April 16, 2008

To: Mayor and City Council

From: Phil Nelson, City Manager

Subject: Policy Paper for Study Session

Attached for Council review and discussion is a white paper entitled Stabilizing Revenues and Increasing Expenditures. The paper is a short-term look into the future of the finances of Troy. While no action is required, the paper is being presented as a supplement to the draft 2008/09 annual budget, and is being presented to give the Council a little longer-term look into the future.

A study session is scheduled at the end of the April 21st meeting. If anyone has any questions prior to the study session, please contact me at your convenience.

# A White Paper for Discussion Of the Policy Topic

# Stabilizing Revenues & Increasing Expenditures

# Description of Business

"DESIGNING A DREAM CITY IS EASY. REBUILDING A LIVING ONE TAKES IMAGINATION"

JANE JACOBS

***Community Sustainability*:  A condition of existence which enables the present generation of humans and other species to enjoy social wellbeing, a vibrant economy, and a healthy environment, and to experience fulfillment, beauty, and joy, without compromising the ability of future generations of humans and other species to enjoy the same.**

Background:

Over the past several decades, the City of Troy has seen strong and steady growth and development.  As a result of that growth and development, Troy also experienced increased assessed valuation totals and a stable tax base.  Troy's property tax burden was divided equally between residential and commercial properties.

In the past three budget years, that same formula has seen more and more of the tax burden shifted to residential properties at a ratio that now equals 57% residential to 43% business/commercial.  Troy is almost built out, so changes to the city's land use will have to be in the form of redevelopment of areas that are now under utilized or that will be part of the changing economic base of the City.

According to the City Assessor, growth of assessed valuation totals is estimated at one-half of one percent for the 2008-2009 fiscal year.  This total will more than likely be reduced with the overall decrease in personal property taxes due to a significant vacancy rate in office floor space leasing, so the City of Troy will more than likely be looking at a decrease in overall valuation.

If the City, state and region is to realize continued growth and vitality, proactive and creative redevelopment and working with the financial, development and planning communities is imperative.  The other option is to take a positive, yet realistic longer-term look at the financial state of the City and consider developing a set of core products that are based on their value to the community, and the improvement of the organization.

This paper will address realities of what the City can expect in terms of its fiscal future. Financial projections included in the report don't paint a rosy picture for the City. In fact, we are looking at a stabilization of property tax revenue that will require some very tough fiscal policies in light of the near term overall economic outlook for the State and the nation.

Mission of the City of Troy:

The City of Troy is a non-profit organization that is charged with providing a safe, clean and livable community that meets the needs of the citizens of Troy. It is the mission of staff to carry out Council directives and to steward the annual reinvestment of property owners in Troy toward the highest priority uses. Staff will develop budget and implementation documents that reflect sound judgment in utilizing reinvestment funds for today's issues and tomorrow's challenges. In essence, staff will make every attempt to provide the highest level of services within the amount of funds that citizens are willing to invest.

This stewardship of annual citizen and property owner investment will provide the primary functions of service delivery and protection, but more importantly, will be made to add value to life and property in the community.

Business Model:

The elements of the Business Model are as follows:

| *Customer Service & Solutions* | *Preparation for the Future* | *Communications* |
|---|---|---|
| Excellent Service<br>Solutions to issues<br>Maintain Community Sustainability<br>Offer Options<br>Answers within a 24 hour period | Meet the needs of today<br>Flexibility for future changes | Major Policy Issue Timing Changes<br>Council Direction<br>Public Input prior to decision stage |
| ***Partnerships*** | ***Comprehensive Inclusion*** | ***Fiscal Stewardship*** |
| Reduce budget impact<br>Reduce price of government<br>Focus on keeping Troy as regional destination<br>Use DDA, BID's, Corridor Improvement Acts to reduce impacts of development on the General & Capital Proj. Funds<br>Investigate Grant possibilities | Comprehensive Planning to reduce impact on Natural Resources<br>Comprehensive Planning to reduce environmental impacts<br>Plans designed for today with flexibility for changes of tomorrow<br>Construct "intersections" that include human & physical elements to plan a position for the future | Project Funding based on Council's Goals & Objectives<br>Project management based on City's abilities to plan for today with an eye toward the future<br>Focus of budget allocations may have to change to meet future needs.<br>Integrating intra-community business principles by regional approach to service delivery & communication functions |

