Look into the City’s Pension Fund to invest locally:
 - (A) Construction of a new Downtown parking structure.
 - City benefits from the additional parking
 - The Pension reaps the benefits of cash flow and an asset
 - (B) The purchase of City owned properties for rehab and sale

Additional Brainstorming / Public Comments:

- Implement new budget templates for clarity and transparency.
- Utilize the vacant space in City Hall as a revenue generator.
- Promote development of a dog park to generate new revenue
- Divest underutilized City assets.
- Pursue sponsorship of recreation facilities and parks.
- Investigate reducing *phone and mailing* expenses.
- Allocation of Admin & Overhead to Special Revenue Funds
- Promote higher density development to increase tax base
- Police and Fire applicants shall be required to have completed MCOLES / FF 1&2 / Paramedic, at their own expense (not City expense).

Summary and Follow-up

If Council is able to achieve cost cuts as described within the Core Recommendations, the recommended Headlee Override millage may not need to be raised to the full 5.45 mils. Certain cost cuts are already underway and this is why the Committee has recommended a cap to 3 mils in the first year. As Council closely monitors the budget in the next few years, the status of the Cost of Operating City Government will impact the City's required millage rate.

During this process, many citizens expressed concern regard monitoring of the budget process in coming years. Council may want to consider a Citizen Advisory Committee to publicly monitor Council spending practices until at least December 31, 2015 to ensure monies are being spent frugally and effectively.

Committee Membership

On Monday, September 13, 2010, Ferndale City Council appointed the following citizens.

Joel Petrie – Co-Chair
Robert Porter – Co-Chair
Sharon Chess
Daniel Harteau
Scott Helmer
Kathryn Hershberger
John McQuiggin
Gregory Pawlica
Jacqueline Smith
Ben Updyke
Mark Van Dyke
Dennis Whittie

The committee voted City Manager Robert Bruner to be the Committee's Secretary.

CITY OF FERNDALE
General Financial Information

TAX RATES per \$1,000 of TAXABLE VALUE				
Tax Year:	2007	2008	2009	Est. 2010
General Operating Tax	14.5448	14.5448	14.5448	14.5448
PIR Advertising Tax	0.0814	0.0600	0.0900	0.0825
Refuse Tax	2.1815	2.1815	2.1815	2.1815
GOVT Bonded Debt	4.5000	5.3000	5.8000	6.0000
District Library	1.9601	1.9601	1.9601	1.9601
<i>City of Ferndale Total</i>	23.2678	24.0664	24.5664	24.7689
SET + Ferndale School Debt	13.0000	13.0000	13.0000	13.0000
Intermediate School District	3.3690	3.3690	3.3690	3.3690
Community College	1.5844	1.5844	1.5844	1.5844
Oakland County SMART	5.2361	5.2361	5.2361	5.2361
Zoo Authority	-	0.1000	0.1000	0.1000
<i>Total for other Authorities</i>	23.1895	23.2895	23.2895	23.2895
TOTAL TAX RATE (PRE)	46.4573	47.3559	47.8559	48.0584
School Operating	18.0000	18.0000	18.0000	18.0000
TOTAL TAX RATE (nonPRE)	64.4573	65.3559	65.8559	66.0584

TAX LEVIES and COLLECTIONS			
Tax Collections to March 1st of each Fiscal Year			
Tax Year	Levied	Collected	Percent
2009	11,265,391	10,135,556	89.971%
2008	11,009,021	10,328,803	93.821%
2007	10,449,382	9,794,603	93.735%
2006	10,235,407	9,603,082	93.822%
2005	9,810,915	9,241,954	94.201%
2004	9,518,225	9,058,689	95.172%
2003	9,107,650	8,590,242	94.319%
2002	9,075,561	8,456,259	93.176%
1990	6,300,396	5,905,563	93.733%
1989	5,563,957	5,152,575	92.605%

History of General Fund Balance			
Fiscal Year	Fund Balance	Reserved or Designated	Unreserved, Undesignated
Ended June 30th			
2009	5,554,021	899,067	4,654,954
2008	5,781,625	604,432	5,177,193
2007	5,282,481	1,331,657	3,960,824
2006	4,102,401	1,146,624	2,955,777
2005	3,578,765	995,127	2,583,638

