D-01

TO: Mayor and City Council

FROM: Phil Nelson, City Manager

SUBJECT: Impacts of Proposal to Reduce Mill Rate Resulting from Effective Management

DATE: March 15, 2007

Background

At the February 26, 2007, Council meeting, Councilmember David Lambert introduced a resolution to reduce the property tax mill rate by an amount that the City of Troy could realize as a result of savings by the Southeastern Oakland County Resource Recovery Authority (SOCRRA). Staff was asked to develop facts and figures indicating the potential budgetary impacts of reducing the budget mill rate in the amount equal to projected savings.

According to the numbers supplied by SOCRRA, the City of Troy could realize a first-year savings of approximately $786,000. At one point, staff asked that the subsidy supplied from the Refuse and Recycling Fund be subtracted from the savings estimate, but it appears that the fund will not have to be subsidized in the 2007/08 budget.

- Based on current valuation totals, the projected $786,000 in savings would reduce the City's mill rate by approximately .15 of a mill.
- This translates into a revised mill levy from the current 9.43 mills to approximately 9.28 mills.
- Compared with the current mill rate, the reduction in mill rate would result in a monthly savings to the owner of a home valued at $300,000 (the current approximate median housing value in the City of Troy) of $1.54 cents per month, or about $18.50 per year.
- The attached chart indicates the potential tax savings for residential properties of various values throughout the community.
- Comparing both ends of the value spectrum, the owner of a home valued at $150,000 would see a reduction in taxes of 77 cents per month, and the owner of a home valued at $650,000 would see a reduction of $3.34 per month. In terms of impact on median household income, again using the spectrum of value of property valued from $150,000 to $650,000, percentages are reduced from the current 1.35% to a proposed 1.32%.

Based on numbers supplied by SOCRRA, the proposed 2007/08 budget reflects a reduction in total budget expenditures of $786,000. When reviewing the entire document, the proposed 2007/08 budget will be an estimated $782,660 less than the 2006/07 budget. Although we won't have final valuation numbers until May, based on a 2.75 percent increase in total valuation, the tax rate needed to fund the refuse and recycling budget would be .68 mills, a reduction of .15 mills. The .15 mills will generate approximately $791,000 in property tax revenue.

Options/Alternatives

After hearing significant discussion on the matter at the Council meeting, it appears that a majority of Council will vote to reduce the mill rate. Staff would urge the Council to think in a longer-term, more comprehensive approach as to the purpose of the budget, that purpose being a primary policy planning and implementation document. Even though the budget is based on annual appropriations, the true focus of the document is to build a policy blueprint for the future. While priorities change, providing for consistent annual appropriations can serve many purposes.

First among those purposes is adding value to the properties in the community through a reinvestment in the City's infrastructure. Reinvestment in the approximate ½ billion dollars of community owned infrastructure assets shows the business and residential property owners of Troy that their $12 billion dollars of personal investment is extremely important to the City. Second, beyond the fiduciary responsibility to reinvest in community owned assets, investment shows those who might choose Troy to invest more private money that the City is committed to the future.

The attached graph indicates current street conditions. The graph indicates condition of local roads based budget investment. The telling part shows that with the current $2.5 million dollar annual investment, the condition of local roads begins to deteriorate and will go from good condition to moderate condition within the next two years. Doubling the current investment to $5.0 million dollars maintains local roads on the borderline between good and moderate through the year 2012.

The longer-term picture of the Refuse and Recycling budget includes key unknown variables that could include:

- Increases in the cost of fuel
- Increases in collection fees
- Possible increases in the amount of trash collected

Key factors from a City budgeting standpoint include:

- A 20-year forecast of $459 million of unfunded capital projects. Not counting increases in inflation, this creates a need to have a consistent annual capital improvements appropriation of approximately $23 million per year over the next 20 years just to fund these capital projects.
- Inflationary impacts on the cost of doing business.
- Labor related cost adjustments.
- Budget impacts to other levels of government that will adversely impact the City of Troy.