Value Proposition:

*The equation used for projecting financial capabilities of the City is quite simple—generate revenues to reinvest in the community and to continue day-to-day operations at a level that people view as acceptable*. Troy is not unique to the dilemma of stabilized revenue and decreased buying power, but coupled with these elements are a stagnant state economy, and a challenge of not understanding the big picture. Understanding the big picture requires viewing things on a macro-long term level and trying to understand how investor expectations are met over the long-term within a reasonable amount of resources.

Now is the time to re-aim organizational focus to think of a system of priority community products that will not only add value to the community, but will also prepare the community for the inevitabilities of change. It is fairly likely that few of the Council or staff will be with the organization when the actions of today are obvious to the future, but the actions and policies of today will surely provide the blueprint for the future. There are too many stories of complacency and subsequent decline due primarily to a resistance to change, and depending on the past rather than acting for the future.

There are many reasons to rethink the way the City does business and how the foundations for the future are reaching a true sense of urgency:

**SYNOPSIS: THE FINANCIAL CHALLENGES THAT TROY FACES IN THE SHORT TERM**

The challenges are very evident:

- An almost complete build out of land
- New development going to other "newer" parts of the region
- The need for total restructuring of the state's economy
- Loss of jobs in the manufacturing and industrial areas
- Large-scale outmigration of portions of all age cohorts. Annual outmigration totals in Oakland County alone average an estimated 7,500 people.
- The cost of doing business increases approximately 3.5% per year for governments
- Unfunded costs for infrastructure and facilities upgrades total approximately $459 million over the next 20 years.
- Reduced revenue from other governmental entities. As example, The Road Commission for Oakland County has announced significant reduction in service and payment for cost intensive items such as utility relocation. Staff also thinks that it is only a matter of time until the state cuts shared revenue funding levels. City of Troy share of shared revenues has decreased over $8 million over the past 6 years.
- Populations are aging. By the year 2030, one in four people living in Southeast Michigan will be age 65 or older
- Projected nominal increases in population for the Great Lakes region, coupled with outmigration creates the potential for significant vacancies in office and retail floor space as well as a significant number of vacant single family housing units.

<u>Short-Term General Fund Financial Projection Based On Realities:</u>

The following spreadsheets don't paint a very rosy picture for the organization. Based on this year's estimates for assessed valuation, and reduced personal property taxes due to a higher than normal vacancy rate in office floor space, property tax totals remain constant. The charts reflect a constant mill rate of 9.28 mills, and reflect declining property tax base.

The first spreadsheet shows continued minimal increases in the General Fund similar to the 1.8% growth programmed for the 2008/2009 budget for the next five fiscal years. In essence, the only increases in spending would be to accommodate guaranteed salary and benefit costs and increases. Other expenditure categories including commodities and contractual services would actually decrease. The reality of decreasing budget funds in the budget categories simply cannot be done due to the inflationary increases passed on by vendors and contractors. The spreadsheet also indicates .5% annual increases in the assessed valuation and property tax revenue over the same period. In light of the current economy and the fact that homes are not selling as quickly as they did at one time makes the assumption of nominal increases very realistic.

