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# FINANCIAL REVIEW

CITY OF LATHRUP VILLAGE

27400 Southfield Road, Lathrup Village, Michigan 48076

## GENERAL FUND, REVENUE & EXPENSE REVIEW

by Bruce Kantor

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### **Introduction:**

The final Fiscal Year 2023 audit received this past December revealed an unexpected \$659K reduction to the General Fund. This reduction was a shock to everyone, as it was significantly larger than the \$172K reduction in the General Fund that was originally budgeted for FY23. It was also greater than the updated \$234K reduction that was amended in January of 2023 and the updated \$251K reduction that was amended in June of 2023.

The cause of this unexpected General Fund reduction was primarily related to transfers missing from the General Fund that were identified during the audit. As the audit noted, several significant reconciliations and transfers were not completed in a timely manner. These transfers were mostly related to projects that were included and paid for as part of the three-year road bond (to get a better volume discount from the contractor), but ultimately needed to be paid for using General Fund dollars, not road bond funds. These reimbursements to the road fund never occurred because the former City Administrator, who also functioned as the City's Director of Finance, never directed the Treasury to make these reimbursements. Work that was previously performed on culverts, the Cambridge drainage system, the DPW parking lot and Santa Barbara, totaling almost \$420K, needed to be reimbursed to the road bond fund from the General Fund and resulted in the surprise reduction to the General Fund. Other transfers from the DDA and Water & Sewer Fund to the road fund were also necessary, but these did not affect the General Fund. See Appendix A for a list of these transfers.

The lack of untimely reconciliations and transfers painted a falsely positive financial picture during the fiscal year and resulted in the surprisingly large deduction to the General Fund post audit. Obviously, making informed decisions requires timely and accurate financial data. Not having accurate data hurt the decision-making process during FY23. The new City Administrator will be working with Plante Moran in the near future to implement the required processes and procedures to ensure the data City Council uses is both accurate and current.

As a result of this large, unexpected reduction to the General Fund, this Revenue & Expense Review project was tasked to (a) analyze the General Fund activity in FY23 and (b) to identify areas where revenue could potentially be increased and expenses decreased to ensure the General Fund would resume positive growth. The first phase was to analyze the General Fund activity

and to identify actions that could potentially be implemented to grow the General Fund. To identify growth opportunities, regular meetings occurred with the City Treasurer, City Administrator, auditors, department heads, and various staff members. In these meetings, revenue and expenses were discussed in detail, line-by-line, across all budget categories. These conversations were candid and no items were off-limits, regardless of their anticipated unpopularity or potential difficulty to change. No expense was considered too large or too small to be reviewed. The goal was to develop a comprehensive, objective list of ideas that could be evaluated further. Phase Two of this project will consist of administrative and/or City Council discussions on how and whether to implement the compiled list of suggestions.

**Review of the General Fund Reduction in FY23:**

As noted above, the \$420K of unexpected infrastructure expenses explains the difference between the General Fund deficit expected in the amended June 2023 budget and the actual \$659K total recorded post audit.

When analyzing the General Fund, it is made significantly more complex by the fact that many of the infrastructure projects a) have expenses that are eventually reimbursed, and b) have revenue and expenses that are not aligned within the same fiscal year. For example, sidewalk and culvert expenses occur in one fiscal year, but the majority of the reimbursement (revenue) does not occur until the subsequent fiscal year (or even the fiscal year after that given the City’s extended payment plan option available to residents). With the significant amount of reimbursable construction expenses that occurred during the fiscal year, it is interesting to review revenue compared to expenses after completely removing infrastructure expenses and their associated revenue.