- Losses of revenue from further changes to the franchising laws—beyond cable television franchising. We already know that we will lose a minimum of $200,000 in annual cable television franchise revenues. Additionally, according to CRC, Revenue Sharing is still vulnerable. Statewide, revenue sharing has decreased over 29%.
- Continued adverse impacts during the economic recovery of the state.
- Increases in finite resource costs.
- The potential for damages and legal fees if the City does not prevail in the lawsuit brought against the City by Hooters.
- Unknown costs of City related expenses for the redevelopment of Big Beaver, Maple, Rochester Road and other areas in the City.
- Unknown expenditures for normal maintenance of City owned buildings.

Another set of statistics that the Council should be aware of is a listing of road improvement costs compiled by the Road Commission of Oakland County. Examples of actual costs for improvements to area roadways include examples such as:

▪ Build a right turn lane	$100,000
▪ Add center left turn lane	$1,000,000 per mile
▪ Rehabilitate/resurface five-lane concrete road	$750,000/mile
▪ Widen an intersection for turn lanes	$900,000 each
▪ Widen from two lanes to five lanes	$6.5 million/mile
▪ Widen fro two lanes to four-lane boulevard	$10 million/mile
▪ Widen from two lanes to six-lane boulevard	$12 million/mile

At the recent Michigan Local Government Management Association meeting, the Michigan Municipal League (MML) made a presentation of options the State is reviewing to handle their rather less than optimistic budget situation. In an effort to try to bring neglected statewide infrastructure up to date as well as refocus spending of meeting the challenges of the future, the MML will be working with the State legislature and asking the legislature to consider some of the following programs:

- Creation of a “Local First” Program. Under the program, a local road agency would apply for grants from the state and would have a local match. Methods to fund the program call for issuing $1 billion dollars in bonds with an amortization schedule to span a 40-year period.
- Investment in public mass transit. This program entails creating mass transit zones to assist in economic development around new transit systems. Methods to fund the program call for issuing another $1 billion in bonds, to be amortized, presumably, over a 40-year period.
- Creation of “Job Ready Site” Programs. The program is designed to assist Commerce Center communities to compete for business expansion/relocation projects by preparing sites to meet the infrastructure needs of businesses. Methods to fund the program call for issuing $200 million in bonds with a 7-year amortization schedule.
- Create a “Community Capital Improvement” program. This grant program, with a local match, will assist communities in developing and maintaining community capital infrastructure. Methods to fund the program call for issuing $300 million in bonds with an undetermined amortization time.

- Other methods of raising funds include the creation of a Regional Infrastructure Authority. Authorities would consist of at least two communities and would provide incentives to be more regional through increased tax rate for additional participation. The regional authority could create a regional entertainment tax to be dedicated to local transportation infrastructure.
- Gas and diesel tax Increases. The plan calls for an increase of 3 cents per gallon for 3 straight years. This would make up for the estimated $2 billion dollar annual shortfall for local road systems. In other words, due to not paying for the inevitable roadway deterioration on an annual basis, gas taxes will be increased on top of increased resource prices.

The main theme here is that the State would have to consider the issuance of $2.5 billion dollars in bonds to make up for under funding the budget for many, many years. The true fallacy in the program is that infrastructure will be falling apart—again—before the bonds are amortized. Issuing long-term interest bearing bonds turn the $2.5 billion into approximately $7 billion, including interest, over the amortization period.

To show what can happen when investment is reduced for the sake of lower taxes, the story of the State of Kansas and road construction should be related. The Kansas Legislature reduced appropriations to the Kansas Department of Transportation year after year. Kansas is the 13th largest state in physical size and has one of the lowest densities of population to land ratios of all of the states. However, Kansas has the third highest total of roadway mileage in the country behind Texas and California. When the legislature was finally convinced that the roadway system was falling apart, the legislature issued $10 billion dollars in bonds in two separate bond issues to repair crumbling highways. This $10 billion dollar investment turned out to be a $21 billion dollar total cost when interest over a 25-year period was calculated. The biggest problem is that the roadways will be completely deteriorated prior to the bonds being paid out, and due to the interest payments, the State will not have the resources to commit to keeping the infrastructure at acceptable levels. An additional element is that inflation on construction costs will make the road repairs even higher in cost when construction can finally be initiated.

