



City Manager's Budget Transmittal Letter

June 6, 2011

THE HONORABLE MAYOR
AND
MEMBERS OF CITY COMMISSION

In accordance with the requirements of the Michigan Uniform Budget Act and the Royal Oak City Charter, I submit to you the City's Adopted Budget for 2011-12 and 2012-13.

This represents the second year that we submitted a two year detailed budget plan. When we did this last year, I had illusions that we would be able to forgo an elaborate budget process this year and simply make some mid-term budget amendments. I gave up on that idea long ago. In more stable times, that might be possible. However, we are living in times of great economic and political uncertainty. So much has changed since we adopted the 2010-11 and 2011-12 budgets last June that I think it best to start afresh on the 2011-12 plan.

I would call this a transitional budget but I don't know what we are transitioning to. Under this plan, we will maintain some semblance of traditional services by using up what little savings we have left. It relies on short term solutions that are not sustainable. It fails to address the core problems which ultimately must be addressed.

Some major decisions about this budget have been made by the City Commission. We will not be laying off any additional police officers or firefighters. We will not be asking the voters to consider a tax increase. At the March 18th meeting, the Commission directed me to prepare a budget that included no new police lay offs. In accepting the SAFER grant, we committed to maintaining 51 firefighters for the two year term of that grant.

On the issue of new taxes, the Commission has been very clear. We will not be asking the voters for a tax increase until we have achieved significant labor contract concessions from the general employees, police officers and firefighters. So far, that hasn't happened with public safety departments. We have made great strides with other employee groups but the police and fire units have not been willing to accept any concessions. That appears to be changing. Recently, we have had encouraging discussions with the firefighters that I hope will lead to an acceptable contract.

Unlike last year, I actually do have some good news to report. The best news, however, is about the bad news. The bad news isn't as bad as we expected it to be. Taxable

Value hasn't fallen as much as we expected. Statutory State Shared Revenue won't disappear completely. Population hasn't declined as much as we feared. The changes we made this year in the Building Department have helped to turn around the State Construction Code Fund.

Taxable Value

A year ago, we were facing a 9% decline in taxable value and the County projected another 9% loss for 2011-12. Fortunately, Royal Oak real estate values held up much better than expected. Taxable values did decline but only by 2.5%. That translates into a revenue difference in excess of \$1 Million for the General Fund. More importantly, we may hit bottom sooner than expected with property values at a higher level than expected. This means that base value for Proposal A calculations may not fall as much as the County projected.

This does not mean we can expect to see great increases in future taxable value. No matter how much property values rise, taxable value can only increase by the rate of inflation or 5%, whichever is less. In fact, we still expect to see a further decline of about 3.5% for 2012-13 but this is largely because assessments trail the market by about 18 months. Market values may have already bottomed out and be on the way up but assessments and taxable values will probably continue to decline for a while. The recommended budget revenue forecast projects taxable value to remain flat beyond the next two years of decline.

State Shared Revenue

There are two components to State Revenue Sharing which are referred to as Constitutional and Statutory. For Royal Oak, Constitutional Revenue Sharing was worth \$3.8 million this fiscal year and Statutory Revenue Sharing is estimated at approximately \$900,000.

The Constitutional portion is guaranteed by the Michigan constitution and cannot be changed by the Governor or the Legislature. Fifteen percent of the 4% state sales tax (none of the extra 2% added by Proposal A) is distributed on a per capita basis. Our share can increase or decrease as sales tax revenue changes. Our population dropped more than the state's population declined, so Royal Oak will get a smaller slice of the pie this year. However, I expect it will be a bigger pie. The economy is picking up and total sales tax revenues may be higher.

The Governor is cutting total Statutory Revenue Sharing by one third and making local governments meet new state requirements to receive it. The law takes this a bit further and reduces the total to 62.96% and divides that amount into thirds, based on three criteria.

1. Each community must produce a citizen's guide or "dashboard" by October 1, 2011.
2. Each community must develop a plan to increase cooperation, consolidation and collaboration internally and with neighboring jurisdictions by January 1, 2012.
3. Each community shall develop an employee compensation plan which must include various factors by May 1, 2012.

We see no problem in complying with the first requirement. We had hoped that existing cooperative programs would count toward the consolidation/collaboration criteria, but the bill does not allow for that. However, the requirement is only to develop a plan for cooperation, it doesn't require any new cooperative effort be actually in operation. That should not be a problem. The third is similar in that it requires the local unit to develop "a compensation plan that the city, village or township intends to implement with any new, modified or extended contract." It provides requirements that must be included in the plan. However, it's not clear what happens if we can't reach an accord with a bargaining unit that complies with the plan. We are anticipating the loss of \$160,000 in State Shared Revenue. On the bright side, this is actually \$40,000 better than we anticipated for 2011-12 last year at this time.

SAFER Grant and Fire Service

Royal Oak was very fortunate to be awarded a \$2.5 million, two year grant to recall and retain firefighters. The "Staffing for Adequate Fire and Emergency Response" (SAFER) grant let us recall two laid off firefighters and cancel the scheduled layoffs of eight more. The increased staffing let us cancel plans to privatize ambulance transport which means we will continue to collect over \$900,000 per year from ambulance billings. This means the grant is actually valued at \$4.3 million to Royal Oak.