REVENUE		EXPENSE	
Total FY 23 Revenue	\$ 5,194,960	Total FY23 Expenditures	\$ 5,854,555
Less FY23 Sidewalk Revenue	\$ 362,189	Less FY23 Sidewalk Expense	\$ 740,119
	\$ 4,832,771		\$ 5,114,436
Less FY23 Culvert Revenue	\$ 70,212	Less Culvert Expense Charged in FY23	\$ 174,973
	\$ 4,762,559		\$ 4,939,463
Less Santa Barbara\Cambridge Revenue	\$ 3,705	Less FY 23 Santa Barbara\Cambridge Expense	\$ 194,000
	\$ 4,758,854		\$ 4,745,463
Less DPW Parking Lot Revenue	\$ -	Less DPW Parking Lot Expense	\$ 50,897
	\$ 4,758,854		\$ 4,694,566
Revenue less Expenses:	\$ 64,288		

In the table above, after removing the infrastructure expenses from both the revenue and expense side of the ledger, the General Fund revenue was actually \$64K higher than expenses. In other words, after removing infrastructure projects, the City actually grew the General Fund slightly.

Given there is still significant infrastructure revenue yet to be realized, it is worthwhile to determine the magnitude of this future revenue and the effect it will have on the General Fund in FY24. The table below indicates the expected infrastructure revenue for FY24:

	FY 20/21	FY 21/22	FY 22/23	FY 23/24	Total	Outstanding Revenue (Difference between Revenue & Expense)
Sidewalk						
Expense		\$290,102	\$740,119	\$111,861	\$1,142,082	
Revenue		\$27,175	\$362,189	\$151,721	\$541,085	\$600,998
Ditch\Culvert						
Expense	\$14,788	\$106,316	\$53,869		\$174,973	
Revenue	\$9,641	\$6,110	\$70,212	\$34,434	\$120,397	\$54,576
Cambridge SAD						\$14,079
Eldorado SAD						\$10,500
<b>Total Outstanding Revenue:</b>						<b>\$680,152</b>

There remains approximately \$680K of outstanding infrastructure revenue. However, the FY24 budget (amended as of July 17, 2023) only projected approximately \$300K of infrastructure revenue (\$250K for sidewalks, approximately \$50K for culverts and the Cambridge special assessment, and nothing for the Eldorado special assessment). This indicates that an additional \$380K of infrastructure revenue should be expected over what was originally projected. The amended FY24 budget projected a \$225K surplus/growth in the General Fund. With this additional expected \$380K of revenue, the actual increase to the General Fund could be as high as \$605K, all things being equal. Note that the actual FY24 additional revenue will likely be somewhat less than \$380K, as there are some residents who opted to pay their infrastructure invoices over two years. That is, some of their payment will occur in FY25—however, the overall net effect to the General Fund over time is the same.

As noted, after removing the infrastructure projects, the City grew the General Fund slightly. This indicates that outside of infrastructure projects, the administration did a good job of aligning revenue and expenses in FY24, especially in light of high inflation. Of course, in absolute terms, the City did actually incur a large \$659K reduction in the General Fund in FY23. However, most of this reduction should be recouped (reversed) in the coming fiscal year as payments for infrastructure (sidewalks, culverts, special assessments, etc.) are received.

While aligning revenue with expenses (without infrastructure) is a good result, it is still important to ensure that the City is doing everything possible to maximize revenue and minimize expenses. This is especially true given rising prices and our difficulty increasing revenue due to the constraints of being a built-out city subject to Proposition A (and the real estate crash) and Headlee. Maximizing revenue and minimizing expenses will help the City provide residents with more of the services they desire. Potential revenue growth and expense reduction opportunities follow below.

