



## CITY COUNCIL REPORT AND COMMUNICATION

June 6, 2012

TO: Michael Culpepper, Acting City Manager

FROM: Tom Darling, Director of Financial/Administrative Services  
Nino Licari, City Assessor

SUBJECT: City Assessing versus County Assessing, Formal Bid Process

### SUMMARY OF THE ISSUES:

On April 16, 2012, the City Council took no action regarding a report concerning City versus County Assessing functions. Two members of Council requested a formal quote for services from the County before a discussion should be brought forward.

In response to the request of the two council members, former City Manager, John Szerlag, made a written request of Oakland County Equalization Director, David Hieber, concerning a bid for services.

Subsequent communications with the County indicate multiple issues that preclude the County's desire to provide a formal bid. There will be substantial additional costs above the base bid that inhibit the realization of any efficiency in moving forward with the process.

Confirmation of estimated costs included in the original Report and Communication of April 16, 2012 (attached) support Management's conclusion that the existing service delivery method is more cost effective than outsourcing to the County for this particular service.

### DETAIL:

As confirmed by the attached email from David Hieber, Oakland County Equalization Director, the County's base bid for services in Troy would be \$514,717.

Also confirmed in that same email is Mr. Hieber's statement that the base bid will not cover all services required to perform the assessing function in Troy. He states that the bid price will increase based on a final contract that specifies exactly what services will be required by the City.

*As per the Report of 04/16/12, (dated 04/02/12), the current method of delivery is already more efficient than the base bid.*

Mr. Hieber further states that it is already too late in the Assessment year for the County to take over the 2013 assessment roll (we start working on the next assessment year as of May 1 of any year). Assuming a contract acceptable to both parties could be drafted, their earliest start date would be April 1 of 2013. (since updated by Mr. Hieber on 06/07/12 to April 1, 2014)

### **ADDITIONAL COSTS:**

Mr. Hieber and the City Assessor have spoken numerous times about the bid process since Mr. Szerlag made the request for a bid. He has confirmed the following additional charges that are not included in the base bid.

### **Legal Fees:**

The City has over 300 pending appeals at the full Michigan Tax Tribunal (MTT), and anticipates 100 +, - Small Claims Appeals for the coming year.

The current department handles the legal work involved in; answering Petitions, Proof of Service, Motions, Stipulations, and Court appearances. The City's legal staff assists in matters of law, not value, in providing briefs and review.

Oakland County's Equalization Department does not perform this function. All legal work is sent to their Corporate Counsel, and they are billed back for this work.

Were the County to perform assessing functions in Troy, the City would be billed by the Oakland County legal team, individually on each item, for all actions they take on the City's behalf. This would minimally involve additional charges of \$50,000 per year to the City. These charges could be considerably higher dependant on the complexity of the appeal.

*These costs were not anticipated in the 04/16/12 Report and signify that the current method of delivery is more cost effective than previously reported.*

### **Staffing Charges:**

If the County were to provide the clerical staff, the City's costs of the bid increases by 1 clerical staff that would be needed in the Treasurer's Office to partially offset the loss of 2 current staff members shared by both departments. This cost is \$75,000 per year.

*As detailed in the 04/16/12 Report.*

These aforementioned costs are also minimum costs that must be added to the base bid for comparative purposes. It is anticipated that there will be multiple types of other costs that would increase the final bid submitted by the County, as indicated below.

### **Additional Costs not Covered by the Base Bid:**

There are numerous items that the existing Department is responsible for, and that the County would bid separately for. These include: tax abatements, special assessments, description change requests, millage certification, public hearings, Council appearances, any Court appearances for the MTT, and so on.

The additional bid charges for these services would be determined after a detailed analysis of time and costs studies based on the number of each occurrence.

*This is another cost not anticipated in the 04/16/12 Report, and also increases the efficiency of the current method of delivery.*

### **Where are we in the bidding process?**

Conversations with Mr. Hieber and the City Assessor centering on the actual bidding process brought agreement that several meetings over a 1 to 2 month period are necessary to determine the exact scope of work expected of the County, above the costs already reported.