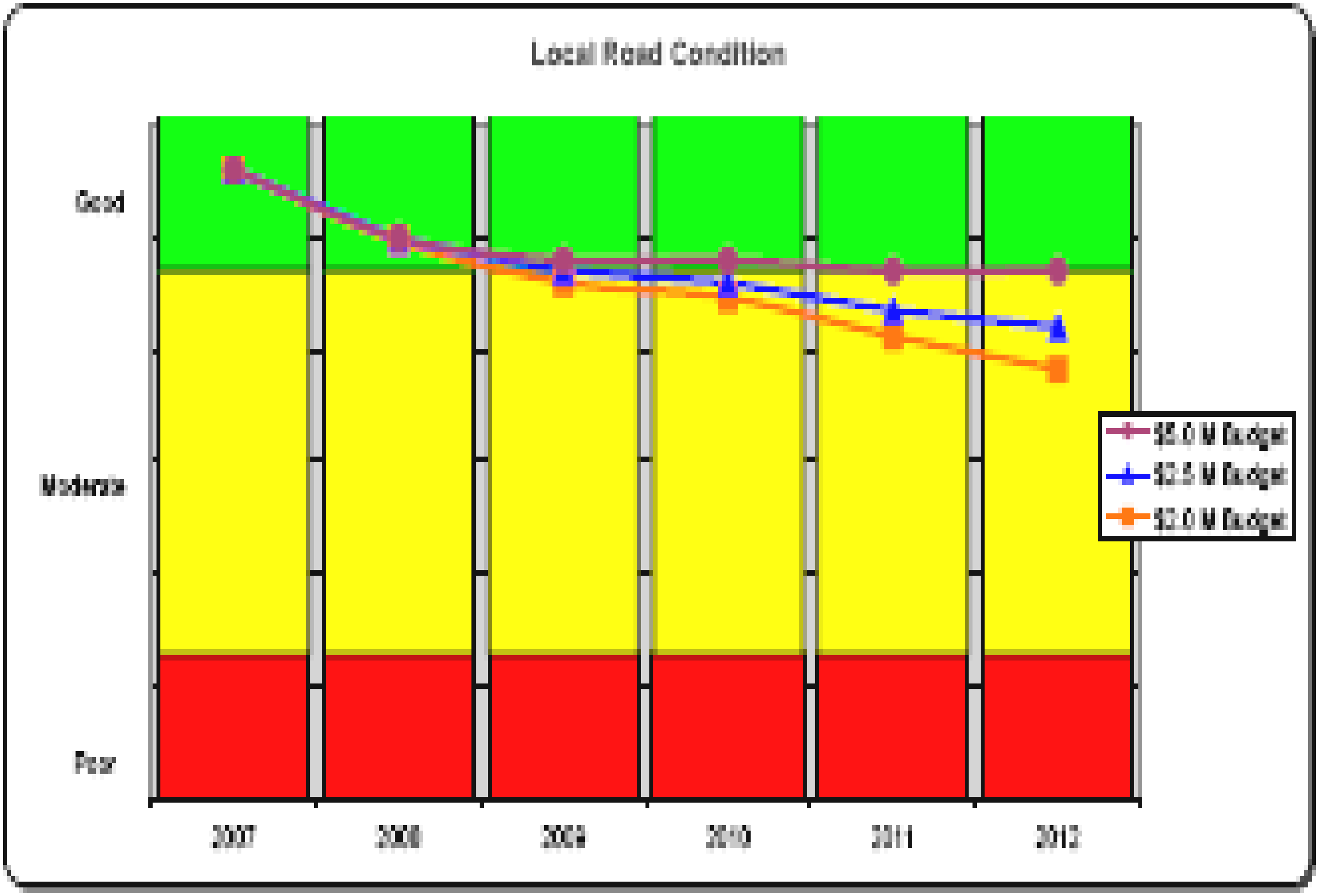
A report by the Michigan Futures Group indicates that states with the lowest tax rates do not necessarily lend to economic development and higher personal income. The report indicates that the 10 lowest business tax states also have some of the lowest personal incomes per capita in the country as well. The report goes on to say that those states that do not invest in their communities, their people, their educational systems and in the general quality of life will have longer-term problems than taxation rates.

