

Special Council Meeting
Madison Heights City Council
Madison Heights, Michigan
April 17, 2023

A Special Meeting of the Madison Heights City Council was held on Monday, April 17, 2023 at 6:02 p.m. in the Council Chambers of the Municipal Building at 300 W. 13 Mile Road, Madison Heights, Michigan.

PRESENT

Mayor Grafstein
Councilwoman Aaron
Councilman Fleming
Councilor Rohrbach
Councilman Soltis
Councilor Wright.

ABSENT

Mayor Pro Tem Bliss.

ALSO PRESENT

City Manager Marsh
Deputy City Manager/Police Chief Haines
City Clerk Rottmann
Community and Economic Development Director Tucker
Finance Director Kunath
Fire Chief Lelito
Human Resources Director Mischak
Library Director Verdun-Morris
Acting Director of Public Services Ballantine
Assistant to the City Manager Adam Owczarzak

Meeting Open to the Public:

There were no members of the public wishing to speak.

Presentation and Review of Proposed FY 2023-24 and FY 2024-25 Budget.

Mayor Grafstein welcomed everyone to the Special Council Meeting to review the Proposed Fiscal Year (FY) 2023-2024 and (FY) 2024-2025 Budgets.

City Manager Marsh and Finance Director Kunath provided the Council with an overview presentation of the Proposed FY 2023-2024 and FY 2024-2025 Budgets.

City Manager Marsh began by stating the Proposed Budget is presented in accordance with a

detailed calendar that is contained in the Policy Document. Last Fall, the annual budget process formally began with the prior year's audit presentation and strategic planning survey. In January, City Council met with staff to discuss updates to the strategic plan, which led to the completion of the Capital Improvement Plan. Preparation of the Operating Budget began in January and following the strategic plan development, the Proposed Budget was submitted to Council on April 6th. The remaining highlights of the budget calendar include tonight's Council Budget Presentation and Workshop, and the adoption of the Budget with supporting Tax Levy and fees scheduled to take place on the Council agenda on the second Monday in May, which is May 8th.

Approved Budget Goals and Policies

In preparing the budget, Finance Director Kunath stated that the goals and financial policies adopted by the City Council guided our process. First, staff has conservatively estimated revenues and expenditures, including a thorough review of each department with the respective department head and a careful and updated analysis of projected revenues. This includes reviewing the feasibility of adding staff – for FY 2024, we have all agreed to hold off on the majority of staff (reoccurring) costs until the capital projects are complete and we can assess where we are financially, especially given inflation and current interest rates. Second, we balanced each special millage with the applicable expenses, focusing on millage reserves and prioritizing needed projects. Third, we analyzed projected fund balance levels and determined how much funding was available for use while maintaining the targeted fund balance. This year we anticipate very little use of the General Fund fund balance as there are still some unknowns as the major capital improvement project. And fourth, we reviewed taxes and fees being charged to the residents and businesses. This includes tax revenue estimates that are verified by Oakland County Equalization and a review and updated recommendation of fees. This budget is supported by a tax reduction of 0.5483 of a mill for FY 2024 and an increase in water and sewer rates as these rates are being restructured.

Financial Challenges

Finance Director Kunath discussed the financial challenges the City faces. The City's number one financial challenge hindering our ability to fully restore services to pre-recession levels are Proposal A and Headlee. These both cap the amount of increase in taxable value a municipality can have to lesser than 5% or the state-approved rate of inflation with no cap on the decreases. In FY 2024, this multiplier is 5% (FY 2023 was 3.3%), which caps the City's overall taxable value growth. Unless the State reforms the structure of restricting municipal revenue growth, the City will continue to struggle to keep up with the actual cost of inflation, which is currently around 8%, while being pressured to restore services. Even with historical increases in market values of homes in the area, the City's taxable value is only 87.3% of the taxable value it was in 2008 as shown in this slide.

Finance Director Kunath stated that the second significant financial challenge is the legacy cost of pensions. As of June 30, 2022, the General Employees' retirement system was 102% funded, while the Police and Fire Pension is only 51% or \$41 million of a \$92 million liability. This proposed budget continues to address this system funding by budgeting a pension contribution of

\$3.3 million for Fire and \$4.2 million for Police in both years. In addition, the Michigan Department of Treasury recently launched the Protecting MI Pension Grant Program. Under this program, the state treasury appropriated \$750 million for qualified pension systems with a funded ratio below 60%. Under the grant guidance, it is estimated that the City will receive an additional \$3.6 million to be awarded to Madison Heights. This grant, coupled with the additional budget funding that started in FY 2023, should increase the funding level of this system to over 70% by June 30, 2025.