Mr. Hieber is skeptical of spending the time and resources necessary to formalize a full bid, when it is apparent that they cannot be competitive with the existing costs. He is aware that the current department performs many functions that the County does not currently provide, and that the County would have to charge for.

### **STAFF RECOMMENDATION:**

Based on multiple conversations with Mr. Hieber, the Oakland County Equalization Director, it would be fiscally inefficient to work through a scope of work for this particular contract, for both parties. This is an issue that staff will review within the continuous improvement cycle and bring to Council again if/when it is cost effective to outsource this service.

## Nino A Licari

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**From:** Hieber, Dave [hieberd@oakgov.com]  
**Sent:** Tuesday, May 29, 2012 9:24 AM  
**To:** Nino A Licari  
**Subject:** RE: Quote for Assessing Services in Troy

Nino

Question 1) The below rates for assessing services are correct. They are the standard rates adopted by the County Board of Commissioners.

Question 2) You are correct. The total contract price could change based on scope of services being requested. The price could go up depending on any additional level of service requested by the city.

Also, I want to let you know we would not be able to offer Troy a contract of the preparation of the 2013 assessment role. It is too far along in the assessing cycle to transition to the county.

If the city would like to discuss, please feel free to contact me.

Dave Hieber, Manager  
Oakland County Equalization  
248-858-0760

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**From:** Nino A Licari [<mailto:LicariLA@troymi.gov>]  
**Sent:** Friday, May 25, 2012 1:19 PM  
**To:** Dave Hieber  
**Subject:** Quote for Assessing Services in Troy

Dave,

That you for confirming receipt of Mr. Szerlag's request for a quote on Assessing Services, by the County, here in Troy.

From our conversations, I am of the understanding that the base quote will be as follows;

Parcels	Count	Per Parcel	Cost
Real	29,197	\$15.10	\$440,875
Personal	5,955	\$12.10	\$ 73,842
Total	35,152		\$514,717

For our Interim City Manager's information, can you:

Confirm that the estimate of the base quote above is accurate? And,

Confirm that the cost of services could increase above this level dependent upon the actual scope of work to be required of you by the City of Troy?

The answers to these two questions will help him in formulating his approach to the City Council.

Thank you for your help!

Nino

Leger A. (Nino) Licari | MMAO (4), PPE | City Assessor - City of Troy | 500 W Big Beaver, Troy, MI 48084 | ph 248 524-3305 | fax 248 524-3310 | Mon - Fri 8:00AM - 4:30PM |



## **CITY COUNCIL REPORT AND COMMUNICATION**

April 2, 2012

TO: John Szerlag, City Manager

FROM: Tom Darling, Interim Director of Financial/Administrative Services  
Nino Licari, City Assessor

SUBJECT: City Assessing versus County Assessing

### **THE QUESTION:**

Is it more cost effective to have the City's in house staff perform the Assessing function, or to outsource this service to the County, based on a recent quote from them?

### **EXECUTIVE SUMMARY:**

The short answer is that the current Assessing Department is more effective in all areas.

There are multiple issues involved in making this analysis;

Is the County quote less than the current costs?

The County quote is higher than current costs by \$12,345. (Attachment #1 page 1) *The current City staff is cost effective under this analysis.*

Is the County's quote realistic? (The detail for this section is important to note)

Based on information supplied by the County, and the recent ICMA analysis, it is apparent that the County quote will not cover their labor costs to assess the City of Troy, much less fixed costs that do not change regardless of who is performing the assessing duties. Equally important is an expected increase in the quote after 2 years. (Attachment #1 page 2). *This analysis makes the current City staff extremely cost effective.*

## What do independent studies say about cost savings?

The ICMA study recognized that the current iteration of the Assessing Department is understaffed. An independent study out of Michigan State University estimates the actual costs of County assessing to be 10% higher than leaving the work at the local level.