From the City’s standpoint, over the past few years, 15 staff positions have been eliminated, and early predictions for 2007/08 indicate reducing staff size by another 4 positions. Management has pushed staff to do more with less and staff has responded. Now, the City is rapidly reaching a “Tipping Point” with regards to continued economic vitality. This “Tipping Point” is based on Michigan’s economic situation and limited reinvestment in the City’s infrastructure.

Perhaps the most significant adverse impact from reducing mill rates is the fact of how does management continue to push staff to be creative and continue to develop cost saving measures when the end reward is less funding to operate with the following year, especially when the cost of doing business continues to increase year after year.

It is difficult for some to believe, but Troy does not have the same allure to many in the development and investment community that it once had. People are going where the land is cheaper, the infrastructure is newer, and where the business climate is more welcoming. In a recent edition of the Oakland Business Review an article entitled "Puzzling Process", cities in Oakland County were rated in terms of good or bad places to do business. Those in the Good category included Royal Oak, Ferndale, Birmingham, and Hazel Park. The Bad included Pontiac. There was another category called "Back and Forth" that included Novi, and Troy. Quoting the text concerning Troy's ratings the caption states: "Hooters. Need we say more? On the other hand, other developers say city officials are easy to work with. The issue may be that there is little land available and most new projects are redevelopments—always full of complications."

The following text is from a personal standpoint. I am asking the Council to look at this situation from an entirely different point of view. Instead of looking at a one-time return of revenues, I am asking each of you to look at this situation from a standpoint of "What happens if the Council doesn't provide sufficient revenues for reinvestment in the community?" I'm also asking you to think of this situation in a larger scope than just refuse and recycling costs. I'm asking you to think of the level of investment and commitment that it takes to keep approximately ½ billion dollars in infrastructure assets to levels that take care of the present, but more importantly, can also act as one of the required catalysts for continued economic vitality.



Local Road Condition
Good
Moderate
Poor
2007
2008
2009
2010
2011
2012
$5.0 M Budget
$2.5 M Budget
$2.0 M Budget