Millage Scenarios

Projected Deficit based on Bruner Presentation - December, 2010. Millage Scenario below is Worst Case (re: Valuations)

	12-Jul					Revised - Bruner
	2012	2013	2014	2015	2016	Cumulative Deficit
Annual Projected Deficit	\$ (2,100,000)	\$ (3,500,000)	\$ (4,300,000)	\$ (4,300,000)	\$ (4,300,000)	\$ (18,500,000)
Cumulative Deficit	\$ (2,100,000)	\$ (5,600,000)	\$ (9,900,000)	\$ (14,200,000)	\$ (18,500,000)	

Targeted Revenue Increases:

	2012	2013	2014	2015	2016	Total Impact	Deficit After Impact
Increased fees (mandatory) / DPW & CDS	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 375,000	\$ (18,125,000)
Increase Fire Fees	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 25,000	\$ (18,100,000)
Increase Police Rev from Traffic (staffing may not allow)	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 1,500,000	\$ (16,600,000)
Charge Overhead & Admin to Special Rev Funds	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 1,000,000	\$ (15,600,000)
Parks Revenue (Oakland Cty) / DPW Tree Planting	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 200,000	\$ (15,400,000)
Increase Kulick Center Revenue	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 75,000	\$ (15,325,000)
Increase Revenue from Dream Cruise	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 75,000	\$ (15,250,000)
DDA contribution to City budget	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 175,000	\$ (15,075,000)
	\$ 685,000	\$ 685,000	\$ 685,000	\$ 685,000	\$ 685,000		

Further Targeted Cost Cuts:

DPW Reduction - (Example) Reduce Grass Cut / LEDs	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 250,000	\$ (14,825,000)
Share equipment - grass cutting / Aerial Fire Truck	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 75,000	\$ (14,750,000)
Option A Police - Eliminate 7 positions or Concessions	\$ 700,000	\$ 700,000	\$ 700,000	\$ 700,000	\$ 700,000	\$ 3,500,000	\$ (11,250,000)
Option A Fire - Eliminate 4 engineers & Rehire Part Time	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 1,000,000	\$ (10,250,000)
Consolidation of City Hall staffing / Mgt Level (Finance)	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 750,000	\$ (9,500,000)
Reduce cost in City Clerk Office / Outsource Staffing	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 250,000	\$ (9,250,000)
Change in Hours of Ops/City Efficiency (delayed impact)	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 75,000	\$ (9,175,000)
Eliminate Jail Cells (Cons w/ RO), Cons. Dispatch	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 500,000	\$ (8,675,000)
Defer City Property Sidewalk Work	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 125,000	\$ (8,550,000)
Further Cost Reduction City Hall - due to Renovation	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 125,000	\$ (8,425,000)
	\$ 1,330,000	\$ 1,330,000	\$ 1,330,000	\$ 1,330,000	\$ 1,330,000		

Total 5 Year Impact

\$ 10,075,000

Millage Analysis

Total Taxable Value (Worst Case)	\$ 527,100,000	\$ 500,700,000	\$ 488,200,000	\$ 476,012,063	\$ 464,128,399	(1)
Ferndale Millage - Headlee Max	14.545	14.545	14.545	14.545	14.545	
Percentage	1.4545%	1.4545%	1.4545%	1.4545%	1.4545%	
Tax Revenue	\$ 7,666,670	\$ 7,282,682	\$ 7,100,869	\$ 6,923,595	\$ 6,750,748	

Revenue from Headlee Override (3 Mil Cap Year 1)	\$ 1,294,031	\$ 2,731,319	\$ 2,663,131	\$ 2,596,646	\$ 2,531,820	\$ 11,816,946
Revenue from Headlee Override (Max)	\$ 2,875,331	\$ 2,731,319	\$ 2,663,131	\$ 2,596,646	\$ 2,531,820	\$ 13,398,246

Likely Net Deficit After Headlee w/ Cap, New Rev & Cuts	\$ 1,209,031	\$ 1,246,319	\$ 378,131	\$ 311,646	\$ 246,820	5 Year (Deficit) / Surplus \$ 3,391,946
General Fund Balance Assumes \$3.7MM 12/2010	\$ 4,909,031	\$ 6,155,349	\$ 6,533,480	\$ 6,845,126	\$ 7,091,946	2016 GF Balance \$ 7,091,946

(1) Estimated Taxable Value based on trend identified in August 9, 2010 Millage Option Presentation. Est 2010 Taxable Value = \$598 Million. Peak was \$651MM '08 Projected 2016 Taxable Value will equal Taxable Value in 2001.