## Ideas to Grow the General Fund:

### Suggestions to Increase Revenue:

1. **Headlee Override:** The City should consider placing a Headlee Override on a future ballot to bring the millage rate up from the current Headlee reduced rate of 17.5618 to the City's chartered rate of 20 mils. At the current taxable value of \$172M, this would generate approximately \$420K in new revenue. Making it effective for five years (before Headlee reductions can resume), as other communities have done, should also be considered. Alternatively, a Public Safety millage could also be considered. A Headlee Override has been consistently recommended by the City's auditors for the past several years and has been casually discussed by the Administration and Council. More serious discussions to determine the feasibility of such an effort are warranted.
2. **Increase Grant Revenue:** While the City does apply for and receive grants, there is no staff member who focuses solely on these lucrative opportunities. Hiring a grant writer (probably part-time), whose primary focus would be to review the plethora of available grants across various functions and submit applications, could result in additional revenue. If an effective grant writer was employed, the cost of this position could easily be covered by some of the additional revenue that is secured.
3. **Water Department Fees:** The City does not currently charge water and sewer connection fees. It also does not charge for turning water service on and off. Rates for these services should be established. These fees should be part of the Water/Sewer department and not the building department to ensure these fees are collected by the City, not McKenna, who retains 75% of permit fees. **Update:** This initiative has been successfully implemented by City Council, which approved the establishment of these rates at the December 18, 2023 City Council meeting.
4. **Building Department Fees:** The fee schedules charged by the Building Department (for electrical, plumbing, dumpsters, applications, etc.) has not been revised in many years. Since McKenna keeps 75% of permit fees, the City should require McKenna to perform a comparative analysis of surrounding communities and increase the City's fees accordingly. Since McKenna would keep 75% of the increase, they should be eager to take on such a project.
5. **Room Rental Fees:** Charges for the rental of the Community Room, Meeting Place, Parks, etc. should be reviewed and updated, as it has been several years since these rates have been reviewed. Rental fees should be assessed relative to other comparable facilities to determine if increases are necessary. One obvious related fee that needs adjustment is the cleaning fee for the Community Room. The City charges \$100, which is exactly the amount the City pays the custodian to do the cleaning. Given there are other costs such as supplies, insurance, equipment, utilities, etc., for each rental, the City loses money on every cleaning, which occurs regularly.
6. **City-owned property:** The City owns multiple parcels or un-platted sections of land throughout the City. The City should evaluate the land use and determine the best future use of the properties, which may include selling the parcels for development.
7. **Alleyway Vacations:** The City has many alleyways that it does not and never will use (e.g., Dolores west of Woodworth Way, Goldengate both east and west of Rainbow, Sunnybrook both east and west of Southfield Road, and others). The City should consider vacating these unused properties. This will save on City maintenance expenses and generate new annual tax revenue in perpetuity.

8. Encroachments: The City has an abundance of encroachments, where residents and business are using city-owned property for personal use. The usage requirements and fees have not been applied with any level of consistency over the years. City Council has been considering an encroachment policy for almost two years. Council asked for a comprehensive inventory of all encroachments within the City so that it could assess the magnitude of the issue and analyze/develop a consistent ordinance. Unfortunately, there have been multiple false starts at developing this inventory. A plan should be developed and implemented to create this inventory. Once completed, City Council can develop a policy, which will undoubtedly generate additional revenue for the City. Further, having a consistent policy will dramatically reduce the significant amount of time the City Administration spends on encroachment issues, which will further reduce costs.
9. Traffic Citations: Many police officers prefer not to write tickets, which seems counter to their job role. Revenue from traffic tickets could easily be increased significantly with more encouragement for ticket writing. Not only would this increase revenue, but it would also increase safety. As motorists become aware of Lathrup Village's reputation for enforcing traffic laws, they will adjust their driving behavior accordingly. Currently, officers average approximately 23 tickets per month, which seems quite low—officers should be encouraged to increase citations. Revenue could also be generated by handing out fewer warnings, which are often given to City residents, some of whom are at the heart of our traffic issues.
10. Police Charges for Services: The fees for police services (e.g., towing, police reports, vehicle releases, etc.) have not been updated in a long time. These fees should be reviewed and updated as necessary.
11. Code Enforcement Fines: The fee schedule for code enforcement violations (e.g., nuisance cuts) should be reviewed and updated. Not only would increasing fines help to increase revenue, but it would also act as a deterrent against ordinance violations.
12. Safe Truck Ordinance: The City should consider an ordinance for safe truck standards (weight, equipment, etc.) so that officers can write more truck tickets. Having our own ordinance would ensure these fines would stay in the City and not get collected by the court system. This was discussed several years ago, but to my knowledge, it was never acted upon. Fines for trucking violations tend to be quite considerable, which could enhance revenue significantly. In order to write these types of tickets, some additional equipment expenses may be necessary. However, the expenses would easily be recovered by the additional revenue gained by writing these tickets.
13. Fixed Asset Sales: The City should determine if it has fixed assets that are no longer used and can be sold (e.g., exercise equipment, unused DPW equipment, etc.).
14. Back Taxes: Approximately \$50K in back taxes are owed to the City by the owners of 28505 Southfield Road. It is unclear why these taxes have not been collected. If appropriate, action should be taken to collect this revenue.
15. Permits: Residential and Commercial Construction work is regularly being done without property owners obtaining the necessary permits. In the past, the City has not aggressively sought out these violations, has looked the other way, waived fines, etc. To increase both safety and revenue, Code Enforcement should be more aggressive about identifying these violations. It would also make sense to periodically remind residents in the eNewsletter as to what type of work requires a permit. In addition, residents should be reminded of the associated fines for not obtaining a permit. Code Enforcement need to be proactive at identifying these situations.

