

In the last 2 years we have witnessed the worst economic decline since the Great Depression. By nearly every measure, our global economic wealth has permanently contracted by roughly one-third. This affects virtually everything everybody does now and will for a considerable time into the future. There is a new normal that is considerably less wealthy than we were just a few years ago.

There are a number of significant issues facing the City, the State and the Nation because of the economic collapse of the last year. In addition to the global budget crisis there are unique issues in the City that revolve around our maturing as a community. We are facing a period of major revenue contraction that will severely limit our budget expenditures. Taken directly from the 2010 Proposed Budget, is the following table using the 2009 actual data and projected changes in Property Tax Revenues for future years. The City's projection is that the decline in Property Tax Revenue will bottom in 2014. Beyond 2014, I have assumed that the revenues will increase at a historical rate of 3%. If housing values increase faster or if the housing market bottoms sooner, revenues will not increase to previous levels within this timeframe because of the limitations in increasing taxable value. (Increases in taxable value are limited by Proposition A to 5% or inflation, whichever is less.)

Year	% Change from Prior Year	Prop Tax Revenue	General Fund Revenue
2009		32.8	13.7
2010	-3.8%	31.5	13.2
2011	-10.0%	28.4	11.9
2012	-9.0%	25.8	10.8
2013	-4.0%	24.8	10.4
2014	0.0%	24.8	10.4
2015	3.0%	25.5	10.7
2016	3.0%	26.3	11.0
2017	3.0%	27.1	11.3
2018	3.0%	27.9	11.6

These projections show the City's tax revenues declining by 25% over the next five years. This is an enormous change. At the end of 10 years, the decline under these projections is still 15% from 2009 levels. Changing the assumed growth in Property Tax Revenue in 2016 and beyond to the Proposition A maximum improves this picture slightly (down to 10% below 2009 in 2018), but does not change the fundamental conclusion. This is the new normal the City will have to deal with in the coming years. There are three major City services that depend heavily on the General Fund: Parks and Recreation; local roads; and about half of the funding for Police Services.

An excellent example of how declining tax revenues collide with increasing costs is for Police Services. As the General Fund revenue declines, so too do the dedicated Police Mileage revenues (assuming as the proposed budget now does that there are no new millages and the expiring millages are renewed). If Police Services are to remain at their

present level, General Fund transfers would increase from about 33% of the General Fund to about 63% of the General Fund each year by 2014.

Year	General Fund Revenue	Police Millage Revenue	Police Services Expense	General Fund Transfer to Police	Police as Percent of General Fund
2009	13.7	4.4	8.9	4.5	32.8%
2010	13.2	4.2	9.0	4.8	36.4%
2011	11.9	3.8	9.2	5.4	45.4%
2012	10.8	3.5	9.4	5.9	54.6%
2013	10.4	3.4	9.6	6.2	59.6%
2014	10.4	3.4	9.9	6.5	62.5%
2015	10.7	3.5	10.2	6.7	62.6%
2016	11.0	3.6	10.5	6.9	62.7%
2017	11.3	3.7	10.8	7.1	62.8%
2018	11.6	3.8	11.1	7.3	62.9%

Similar situations occur with other dedicated funding such as RARA and OPC. Additional examples are the Local Road Funds. This fund essentially exhausts the fund balances in the 2013 time frame, which leaves no cushion for additional local road projects.

The City Council faces the daunting task of how to address the fiscal and budgetary problems when we experience significant revenue reductions and can no longer expect increased revenue from new development. I believe the City should behave the same way a family does when it is facing significant reduction in future income – reduce spending to save as much money as you can now, so you can maintain the essentials as long as possible with your savings. It is clear to me that the Proposed 2010 Budget does not do that sufficiently.

I believe we need to curtail spending funded from the General Fund by substantial amounts during the upcoming and future budget years. The reductions should be capital expenditures, maintenance activities that can be postponed, along with operating expenses that can be trimmed.

Let me outline three approaches to consider.

First – reduce Local Road transfers from the General Fund. As proposed and projected the General Fund transfers are \$5.1M in 2010, \$3.5M in 2011 and \$1.4M in 2012 and essentially none thereafter. Rather than take more than \$8.5M from the General Fund in the next two years, the annual transfers should be reduced to \$2M per year and spread over the next four years. This fund transfers should be maintained if other General Fund obligations can be met.

Second – we need to significantly reduce General Fund transfers to Parks and Recreations. Historically, the Parks budget has been around \$3.2M and is proposing about a 10% reduction in 2010. The Parks historically received about 20% of their budget funding from user fees and rentals. The Parks are unique in the City because they

are the closest thing to a real business. They provide a service that people are willing to pay for. When the demand for soccer or football or baseball field rental is so high that the City must hold lotteries, we clearly have the demand that justifies a higher price. It is one of the few services where a reduction in personnel would result in fewer hours of operation, which in turn results in less revenue, which is counter to the desired result. Parks and Recreation should continue to seek further cost savings for 2011 and beyond, but should undertake a major review of charges with the goal of increasing the percentage of its budget to 40% over the next 1 to 2 year period.

Third – we cannot continue to transfer increasing amounts from the General Fund to Police Services. The ultimate goal is to provide a stable, long-term, source of police funding through a dedicated millage that provides substantially all of the needed funding. That cannot be achieved in the next year or the year after; it will take a dedicated City Council that develops a realistic plan, informs residents of the need and campaigns hard for approval of that plan.

In the meantime, we need to limit the future increases in the subsidies for Police Services from the General Fund. The changes in the School Liaison program is appropriate and a modest savings. I think the \$3.8M General Fund transfer proposed for 2010 should be considered a “cap” for 2011 and 2012. I recognize that maintaining service level may be difficult with such limits on funding. However, I believe the Sheriff’s Department and Oakland County will be under similar budgetary pressure to reduce costs of service that may result in service innovations at significantly reduced cost.

James Rosen
Member of Council
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