### **DETAIL FOR THE EXECUTIVE SUMMARY CONCLUSIONS:**

#### Is the County quote less than the current costs?

The County quote is a per parcel quote based on the 2012 parcel counts. It starts at \$514,717. Fixed costs must be added to the County quote to cover charges the City would incur, and charges the County would incur. (Attachment #1 page 1)

The Treasurer's Office and the Assessing Department share 5 clerical staff as a result of the restructuring to lower costs and increase efficiency, and the ICMA recommendations for consolidation (2 in Assessing and 3 in Treasurer).

As a consequence of County assessing, at a minimum, the Treasurer's Office will need 1 more FTE (full time equivalent) to cover the loss of the 2 current Assessing Department clerical staff (this does not include clerical work that the Assessing staff does for Community Affairs). Thus a total wage and benefit charge of \$71,500 is added as a fixed cost (Actual City cost).

One half of the current copier charges, which is now paid by the Assessing Department, will have to be absorbed by the Treasurer and Community Affairs. This adds an additional \$2,800 fixed cost to the County quote.

The Assessing Department's share of building maintenance and insurance will either have to be absorbed by the City, or charged to the County. This adds another \$2,200 fixed cost to the County quote.

Current staff in the Assessing Department has performed between 200 and 250 audits of Personal Property Accounts per year. These audits bring in an average of \$259,237 per year to the City. This is a deduction from the current department budget. Additionally, these audits bring in total tax revenue for all jurisdictions of \$1,102,525, with a net gain of \$843,288 for taxing authorities other than the City of Troy.

The County quote includes approximately 120 audits per year (2% of the parcel count), which will generate approximately \$102,417 per year. This is a deduction from the County quote costs, and is 39.5% of the City's own generation of revenue. The County's audits will only generate \$333,099 for the other taxing authorities, which is an annual loss to them of \$510,189.

Assessor Reviews of new assessments before the Board of Review save the Board Fund an additional \$3,850 per year, nominally, many years the savings is higher. (Attachment #1 page 3). As the County does not perform Assessor Reviews, it is a cost to the County quote.

Finally, there are legacy costs associated with pension and health care contributions to the Pension Fund that the Assessing Department budget is charged. These annual costs of \$52,692 would have to be covered by the General Fund, and are thus an additional cost of the County quote.

The total cost of the County quote is now \$545,342, compared to the net current City cost of \$532,997. The current City Assessing Department cost is \$12,345 less than the County quote.

### Is the County's quote realistic?

With all we know about assessing a community of the size and valuation of Troy, it is clear that the County quote does not even cover their labor costs. (Attachment #1 page 2 for all of the following analysis)

Based on the analysis of the ICMA audited hours needed to assess the City of Troy, the County's labor costs, plus fixed costs, minus their auditing dollars, the County's costs for assessing the City of Troy come in at \$653,418.

The current net costs for the Assessing Department are \$532,997. This is \$124,347 less than the County's costs.

Also, there must still be a charge for the clerical staff that would be added to the Treasurer's Office at a cost of \$75,000. This makes the current department costs \$199,347 less than the estimated County cost of assessing the City of Troy.

### **Why is this section so important to this analysis?**

If the County were to take over assessing in the City for 2 years at their quote price, it is probable that they would soon realize that they have dramatically under valued their services. It is likely that subsequent quotes would substantially increase to cover these costs. At that point, it would be cost prohibitive for the City to restart their own Assessing division with qualified personnel, and this does not include the loss in revenue from audits, and the loss in revenue to the other taxing jurisdictions.

It is also important to note that Macomb and Wayne Counties do not accept any more units to assess. They do not want to be both equalizers and assessors, citing both the workload and the cost.

## What do independent studies say about cost savings?

The ICMA audit of the Assessing Department recommended some cost saving measures that basically involved cutting back on the services the Assessing Department provides, and eliminating some of the quality controls we formerly applied. The ICMA study also recognized that the current iteration of the department is understaffed, and recommended out sourcing some functions. The Assessing Department continues to perform those functions, as it is currently more cost efficient to leave them in house.