Millage Scenarios

Projected Deficit based on Bruner Presentation - December, 2010. Millage Scenario below is Worst Case (re: Valuations)

Homeowner Scenario Analysis		1.4545%		2.0000%		53 mils	
Estimated Taxable Value	(a)	14.545 Mils	20 Mils	Tax Increase	Total Tax Bill After Increase		<i>Prior Tax Bill</i>
2012 \$	140,000	\$ 2,036	\$ 2,800	\$ 764	\$ 7,420	\$	6,656
2013 \$	132,988 <i>5%</i>	\$ 1,934	\$ 2,660	\$ 725	\$ 7,048	\$	6,323
2014 \$	129,668 <i>2%</i>	\$ 1,886	\$ 2,593	\$ 707	\$ 6,872	\$	6,165
2015 \$	126,431 <i>2%</i>	\$ 1,839	\$ 2,529	\$ 690	\$ 6,701	\$	6,011
2016 \$	123,274 <i>2%</i>	\$ 1,793	\$ 2,465	\$ 672	\$ 6,534	\$	5,861
				\$ 3,559 (b)			
2012 \$	40,000	\$ 582	\$ 800	\$ 218	\$ 2,120	\$	1,902
2013 \$	37,997 <i>5%</i>	\$ 553	\$ 760	\$ 207	\$ 2,014	\$	1,807
2014 \$	37,048 <i>2%</i>	\$ 539	\$ 741	\$ 202	\$ 1,964	\$	1,761
2015 \$	36,123 <i>2%</i>	\$ 525	\$ 722	\$ 197	\$ 1,915	\$	1,717
2016 \$	35,221 <i>2%</i>	\$ 512	\$ 704	\$ 192	\$ 1,867	\$	1,675
				\$ 1,017 (c)			

(a) Valuation decline based on Overall City Average as calculated in Total Taxable Value Worst Case above.

(b) Total Impact over 5 years on Top End Residential Taxpayers (\$280K SEV and \$140K Taxable Value).

(c) Total Impact over 5 years on Average Taxpayer (\$80K SEV / \$40K Taxable). Assumes a lag in real valuation (\$120K Value is probably \$80K today).

FIRE DEPARTMENT

Date: 1/10/2011

<u>Department Category</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Cost Metrics</u>	<u>Other Comments</u>
Annual Budget	\$ 4,103,779	\$ 3,822,772		
<i>Labor Component</i>				
Salaries	\$ 2,462,267 60.0%	\$ 2,293,663 60.0%		
Overtime / Bonus	\$ 164,151 4.0%	\$ 152,911 4.0%		
Benefit & Pension Cost - Current	\$ 1,025,945 25.0%	\$ 955,693 25.0%		
Benefit & Pension Cost - Retirees	\$ 451,416 11.0%	\$ 420,505 11.0%		
Total Labor	\$ 4,103,779 100%	\$ 3,822,772 100%		
<i>Other Overhead Costs</i>				
Supplies & Materias	\$ -	\$ -		
Allocation of Rental Exp (property)	\$ -	\$ -		
Equipment Expense	\$ -	\$ -		
Maintenance	\$ -	\$ -		

<u>Personnel Total</u>			<u>Estimated Avg Cost per Category</u>	<u>Description of Duties / Other Comments</u>
Chief	1	3%	1 4%	
Fire Marshall	1	3%	1 4%	
Captains	2	6%	2 7%	
Lieutenants	2	6%	4 15%	
Sergeants	4	12%	- 0%	
Engineers	4	12%	4 15%	
Firefighters	18	55%	14 52%	
Clerical Assistants	0.5	2%	1.0 4%	Cost is \$13K per year
Total	33		27	Total Cost per firefighter increases due layoffs of junior staff
Total Annual Cost per Firefighter	\$ 126,270		\$ 141,584	
Total Annual Labor Cost per FF	\$ 126,270		\$ 141,584	
Daily Staffing Minimum	8		8	
Shift Details (12 / 24 Hour)				
# Fire Stations	2		2	
# Ladder Trucks				
# EMS Vehicles				
Other Vehicles				
Total - # calls in Fiscal Year	150		150	Includes Benefits
Total - # Amb. Calls in Fiscal Year	130		130	
Total - # Fire Calls in Fiscal Year	2		2	
Unfunded Pension Liability				
Cost of new FF Hire	\$ 65,000		\$ 60,000	Includes Benefits
Status of Reg. Consolidation Effort	RO & PR		RO & PR	Under discussion w/ Hazel Park to add them