The third significant financial challenge Director Kunath noted is state funding of local municipalities. While the State of Michigan and Oakland County have allocated some of their American Rescue Funding to cities, the state's long-term structure to fund municipal services remains a serious issue. Michigan's state revenue sharing began in the 1930s by taxing businesses with liquor licenses. Of that revenue, 85% went to fund municipalities. This revenue is not guaranteed, and it has gone through numerous formula changes and has not been fully funded since 2001. Over the past fifteen years, local governments have lost millions of dollars due to these changes. From fiscal years 2002 through 2021, Madison Heights has lost \$20.3 million during this period of disinvestment. Michigan has cut support for cities more than any other state since 2002, forcing municipalities to reduce services, staff and look for new ways to fund the status quo. The FY 2024 budget does include an increase in State Revenue Sharing based on recent State projections for a total budget of \$3.8 million; by comparison, in 2002 (twenty-two years ago) Madison Heights received \$3.8 million in funding.

Operating Budget Highlights

Finance Director Kunath specified that General Fund Revenues are budgeted at \$39 million, including a transfer from the retiree benefits trusts for \$2.1 million, representing a planned use of trust assets forecasted by the system's actuary. This represents an increase of \$3.1 million or 8.7% from the FY 2023 Amendment Budget directly related to the retiree benefits trust transfer and increase in private funding and taxable value.

Compared to FY 2023 Amended Budget, the General Fund expenditures are estimated to be down \$5.4 million or 12.1% for FY 2024. Although, as discussed, this difference is a combination of a reduction of transfer for the Civic Center and Fire Station #2 budgeted in FY 2023 at \$8.2 million, a decrease in contribution for retiree health care and general employee pension obligations for \$447,000; and increase in Police and Fire contributions for \$1.7 million, and an increase in personnel services have also increased \$1.2 million over the amendment budget for FY 2023. This personnel increase relates to healthcare cost increases and negotiated changes to the Police and Fire Union contracts to stay competitive with wages and benefits.

Finance Director Kunath indicated that Capital outlay purchases for all funds total \$9.5 million in FY 2024. In FY 2024, investment in capital outlay remains higher than historical averages due to road rehabilitation and reconstruction projects, including R-3 dedicated millage projects, major road sectional work, sidewalk repair, and water and sewer line replacements.

Due to continued strong financial management, Finance Director Kunath commented that the City has had the ability to use reserves fundings to make much-needed investments in our

community to renovate the Library, Active Adult Center, City Hall, and Fire Station #2. The General Fund audited fund balance was \$21.5 million as of June 30, 2022, but the assigned fund balance was \$14.1 million. This fund balance remains intentionally higher than our fund balance policy because we saved funding for the construction projects. Based on projections, the assigned fund balance will be reduced to \$5.6 million at the end of FY 2024, which is at the required minimum fund balance of 16% of operating expenditures, plus one year of debt payments. Staff was mindful of the policy as we established the Citywide strategic plan and prepared this budget for council consideration.

Water and Sewer Expenditures

Finance Director Kunath stated we are focusing on the Water and Sewer Fund where both expenditures and revenues are budgeted at approximately \$12.2 million. As shown on this slide, the most significant expenditures are the purchase of water from Great Lakes Water Authority (21%), and sewer and stormwater treatment from Oakland County (42%). Also included are replacements of sewer and watermain, budgeted at \$985,000 or 19% of the proposed budget.

These expenditures are supported by revenues made up primarily of user rates.

- Rates have not been adjusted since July 1, 2019, although we have experienced increased costs, including increases from both GLWA and Oakland County for Water and Sewer.
- The City has been completing and is continuing to complete significant capital outlay to keep the system safe and reliable in the current and next five years to the distribution system.
- The existing cash on hand and current customer rates are not sufficient to pay for all necessary system improvements or basic operation costs and commodities past the current fiscal year.
- The model will calculate the necessary rate increases over 5 years in order to pay for the cash needs of the system and establish a minimum recommended working capital reserve.