As can be seen on the spreadsheet, even with nominal increases in expenditures and realistic increases in revenues, the Council would be in violation of its cash reserve policies by the 2010/2011 fiscal year. Over the next five years, the spreadsheet indicates that the City would have to use all of its cash reserve balance, and would have to find, or cut, almost $12 million dollars from the City budget.

| Description | 2005/2006 Actual | 2006/2007 Actual | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| General Fund Revenues | | | | | | | | |
| Taxes | $ 35,229,232 | $ 35,679,836 | $ 36,308,690 | $ 36,333,690 | $ 36,515,358 | $ 36,697,935 | $ 36,881,425 | $ 37,065,832 |
| Business Licenses & Permits | $ 42,846 | $ 38,993 | $ 42,000 | $ 40,000 | $ 41,000 | $ 42,025 | $ 43,076 | $ 44,153 |
| Non-Bus. Licenses & Permits | $ 1,619,746 | $ 1,452,965 | $ 1,705,500 | $ 1,794,500 | $ 1,839,363 | $ 1,885,347 | $ 1,932,480 | $ 1,980,792 |
| Federal Grants | $ 36,999 | $ 198,102 | $ 55,900 | $ 12,100 | $ 12,403 | $ 12,713 | $ 13,030 | $ 13,356 |
| State Agencies | $ 7,001,767 | $ 6,800,243 | $ 6,784,000 | $ 6,760,500 | $ 6,490,080 | $ 6,230,477 | $ 5,981,258 | $ 5,742,007 |
| Contributions- Local | $ 188,667 | $ 171,189 | $ 180,000 | $ 180,000 | $ 184,500 | $ 189,113 | $ 193,840 | $ 198,686 |
| Charges for Services-Fees | $ 1,413,488 | $ 1,455,402 | $ 1,159,000 | $ 1,275,000 | $ 1,306,875 | $ 1,339,547 | $ 1,373,036 | $ 1,407,361 |
| Charges for Services-Rend. | $ 1,620,746 | $ 2,346,725 | $ 1,717,500 | $ 1,712,150 | $ 1,754,954 | $ 1,798,828 | $ 1,843,798 | $ 1,889,893 |
| Charges for Services-Sales | $ 172,760 | $ 154,366 | $ 157,000 | $ 150,500 | $ 154,263 | $ 158,119 | $ 162,072 | $ 166,124 |
| Charges for Services-Rec | $ 3,562,206 | $ 3,740,024 | $ 3,565,200 | $ 3,857,000 | $ 3,895,570 | $ 3,934,526 | $ 3,973,871 | $ 4,013,610 |
| Fines & Forfeits | $ 994,373 | $ 1,243,286 | $ 1,027,000 | $ 996,000 | $ 1,020,900 | $ 1,046,423 | $ 1,072,583 | $ 1,099,398 |
| Interest and Rents | $ 1,583,459 | $ 2,363,543 | $ 2,081,600 | $ 1,467,800 | $ 1,438,444 | $ 1,409,675 | $ 1,381,482 | $ 1,353,852 |
| Other Revenue | $ 493,433 | $ 546,469 | $ 510,550 | $ 486,070 | $ 498,222 | $ 510,677 | $ 523,444 | $ 536,530 |
| Other Financing Sources | $ 7,001,703 | | $ 4,951,200 | $ 4,307,060 | $ 4,414,737 | $ 4,525,105 | $ 4,638,233 | $ 4,754,188 |
| Transfers In | | $ 4,635,621 | $ 3,210,280 | $ 5,235,710 | $ 4,328,108 | $ 6,290,261 | $ 3,523,444 | $ - |
| | | | | | | | | |
| Total General Fund Revenue | $ 60,961,425 | $ 60,826,764 | $ 63,455,420 | $ 64,608,080 | $ 63,894,775 | $ 66,070,769 | $ 63,537,071 | $ 60,265,783 |
| | | | | | | | | |
| | 2005/2006 | 2006/2007 | | | | | | |
| | Actual | Preliminary | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
| Expenditures | | | | | | | | |
| Legislative | $ 1,837,323 | $ 3,676,918 | $ 4,017,400 | $ 4,070,010 | $ 4,143,270 | $ 4,217,849 | $ 4,293,770 | $ 4,371,058 |
| Finance | $ 4,552,249 | $ 2,888,986 | $ 3,070,630 | $ 3,169,880 | $ 3,226,938 | $ 3,285,023 | $ 3,344,153 | $ 3,404,348 |
| Other Gen Government | $ 2,612,505 | $ 2,552,515 | $ 2,700,750 | $ 2,530,800 | $ 2,576,354 | $ 2,622,729 | $ 2,669,938 | $ 2,717,997 |
| Police | $ 21,945,433 | $ 23,147,967 | $ 24,060,510 | $ 25,042,630 | $ 25,493,397 | $ 25,952,278 | $ 26,419,420 | $ 26,894,969 |
| Fire | $ 4,036,110 | $ 4,376,861 | $ 4,317,390 | $ 4,335,950 | $ 4,413,997 | $ 4,493,449 | $ 4,574,331 | $ 4,656,669 |
| Building Inspection | $ 1,991,733 | $ 2,051,078 | $ 2,243,190 | $ 2,342,420 | $ 2,384,584 | $ 2,427,506 | $ 2,471,201 | $ 2,515,683 |
| Streets | $ 4,754,569 | $ 4,754,158 | $ 5,606,460 | $ 5,770,460 | $ 5,874,328 | $ 5,980,066 | $ 6,087,707 | $ 6,197,286 |
| Engineering | $ 2,835,770 | $ 2,676,718 | $ 3,136,960 | $ 2,970,870 | $ 3,024,346 | $ 3,078,784 | $ 3,134,202 | $ 3,190,618 |
| Recreation | $ 8,453,068 | $ 8,424,151 | $ 9,225,600 | $ 10,043,680 | $ 10,224,466 | $ 10,408,507 | $ 10,595,860 | $ 10,786,585 |
| Library | $ 4,780,602 | $ 4,805,280 | $ 5,066,530 | $ 4,331,380 | $ 4,409,345 | $ 4,488,713 | $ 4,569,510 | $ 4,651,761 |
| Transfers Out | $ 110,000 | $ 3,510,000 | $ 10,000 | | $ - | $ - | | $ - |
| | | | | | | | | |
| Total General Fund Expenditures | $ 57,909,362 | $ 62,864,632 | $ 63,455,420 | $ 64,608,080 | $ 65,771,025 | $ 66,954,904 | $ 68,160,092 | $ 69,386,974 |
| Undesignated General Fund Cash Balance | $ 11,157,403 | $ 10,787,420 | $ 7,692,040 | $ 2,456,330 | $ (1,871,778) | $ (9,046,174) | $ (17,192,639) | $ (26,313,830) |
| Percentage GF Reserves to GF Budget | 19.3% | 17.2% | 12.1% | 3.8% | -2.8% | -13.5% | -25.2% | -37.9% |