Introduction

The term “Headlee Rollback” became part of municipal finance lexicon in 1978 with the passage of the Headlee Amendment to the Constitution of the State of Michigan of 1963. In a nutshell, Headlee requires a local unit of government to reduce its millage when annual growth on existing property is greater than the rate of inflation. As a consequence, the local unit’s millage rate is “rolled back” so that the resulting growth in property tax revenue, community-wide, is no more than the rate of inflation. A “Headlee override” is a vote by the electors to return the millage to the amount originally authorized via charter, state statute, or a vote of the people, and is necessary to counteract the effects of the “Headlee Rollback.”

Impact of Headlee Amendment

Since the passage of the Headlee Amendment, units of government are required to annually calculate a Headlee rollback factor. The annual factor is then added to Headlee rollback factors determined in prior years resulting in a cumulative Headlee rollback factor sometimes referred to as the “millage reduction fraction.” This *total* “millage reduction fraction” is then applied to the millage originally authorized by charter, state statute, or a vote of the people. In summary, the actual mills available to be levied by a unit of local government is the product of the authorized millage rate times the total millage reduction fraction. This is known as the “Headlee maximum allowable millage.”

Impact of Proposal A

Prior to Proposal A legislation passed in 1994, local governments were allowed to “roll up” their millage rates when growth on existing property was *less* than inflation. “Roll ups” were a self-correcting mechanism that allowed local governments to naturally recapture taxing authority lost due to Headlee rollbacks in prior years. A local government could only “roll up” its millage rate to the amount originally authorized by charter, state statute, or a vote of the people.

Additions to taxable value (such as newly constructed property) are typically excluded (or exempt) from the Headlee roll back calculation. The 1994 General Property Tax Act changes did not specifically define “uncapped values” (increases resulting primarily from property transfers) as exempt.

Result

Although it might appear that a community with an annual increase in uncapped property values would benefit monetarily, uncapped values are treated as growth on existing property and trigger Headlee rollbacks. For local governments levying at their Headlee maximum authorized millage, rolling back the maximum authorized millage rate reduces the revenue that would have been generated from these increased property values. The increase in the taxable value of property not transferred is capped at the lesser of inflation or 5 percent. Even though the taxable value of a particular piece of property increases at the rate of inflation, the millage rate for the entire community is “rolled back” as a result of the increase in the total taxable value of the community. The net result—a less than inflationary increase in the actual dollars received from property taxes. Consequently, the 1994 change to the General Property Tax Act has prevented local governments from being able to share the benefits of any substantial market growth in existing property values.

Based on *System Failure: Michigan’s Broken Municipal Finance Model*. Prepared for the Michigan Municipal League by Frank W. Audia, Partner and Denise A. Buckley, Associate, Plante and Moran, PLLC, March, 2004

Bulletin 2 of 2010

April 26, 2010

Millage Requests and Rollbacks

State of Michigan

Department of Treasury

A) 2010 MILLAGE REDUCTION FRACTION (MRF) FORMULA REQUIRED BY MCL 211.34d

The Headlee millage reduction fraction intends that, ignoring additions and losses, any current operating millage must be reduced if it would produce more tax dollars, adjusted for inflation, than it did last year. While this calculation may result in a millage reduction fraction that is less than 1.0000, it cannot exceed 1.0000.