Property Value	$ 150,000	$ 175,000	$ 200,000	$ 250,000	$ 275,000	$ 300,000	$ 350,000	$ 400,000	$ 450,000	$ 500,000	$ 650,000
Assessment Ratio	41.12%	41.12%	41.12%	41.12%	41.12%	41.12%	41.12%	41.12%	41.12%	41.12%	41.12%
Taxable Value	$ 61,680	$ 71,960	$ 82,240	$ 102,800	$ 113,080	$ 123,360	$ 143,920	$ 164,480	$ 185,040	$ 205,600	$ 267,280
City Property Tax Rate	0.00943	0.00943	0.00943	0.00943	0.00943	0.00943	0.00943	0.00943	0.00943	0.00943	0.00943
Annual Property Taxes-City Only	$ 581.64	$ 678.58	$ 775.52	$ 969.40	$ 1,066.34	$ 1,163.28	$ 1,357.17	$ 1,551.05	$ 1,744.93	$ 1,938.81	$ 2,520.45
Monthly Property Tax Equivalent	$ 48.47	$ 56.55	$ 64.63	$ 80.78	$ 88.86	$ 96.94	$ 113.10	$ 129.25	$ 145.41	$ 161.57	$ 210.04
Daily Property Tax Equivalent	$ 1.59	$ 1.86	$ 2.12	$ 2.66	$ 2.92	$ 3.19	$ 3.72	$ 4.25	$ 4.78	$ 5.31	$ 6.91
Daily Cost/Person Tax Equiv.	$ 0.59	$ 0.69	$ 0.79	$ 0.99	$ 1.09	$ 1.18	$ 1.38	$ 1.58	$ 1.78	$ 1.97	$ 2.57
Reduced Tax Rate from Refuse	0.00928	0.00928	0.00928	0.00928	0.00928	0.00928	0.00928	0.00928	0.00928	0.00928	0.00928
Annual Revised Prop. Tax-City	572.39	667.79	763.19	953.98	1,049.38	1,144.78	1,335.58	1,526.37	1,717.17	1,907.97	2,480.36
Monthly Revised Prop Tax Equiv	47.70	55.65	63.60	79.50	87.45	95.40	111.30	127.20	143.10	159.00	206.70
Daily Revised Prop. Tax Equiv.	1.57	1.83	2.09	2.61	2.88	3.14	3.66	4.18	4.70	5.23	6.80
Daily Cost/ Person Revised	0.58	0.68	0.78	0.97	1.07	1.17	1.36	1.55	1.75	1.94	2.53
Annual Diff, in Property Tax	$ 9.25	$ 10.79	$ 12.34	$ 15.42	$ 16.96	$ 18.50	$ 21.59	$ 24.67	$ 27.76	$ 30.84	$ 40.09
Diff, In Monthly Savings-Revised	$ 0.77	$ 0.90	$ 1.03	$ 1.29	$ 1.41	$ 1.54	$ 1.80	$ 2.06	$ 2.31	$ 2.57	$ 3.34
Diff. In Daily Savings-Revised	$ 0.025	$ 0.030	$ 0.034	$ 0.042	$ 0.046	$ 0.051	$ 0.059	$ 0.068	$ 0.076	$ 0.084	$ 0.110
Diff. In Daily Cost/Person-Revised	0.009	0.011	0.013	0.016	0.017	0.019	0.022	0.025	0.028	0.031	0.041
Annual Household Income-Est.	$ 43,200	$ 50,000	$ 57,600	$ 72,000	$ 80,000	$ 86,400	$ 100,000	$ 115,200	$ 129,600	$ 144,000	$ 187,200
Percent Property Taxes of Annual Income	1.35%	1.36%	1.35%	1.35%	1.33%	1.35%	1.36%	1.35%	1.35%	1.35%	1.35%
Percent Property Taxes of Annual Income--Revised	1.32%	1.34%	1.32%	1.32%	1.31%	1.32%	1.34%	1.32%	1.32%	1.32%	1.32%
Est. Monthly House Payment	$ 900	$ 1,050	$ 1,200	$ 1,500	$ 1,650	$ 1,800	$ 2,100	$ 2,400	$ 2,700	$ 3,000	$ 3,900
Est. Yearly House Payment	$ 10,800	$ 12,600	$ 14,400	$ 18,000	$ 19,800	$ 21,600	$ 25,200	$ 28,800	$ 32,400	$ 36,000	$ 46,800
% of Income for House Payment	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%

Examples of Service Costs--Daily Basis

Daily Cost of Police Protection	0.25	0.30	0.34	0.42	0.47	0.51	0.59	0.68	0.76	0.85	1.10
Daily Cost of Fire Protection	0.04	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.13	0.17
Daily Cost of Library/Museum	0.06	0.07	0.07	0.09	0.10	0.11	0.13	0.15	0.17	0.19	0.24
Daily Cost of Parks & Rec	0.10	0.11	0.13	0.16	0.18	0.19	0.22	0.25	0.29	0.32	0.41
Daily Cost of Administration	0.02	0.03	0.03	0.04	0.04	0.04	0.05	0.06	0.07	0.07	0.10
Daily Cost of Refuse & Recycling	0.05	0.06	0.07	0.08	0.09	0.10	0.12	0.13	0.15	0.17	0.22
Total Cost of All General Fund	$ 0.72	$ 0.84	$ 0.96	$ 1.20	$ 1.31	$ 1.43	$ 1.67	$ 1.91	$ 2.15	$ 2.39	$ 3.11