To continue receiving this grant, we cannot lay off any of the firefighters saved by the grant and we must maintain 51 firefighters. This will result in our soon hiring the first new firefighter in six years.

This grant must be regarded as temporary reprieve not a solution to our public safety budget problems. We still need to find a model for delivering police fire services that we can afford into the future. Public safety is the most important service we provide but we cannot continue to spend over 150% of our general operating levy on police and fire services alone. We must find a more cost effective model.

To that end, the adopted budget provides for the funding for the public safety consulting division of the International City/County Management Association (ICMA) to conduct a complete independent review of our police and fire operations. This will look at staffing, shifts, number and location of stations, the use of part-time and volunteer personnel and other issues. It will also examine alternative service models such as combining police and fire functions as is done in Kalamazoo, Oak Park, Berkley, Huntington Woods and other local communities or contracting with the Oakland County Sheriff's Office for police services. ICMA public safety consultants recently completed studies for the Cities of Novi and Troy.

Police

Last year, we laid off 12 police officers and five of those remain on lay off. To meet the 2011-12 budget adopted last June, another 22 lay offs in this department would have been needed. As noted earlier, the Commission directed that there be no further police layoffs. However, the Commission also indicated that staffing will be allowed to decline by attrition. Right now, we have 70 police officers and we anticipate five retirements by June 30. This will leave us with 65 sworn officers in both the 2011/12 and 2012/13 budgets.

This is 14 less than the number we recommended to the commission in the police staffing report. The Interim Police Chief says 65 officers are too few. In a recent communication to me, he wrote:

The Royal Oak Police Department cannot go below 70 sworn officers and still consistently provide the minimum police coverage for Royal Oak. Currently, with 70 officers, there are times when our staffing levels are substantially below recommended levels. Over the years we have cut our support staff to the bone, and any additional cuts will need to come from regular patrol. Eliminating five (5) more positions will result in two less officers assigned to afternoon and midnight shifts and one less to day shift.

Without even addressing our special events, that is simply not enough to handle the regular work load. Calls for service will stack up and our officer's ability to properly investigate and resolve issues will diminishes considerably. An officer's free patrol time will reduce dramatically, many times to zero (0), as this will have a compounding effect. FMLA requests, injuries, training, regular leave, etc. all further reduce our available staffing. This leaves us with two choices, overtime or run short. Over the summer months there is simply too much to do to fill it all with overtime. This means we will be running short at the time of year when we are most busy.

Building Department

No department was hit harder with lay offs last year than the Building Department. We laid off three trade inspectors and two Code Enforcement Officers last year. None of the employees have been recalled. In addition, the department lost another Code Enforcement Officer to a promotional opportunity in the Housing Department. This budget does not fill the positions. That means we have reduced our Code Enforcement staffing from five to two in one years time. That is having a very noticeable impact on the code enforcement function. We no longer do any routine patrol looking for problem violations. We respond to complaints and we don't always even do that.

The good news is the State Construction Code Fund has been turned around financially by the replacement of the three City employee trade inspectors with outside contractors. Last year, this fund was in a deficit and we had to transfer \$582,000 from the General Fund to correct that situation.

Planning, Engineering and Building

With the recent announcement of City Engineer Elden Danielson's retirement, I think its time to take a serious look at combining the operations of Planning, Engineering and Building into a single Department of Community Development. I think this has operational advantages as well as financial advantages. If done right, it will provide a smoother and quicker permitting process which will help make Royal Oak more "business friendly." This budget as presented does not reflect this change.

DPS

This budget does not anticipate any major changes in DPS operations or staffing. We will continue to lose positions through attrition as vacancies occur.

Manager's Office

Last year, upon the retirement of my secretary, I began sharing an administrative assistant with the City Attorney. This arrangement works well about 60%-70% of the time. However, it frequently doesn't work so well, especially when the shared employee is not in the office and neither department has any clerical support. With ProTech employees off every Friday, vacation and other leave time, this happens often. The result is both offices are frequently closed and telephone call often go unanswered (they do go to voice mail). This has had an impact on our ability to service Commissioner needs as well. To partially remedy this situation, I included money in this budget for part-time labor to supplement the shared administrative assistant.

Shortfalls

The General Fund summary table shows a shortfall of \$1.3 million for 2011-12. As presented, this would come from fund balance but part or all of it could be taken from motor pool or auto parking. It must be noted, however, the only reason it is this close is because we are not properly funding the City's OPEB. Instead of making the Actuarially Required Contribution (ARC), we reduced the actuary's funding to 50% for police officers and firefighters and 80% for other general employees. This is enough to cover all current costs for retiree healthcare and make a small contribution toward the \$112 million unfunded liability. However, we really should be contributing \$4 million more.

Respectfully submitted

A handwritten signature in black ink, appearing to read "Donald E. Johnson". The signature is written in a cursive, flowing style.

Donald E. Johnson
City Manager