1) 2010 formula for calculating the "Headlee" MRF:

The following formula in general terms shall be used in 2010 for calculating the MRF:

$$\text{MRF} = \frac{(\text{prior year's taxable value} - \text{losses}) \times \text{inflation rate multiplier}}{\text{current year's taxable value} - \text{additions}}$$

current year's taxable value - additions

The following is the MRF formula stated in terms that are specific to its use in 2010:

$$2010 \text{ MRF} = \frac{(2009 \text{ taxable value} - \text{losses}) \times .997}{2010 \text{ taxable value} - \text{additions}}$$

2010 taxable value - additions

Please note the following regarding use of the above formula:

a) The amount of additions and losses are based on the taxable value of additions and losses as defined by Public Act (PA) 476 of 1996 and as found in MCL 211.34d. STC Bulletin No. 2 of 2010 -- Millage Requests and Millage Rollbacks April 26, 2010 Page 4

b) The Michigan Supreme Court ruled in WPW Acquisition Company v City of Troy that increases in value due to increases in occupancy are not constitutional additions even though MCL 211.34d continues to define such increases in value as additions. Increases in value due to increases in occupancy are not to be included as additions in the above formula.

c) The Michigan Supreme Court also ruled in Toll Northville Ltd. and Biltmore Wineman LLC v Township of Northville that increases in value due to public infrastructure improvements are not constitutional additions. Increases in value due to the addition of public infrastructure are not to be included as additions in the above formula.

d) The taxable value of some additions and losses are at 50 percent of true cash value and some may be less than 50 percent of true cash value. For more information about additions and losses, please see the instructions for Form L-4025 and State Tax Commission Bulletin No. 3 of 1995, including its supplements contained in Bulletin No. 3 of 1997. Please also see paragraph G of State Tax Commission Bulletin No. 15 of 2002. Additionally, please see State Tax Commission Bulletin No. 19 of 2002 concerning the calculation of additions and losses for personal property. Also, additions and losses are defined in MCL 211.34d.

e) The inflation rate multiplier for 2010 "Headlee" calculations is .997.

Sample Headlee Override Ballot Language

City of Dearborn Heights

Headlee Override Millage Proposal

Shall a "Headlee Override" be adopted so that the current limitation on the amount of City taxes that may be levied against all taxable property in the City of Dearborn Heights, Wayne County, Michigan be increased

- Up to 8.5 mills from approximately 6.798 mills (\$8.50 from approximately \$6.798 per \$1,000 of taxable value) for general operating expenses,
- Up to 3 mills from approximately 2.3991 mills (\$3.00 from approximately \$2.3991 per \$1,000 of taxable value) for sanitation/rubbish, and
- Up to 2 mills from approximately 1.5993 mills (\$2.00 from approximately \$1.5993 per \$1,000 of taxable value) for police and fire protection?

If approved and levied in its entirety, this millage would raise an estimated maximum amount of \$3.57 million for the City in 2002 by allowing the City to levy the maximum mills previously approved by the voters and authorized by the City Charter and State law which have been reduced as required by the Michigan Constitution of 1963.

Huntington Woods

Millage Increase Proposition

Shall the City of Huntington Woods, Oakland County, Michigan, be authorized to levy, in 2004 and thereafter, an additional 6.1829 mills on each dollar (\$6.1829 per \$1,000) of the taxable value of all property in the city, thereby allowing the levy of Charter-authorized millage for general purposes in excess of the limit to which it was reduced by Section 31 of Article IX of the State Constitution of 1963, all of which tax revenues will be disbursed to the City of Huntington Woods; provided, that the City shall not be authorized to increase the levy of the City's Charter-authorized millage by more than one-half (0.50) mill in 2004, or by more than an additional one-half mill each year.

CITY OF LATHRUP VILLAGE

Headlee Override Millage Proposal

Shall a "Headlee Override" be adopted so that the current limitation on the amount of City taxes that may be levied against all taxable property in the City of Lathrup Village, Oakland County, Michigan, be increased as follows:

- Up to 20 mills from approximately 16.081 mills (\$20 from approximately \$16.081 per \$1,000 of taxable value) for general operating expenses, and
- Up to 3 mills from approximately 1.6034 mills (\$3 from approximately \$1.6034 per \$1,000 of taxable value) for sanitation/rubbish.

If approved and levied in its entirety, this millage would raise an estimated maximum amount of \$3,060,142 for the City in 2010 by allowing the City to levy the maximum mills previously approved by the voters and authorized by the City Charter and State law which have been reduced as required by the Michigan Constitution of 1963.