16. **Business License Fees:** Six years ago, there was discussion of raising business license fees, as the City's license fees are significantly lower than surrounding communities; however, this never happened. Increasing business license fees to ensure they are commensurate with market rates will increase City revenue. Empirical observations indicate our license cost is less than half of what other cities charge. In addition, many other cities charge a higher license fee for the initial license (versus a simple renewal). The City should also consider implementing a separate fee for the initial Business License.
17. **Inadequate Enforcement of Business License Requirements:** Many businesses have not renewed their business license for years. In 2022, all business licenses were erroneously deleted out of the BS&A financial system. As a result, only businesses that needed an active license for regulatory certifications renewed their business licenses with the City. Business license fees from 2022 must be retroactively collected from businesses that were in operation during this time period. Currently, business license enforcement appears to be more on the honor system than any type of proactive enforcement. The City needs to be significantly more aggressive about ensuring all businesses obtain their annual license. The City should establish a procedure to run reports regularly to determine which businesses are operating without a valid license.
18. **Past Due Balances:** When stakeholders come to the City office to transact business, the staff currently focuses solely on the business at hand, even when the stakeholder may owe the City a past balance for other past issues (e.g., business license, fines, fees, delinquent water bill, nuisance cut cost, etc.). A process must be put in place that requires a search in all our business systems to determine any past due balance prior to transacting the new business at hand. The City should implement a new policy that any outstanding fees must be paid prior to completing a new transaction.
19. **Delinquent BS&A Fees:** Currently, there are \$20K to 30K in funds owed to the City in BS&A by residents and businesses. A new process should be implemented to place any BS&A owed fees onto the tax rolls at the end of the year (i.e., using the same process currently in place for delinquent water bills, nuisance cuts, etc.). The City Attorney should be consulted to determine if an ordinance update is required to implement this process.
20. **Vacancy Fees:** The City does not currently enforce and collect vacancy fees for periodic surveillance of empty properties. Different fees should be assessed for extended vacations versus permanently empty business/homes and for commercial versus residential vacancies.
21. **Business Inspections:** The City should implement a policy that requires a property inspection whenever a business license lapses, a new business opens, or a business changes owners. This will provide an opportunity to ensure the safety of the occupant and to generate inspection revenue. Such a policy would also help to encourage businesses to ensure their business licenses do not lapse, as they would face an inspection along with the associated inspection fee for a lapsed license.
22. **Fire Inspections:** The City does not currently charge a fee when the Southfield Fire Department conducts fire inspections for the City. The City pays Southfield an annual fee for fire services. Some of this fee could be recouped by charging the property owner for fire inspections, as other cities do.

## Suggestions to Decrease Expenses:

The biggest potential reduction of expenses could be achieved by reviewing existing contracts—many of which have not been reviewed or competitively bid in many years. Additionally, contracting for existing in-house services or bringing contracted services back in-house may also provide savings opportunities. A myriad of other, more relatively minor, savings opportunities exist across all City departments.