An independent study, authored by Eric Scorsone, PhD, from the Michigan State University Extension State and Local Government Program, estimates the actual costs of County assessing to be 10% higher than leaving the work at the local level.

### Consider these items:

Troy is the 3<sup>rd</sup> largest City in Michigan by State Equalized Value (SEV), and yet is only the 11<sup>th</sup> largest city by population. Clearly there is an enormous amount of diversified and high value property in the City.

Based on State Equalized Value, Troy would be the 18<sup>th</sup> largest County in the State, out of 83 total counties (and will probably be the 17<sup>th</sup> largest for 2012). That means that Troy's SEV is larger than 66 of the 83 counties in the State. Troy is a County. Troy's staff currently does County assessing.

Troy's SEV is 8.9% of Oakland County's total SEV, and yet Troy only accounts for 3.8% of the County's land area.

The City of Troy Assessor and the County Equalization Director are both certified at the MMAO (4) level. This is the highest certification level in the State. They are both certified to appraise any single property, any City, may be the Equalization Director of any County, and fill any position on the State Tax Commission, or to hold a judge position on the Tribunal.

The Troy City Assessor is on site, and remains so. This will not happen with the County assessing the City, as they will not provide this certification level on site.

There will be no immediate access to a qualified Assessor for revenue estimates, millage limitations, DDA information, meetings, budget help, IFT qualification, description change verification, compliance with local ordinances, special assessment estimates, custom exports for other departments, FOIA requests, meetings with prospective and current taxpayers, Warrants or settlement work. All of this will have to either go out to the County offices, or be arranged by coordinating everyone's schedule, and waiting for someone to get back to you.

The County has residential appraisers, commercial and industrial appraisers, personal property appraisers, and description change specialists. Most of their other tasks are also compartmentalized.

The appraisers in the Troy Assessing Department are all cross trained and each performs all of these tasks.

It is apparent that the County cannot cover the nominal costs to provide an efficient and cost effective Assessing Department with this quote.

The current Assessing Department performs its duties efficiently, and is very cost effective. We are the on site source for all of the Assessing needs. We are extremely competent, and professional.

From Realtors, appraisers, accountants, property tax representatives to leasing agents, the Assessing staff is recognized as the best overall department around. We have dedicated our careers to serving the citizens of this community.

Current management practice is to leave the department head in place to manage the contractor (or County, in this case). This cost scenario was explored 3 years ago, and found to be very inefficient. The Assessing Department lost 2 staff members, and kept all of the duties in house, leaving the current iteration of the department.

The current staff is the finest I have worked with in my nearly 33 years of serving the City. They are well respected at the local, County and State level.

We believe that we have shown, without a doubt, that the current Assessing Department has earned the privilege of remaining the City of Troy's Assessing Department.

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**City of Troy - Assessing Department  
Comparison of County Quote and Existing Costs  
Assessing Department Services**

<b>Oakland County Quote plus Costs*</b>				<b>Assessing Department Costs</b>	
<b>Parcels</b>	<b>Count</b>	<b>@</b>	<b>Total</b>		
Real	29,197	\$15.10	\$440,875		
Personal	5,955	\$12.40	\$73,842		
<b>Total Bid</b>				<b>35,152</b>	<b>\$514,717</b>
				<b>2012/2013 Budget</b>	<b>\$792,234</b>
<b>Plus Fixed Costs</b>					
Account Clerk (Treasurer's)			\$71,500		
Legacy Costs (pension & health)			\$52,692		
Copier (Assessing 1/2)			\$2,800		
Bldg Costs (Assessing Portion)			\$2,200		
<b>Total Fixed Costs</b>				<b>\$129,192</b>	
<b>Audit Revenue (39.5% of City)</b>			(\$102,417)	<b>Audit Revenue</b>	(\$259,237)
<b>Board of Review Extra Costs</b>			\$3,850		
<b>Net City Cost w/Co. Assessing</b>				<b>\$545,342</b>	<b>Net Current City Cost</b>
					<b>\$532,997</b>
				<b>Net Differnce</b>	<b>(\$12,345)</b>

\* The County quote is per parcel, for 2 years. Each new parcel, real and personal increases the cost of the re-bidding.