For these reasons and the fact that the fund is at the point that we can no longer sustain commodity increases without increasing our end-user rate – rates are being proposed to increase effective with bills on or after July 1, 2023. These rate changes include the stormwater rate being eliminated from all bills. For each unit billed, water and wastewater rates would increase from a total of \$6.96 to \$10.56 per unit. Each unit equals 748 gallons of water, meaning end-users pay less than 2 cents per gallon of water. Even with this rate increase, Madison Heights will be the lowest water and sewer rate in the region. This slide compares the proposed FY 2024 rate for Madison Heights with FY 2023 rates of nearby communities. The average rate is represented by Lathrup Village in blue with a rate of \$172.44, while Madison Heights' average rate would be only \$126.72.

Priorities and Issues

City Manager Marsh articulated that starting in 2018, City Council and staff worked to develop plans to articulate a future vision for the community. These plans consider everyone who lives or visits Madison Heights and centered on creating a solid tax base to allow us to build a strong community and provide services at superior levels. We are now in year five of this process.

Highlights included in the budget document track with the strategic direction from Council.

Public Safety/Infrastructure/Capital Assets

- We have been awarded funding and have worked with Habitat for Humanity to increase the \$850,000 granted to over \$1 million to start a neighborhood improvement project in the area south of Lincoln and north of I-696. Improvements will cover a wide range of home improvement activities. This is not included in the budget as the majority is awarded to Habitat however, the budget does include some support funding for items such as community engagement \$3,000; and the community development fund budget for home improvements.
- We have reinstated the part-time Code Enforcement position. This was eliminated in FY 2023 due to being unable to hire and retain anyone for this position. We have now reinstated it due to a recent retiree willing to come back and fill that role.
- Other items include capital for regular replacement of patrol vehicles and building improvements. She stated she wanted to take a minute to talk about fire equipment. We have included in the budget a Quint, phase funded over two years at \$600,000 a year; however, just this morning, we found out that that cost is actually \$1.5 million, therefore after the presentation, I want to invite the Fire Chief up to discuss how this is a change of direction and how this purchase will be beneficial to the City moving forward.

Quality of Life

City Manager Marsh stated that in March 2021, the City finalized the Parks and Recreation Master Plan. In FY 2022, the General Fund budget for Parks improvements included \$551,000, with an additional \$792,000 in FY 2023. This proposed budget continues this investment in our Parks system with \$675,000 budget in FY 2024. This money is being maximized by utilizing grant funding when available. The FY 2024 specifically addresses park issues with an additional \$200,000 phase funded for field lights replacements, \$230,000 for improvements at Rosies' Park, \$88,000 for basketball court refurbishment at Civic Center Park, and \$50,000 for a special project allocation. The special project funding can be carried forward into future budget years to "save" for a significant park enhancement or utilized to match grant opportunities for new features.

The library budget includes ongoing makers space funding at \$11,000 in FY 2024 and library of things equipment for \$5,000 per year. Other Quality of Life inclusions: a fixed amount of labor and equipment rental of \$1,500 per event for City Boards and Commissions for special events capped at 6 events per year. Any amount above \$1,500 would be reimbursed to the City.

Gateway entrance signage is included for \$250,000, with an offsetting revenue of \$100,000 from private donations. These private donations may be as high as \$250,000 as committed by Quality Roots.

As discussed at strategic planning, the staff is working on a recycling grant to provide recycling totes to residents. This was not included in the budget because it will only be completed if the grant is awarded. If so, we will present a budget amendment at that time.

Economic Development

City Manager Marsh detailed the DDA FY 2024 budget includes streetscaping plan, continues annual tree planting, MHHP Chamber services agreement, banners, gateway signage and other district-wide enhancements to be determined by the streetscaping plan.

Financial Stability

City Manager Marsh commented that the City has a long-standing reputation for strong financial policies and practices. These have been enhanced with our strategic planning process and multi-year budget. Since 2007, this budget process has highlighted the City's significant financial challenges such as the legacy cost of pensions and retiree health care. In 2021 we made significant changes to retiree health care, bringing it in line with health insurance offered to active employees. This reduced the City's liability by over \$57 million from \$102 million to \$45 million. The FY 2024 budget continues to reflect this change in funding for retirees' health care premiums from the retiree health care trust instead of being paid from current General Fund resources; this is shown as a transfer from the trust to the General Fund in revenues.

City Manager Marsh noted that the FY 2024 budget includes the City's funding of the Police and Fire Pension, which is currently 51% funded, by including an additional contribution of \$3.8 million above the actuarially required contributions this year.