### Contracts:

1. **Dispatch Services:** Dispatch services are currently provided by the City of Southfield. Given the new interoperability provided by recent communication system upgrades, Lathrup Village could now use another city's dispatch services. Quotes from nearby cities should be requested or an open RFP should be executed. However, this could be complicated by the fact that our current dispatch services handle both police and fire. Therefore, any change would require the new dispatcher be able to work with the City of Southfield, since the City contracts with Southfield for fire protection. The City currently pays approximately \$57K for outsourced dispatch services, but is currently operating without a contract. The last contract expired on June 30, 2023.
2. **Police Services:** The City currently employs its own Police Department. While contracting for police services with another city would likely be wildly unpopular, there may be savings associated with doing so, and as a result, this possibility should at least be investigated. Having our own community-oriented police force is a huge part of Lathrup Village's unique identity. However, if the City could realize dramatic savings by outsourcing its police department, the City may need to consider the possibility and have some uncomfortable discussions on the topic. The Police Department is projected to incur approximately \$2.6M in expenses in FY24 (51% of all General Fund expenses).
3. **DPW Services:** Many years ago, the Department of Public Works was outsourced to Lathrup Services LLC. The City currently pays approximately \$400K per year for these contracted services. An analysis should be conducted to determine if moving the services back in-house could reduce the amount spent on DPW services.
4. **Building Department Services:** The City currently contracts with McKenna for building department services. As payment, McKenna retains 75% of all permit fees, receives a set fee of \$100 per month, charges the City \$58 per hour when working onsite as the Building Official, and receives other miscellaneous fees. It might be worth investigating whether the City can bring these services in-house. Given McKenna provides multiple consultants with the appropriate expertise where necessary (e.g. plumbing, electrical, mechanical, etc.), this might be cost prohibitive. However, a cursory analysis could be done to determine whether looking at this at a more in-depth level would make sense. In addition, the City could investigate whether the contract could be renegotiated more in our favor (e.g., a 65%/35% split)?
5. **MML Liability Pool Insurance:** The City currently uses the Michigan Municipal League's liability pool for insurance. While this is probably the most cost-effective solution, other competitive options should be researched to confirm that assumption. The City currently pays \$93K annually for this policy.
6. **Technology Services:** The City currently uses VC3 for technology services. This contract currently costs the City \$15,600 per year. Other competitive options should be researched to ensure we are using the most cost-effective service.

7. Giffels Webster: Giffels Webster is a long-time valued asset to the City serving as both the City Planner and City Engineer. In addition, they possess a wealth of City-related historical knowledge. However, this contract could use review to ensure price competitiveness.

#### Other Expense Reductions:

##### Government Services:

1. Recording of Meetings: Over the last couple of years, there has been little oversight regarding which City meetings and events are recorded. For example, over a year ago, Council and the Administration decided that with respect to Council meetings, only the third Monday Council meeting would be recorded each month. However, until recently, this was only loosely enforced, as study sessions and special meetings were regularly recorded, often without authorization. Further, special events were regularly recorded without any prior authorization. This lack of oversight resulted in higher costs than expected. More oversight needs to be applied to ensure that recording policies are enforced and that all event recording is approved in advance. Additionally, it should be determined if there are other ways to reduce recording fees (e.g. static cameras, technology that can reduce human intervention, etc.). The current contract, which expired on December 31<sup>st</sup>, 2022, with CV Studios costs the City \$40,000 per year, plus any additional requested services at \$30 per hour.
2. Printing and Postage: The *Our Town* magazine costs the City approximately \$5,000 in printing, \$1,600 in postage costs and significant staff time cost. This communication method can easily be replaced with an electronic version, which will eliminate almost \$7,000 in cost. For those few residents who do not have broadband access (the last census indicates 99.2% of residents have broadband access), a limited number of hard copies can be made available at the front desk and/or delivered to those on the Adopt a Senior program.
3. Memberships: The Government Services department subscribes to a plethora of membership programs. Each program should be evaluated to determine the value of the membership relative to its cost. Those memberships that do not bring value to the City should be terminated.