\*\* Total average annual tax revenue from City Audits to all taxing jurisdictions is \$1,102,525

\*\*\* Total average annual tax revenue from City Audits is to all other taxing jurisdictions is \$843,288.

\*\*\*\* The County's estimated total annual tax revenue from audits to all other taxing jurisdictions is \$333,099, a loss of \$510,189 each year to all other authorities.

04/02/12

Attachment #1 Page 1 of 3

City of Troy - Assessing Department  
 Comparison of County Quote and Existing Costs  
 Assessing Department Services

<b>Actual Minimum Costs for County Assessing in Troy</b>	
ICMA Audit of Necessary Hours for Assessing in Troy	13,520
Absolute minimum hours needed for Assessing in Troy	<u>12,661</u>
Minus County Supplied 2 Clerical Staff FTE hours at the City	(4,160)
Remaining hours to be covered	<u>8,501</u>
Number of staff needed to cover hours (@2,080 hours each)	<u>4.09</u>
Wages and Benefits for 2 Clerical Staff (@\$75,000 each)	\$150,000
Wages and Benefits for 4.09 Appraisers(@\$118,179 each)	<u>\$483,352</u>
<b>Total Labor Costs</b>	<b><u>\$633,352</u></b>

**Fixed Costs**

	City	County @	Cost
Office Supplies	2,500	92%	\$2,300
Postage	17,000	100%	\$17,000
Contractual (copier)	2,800	100%	\$2,800
Computers (@3,300 ea.)	8	6	\$19,800
Printing	5,000	100%	\$5,000
Legal Notices	100	100%	\$100
Vehicles (County pays mileage)	23,700	92%	\$21,804
Bldg Maintenance & Insurance	2,200	100%	\$2,200
Misc Filings	100	100%	\$100

<b>Fixed Costs Total</b>	<b><u>\$71,104</u></b>
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Total County Costs for County Assessing in City	\$704,456
Minus County Audit Revenue (46% of City Rate)	<u>(\$47,112)</u>

<b>Actual Cost of County Assessing in Troy</b>	<b><u>\$657,344</u></b>
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Actual Cost of In-House Assessing	<b>\$532,997</b>
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Difference:	(\$124,347)
Plus 1 Clerical to Treasurer's Office	(\$75,000)

<b>* Total Savings to City with In-House Assessing</b>	<b><u>(\$199,347)</u></b>
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\* All other taxing jurisdictions audit revenue losses remain unchanged

04/02/12

Attachment #1 Page 2 of 3

City of Troy - Assessing Department  
Comparison of County Quote and Existing Costs  
Assessing Department Services

The City of Troy:

Troy is the 3rd largest City in Michigan by State Equalized Value while it is only the 11th largest in population

Troy would be the 18th largest County in the State by State Equalized Value (out of 83 total counties)

Troy's State Equalized Value is higher than 66 counties in the State.

Troy accounts for 8.9% of Oakland County's entire State Equalized Value while comprising only 3.8% of its land area

Troy currently has an MMAO Certified Assessor on site. State law requires this level of Certification to supervise and prepare the Assessment Roll. The County will not provide this certification level on site.

Appraisers in the Assessing Department completed 175 Assessor Reviews that required reductions in value, and an equal number of Reviews that did not result in a change, each saving a Board of Review Appointment. *(Oakland County does not preform Assessor Reviews. This inaction would add an additional 350 appointments to the Board of Review schedule. These appointments would add 14 more days to the Board of Review, with added costs of \$3,150 in Board stipends, and \$700 in meal costs.)*