Sustainability

City Manager Marsh continued that sustainability projects are included in the Budget at \$27,000 to continue repopulating the tree canopy in the City. The City is working with DTE for electric vehicle rebates for 6-8 charging stations. These are currently being planned as part of the Civic Center Project; however, if full funding is not available for this addition, it may be requested as a future budget amendment. As approved by City Council at last week's City Council meeting, the staff is also working on a grant for a sustainability master plan. This has not been included in the budget and will only be completed if grant funding is available, at which time it will be presented to City Council for a budget amendment.

City Manager Marsh concluded the presentation by commending Finance Director Linda Kunath, Assistant to the City Manager Owczarzak and all the Department Heads, and staff for their work in development and planning for their multi-year budget and their continued commitment to providing excellent services for our residents.

City Manager Marsh requested Fire Chief Lelito to discuss the proposed Quint Fire Truck purchase.

Fire Chief Lelito stated that the City is always looking for ways to improve operations at the Fire Department. He continued by stating the Quint is a smaller ladder truck. Currently, we do not staff the full ladder truck on a full-time basis; the Quint truck would be. He added that Station 2 was built with this concept in mind. When we first began researching the purchase of a Quint truck, we budgeted \$1.2 million; the price has increased due to demand of these vehicles and inflation to approximately \$1.5 million. It will be staffed 24/7 and we are hoping to push the life expectancy of the vehicle to 25-40 years. A larger ladder truck is over \$2 million to purchase. The purchase requires a twenty-six (26) month lead time, and we are budgeting in phases with payment due upon delivery.

Council Comments and Questions.

Mayor Grafstein invited Council members for their comments and questions.

In response to Councilor Wright, Chief Lelito stated that the City does receive some reimbursements from insurance companies when responding to large fires in surrounding communities.

In response to Councilman Fleming, Chief Lelito confirmed that the purchase of the Quint truck will be replacing fire engine and extending the life of the existing ladder truck.

In response to Councilman Soltis, Chief Lelito stated that the Quint truck is a necessity since currently ladder trucks do not respond to low priority calls.

In response to Councilwoman Aaron, City Manager Marsh noted that the streetscaping plan will look at certain areas within the DDA. Once the streetscape plan is established, we can move forward with focus and also, we hope to utilize grant funding once the document is established.

In response to Councilman Soltis, City Manager Marsh noted that the wage increase is due to union contract negotiations and the number reflects 2 years of wage increased rolled up into 2024. Under budget line-item Program activity for the Active Adult Center, these are revenues from when you go on a trip or participate in class. There are other revenue sources as well and this budget is supplemented by the General Fund. Councilman Soltis stated that he would support more programming for seniors.

In response to Councilman Soltis, Community and Economic Development Director Tucker stated that senior lawn cutting is part of the Community Improvement Fund. Director Tucker added that 50-60 seniors use the program, and he is not aware of anyone being turned away. The program is advertised, and intake is done at Active Adult Center. Police Chief Haines added that there were some seniors cited, but we refer them to this program for assistance.

In response to Councilman Soltis, Chief Haines stated that the SIU program is currently dormant due to personnel shortages; about a year ago SIU was phased back into road patrol, but he is hopeful that in the next two weeks, it will be restarted once we are back to full personnel.

In response to Councilman Soltis, Chief Haines responded that the Drug Forfeiture Funds are from participating in the Oakland County Narcotics Enforcement Team and the City had to removed personnel due to limited personnel and we are currently not participating. We are not eligible to receive funds if we don't participate. As for the FBI Task force, that program reimburses some overtime; they also have forfeitures that we get a split. It does, however, take several years to obtain the funds from the federal government.

In response to Councilman Fleming, City Manager Marsh stated that there isn't a personnel freeze on hiring for Police and Fire, but rather no new positions are being created at this time. The City is maintaining current staffing levels.

In response to Councilor Wright, City Manager Marsh noted that the City always budgets for a normal winter season; we are pre-committed to the purchase of salt, but if it is a light weather season, it does save some money in overtime. Costs are budgeted in the Major and Local Street Funds and any funds not used would be put back in those fund balances.

In response to Councilman Fleming, Acting Director Ballantine confirmed that the City does not charge for chipping after storms with down limbs; however, the City does charge for that service if someone has a tree they take down and they want it to be chipped.

In response to Councilman Soltis, City Manager Marsh stated that Chief Haines, City Attorney Sherman and herself are working with the District Court on budgeting to raise enough revenue to cover staffing cost. Revenues have decreased since COVID.

Adjournment.

There being no further business, the Special Meeting was adjourned at 6:54 p.m.

Roslyn Grafstein
Mayor

Cheryl E. Rottmann
City Clerk