##### Administration:

1. Staff Salary and Benefits: There has been a lot of discussion over the last two years with respect to the salary of administration employees. However, the most recent completed compensation study is at least four years old. In that time, there have been dramatic changes in the workforce due to Covid, mass retirements, a reduction in skilled employees, labor shortages, etc. Over that time, a limited amount of hard data has been available to address the appropriateness of the current compensation offered to city staff. A comprehensive salary analysis should be undertaken and adjustments made accordingly. In addition, some salaries may need to be adjusted downward in instances where tasks required in the job description are no longer being performed by that staff member.



#### Building and Grounds:

Nothing significant noted.

#### Public Services:

Nothing significant noted.

#### Public Safety:

Discussions with Chief McKee and Sergeant Zang made it clear that they have already been very proactive in cutting the expenses for their department. As such, there was only a single expense reduction opportunity noted; once the City receives its final accreditation for the Police Department, the City should reach out to the MML Liability Pool, as the City should receive a reduction in our liability premium.

#### Recreation:

1. There is a strong need and desire for active and diverse recreational opportunities in Lathrup Village. The City Administrator should assess whether there are funds in our tight City budget to hire a full-time or part-time staff member to oversee the recreation department. In the interim, or possibly in lieu of hiring Recreational Coordinator, the City should consider utilizing a strong Recreation Committee with leadership from the Council liaison to develop, lead, and conduct (using volunteers) City recreational activities and events. Volunteerism has worked well over the past year to plan and staff City events, but recreation has suffered from a lack of a Council liaison due to a prior Council member allowing the committee expire. The new Council needs to establish a Council liaison and establish a strong and active committee as soon as possible (Council is currently working on this). At best, this approach will provide robust recreational opportunities and potentially allow the City to forgo the hiring of a Recreation Coordinator, which will save significant City funds. At worst, an active committee will provide helpful organization and resources for a hired Recreation Coordinator to leverage, which will reduce the necessary resources (and cost) of the hired Recreation Coordinator.

### Other Expense Factors:

During the expense research, several other factors that affect the City's expenses were noted. They are:

1. **Police Contract:** The current police contract expires in 2024. Surrounding communities have seen contract increases in the range of 20 to 30%. This is largely due to a depleted pool of available officers and the portability (lack of loyalty) of officers toward their employers due to the industry change from defined benefits (pension) plans to defined contribution plans. The new contract could conceivably raise costs to the City by \$200 to \$250K. If this increase was not reflected in the FY24 budget, a budget amendment may be necessary.
2. **Tasers:** The City's taser inventory is expiring in the upcoming fiscal year. This could add as much as \$30K in unplanned expenses. If this expense was not reflected in the FY24 budget, a budget amendment or capital fund expense may be necessary.
3. **Public Services:** Multiple pieces of day-to-day equipment have exceeded their useful life or are nearing the end of their useful life (e.g., the City dump truck). While the staff/contractors do everything they can to maintain the equipment and extend its life as far as possible if a piece of large equipment fails, the City will need to make an unbudgeted purchase or rent equipment to maintain services. New equipment should be evaluated, budgeted, and purchased as necessary to avoid unforeseen purchases due to equipment failure.
4. **Building & Grounds:** The City should conduct an assessment of facilities via a professional architect/engineering team to determine if the City is utilizing its spaces to their full potential and to determine where necessary building improvements are needed so the City can be proactive and budget for necessary improvements.

## Appendix A

Below is a list of the transfers referenced in the FY23 audit that had not occurred by the end of the fiscal year. All transfers were made to the Bond Fund

From the General Fund:

- 2021 Santa Barbara Concrete Project (\$106,433)
- 2021 – 2023 Non-compliant Culverts (\$174,973)
- 2022 Cambridge Drainage SAD (\$87,567)
- 2022 DPW Parking Lot Paving (\$50,897)

From the Water Fund:

- 2023 Watermain trench repair (\$129,000)

From the DDA:

- 2021 – 2023 DDA Alley and Approach Repairs (\$265,222)
- 2021 Eastbound 11 Mile Road Hump Grind (\$2,381)

From the Capital Fund:

- 2021 DPW Parking Lot Paving (\$47,260)

From the Local Road Fund:

- 2023 Eldorado Paving Project (\$105,000)
- 2022 -2023 Road Grants (\$43,483)