The following spreadsheet indicates measures that would have to be taken in order to preserve Council adopted cash reserve policies based on constant revenue indicators and significantly reduced expenditures. As is indicated in the spreadsheet, revenue totals trend lower starting in the 2007/2008 fiscal year and expenditures are reduced by over 2.5 percent beginning in 2009/2010. Cash reserve policies are violated at the end of the next fiscal year.

Options available to the Council should the second scenario be put in place include:

- Layoffs of personnel since 70 percent of General Fund expenditures are salary and benefit related
- Eliminate cost of living or merit increases for employees for a specified period of time. This would require renegotiations of union contracts
- Reduce service levels. Examples could include reducing hours of operation of some City departments.
- Reduction of maintenance functions
- Increase the property tax mill levy to the Headlee limit and use the approximate $2.2 million dollars in extra income to “buy-down” impacts on the usage of cash reserves.
- Review fee structure and adjust fees accordingly
- Provide a dedicated mill levy for the operation and maintenance of the library/museum. Use the extra mill for operations in the General Fund.

Table 2
Decreasing Revenues and Significant Expenditure Reductions

| Description | 2005/2006 Actual | 2006/2007 Actual | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| General Fund Revenues | | | | | | | | |
| Taxes | $ 35,229,232 | $ 35,679,836 | $ 36,308,690 | $ 36,333,690 | $ 36,515,358 | $ 36,697,935 | $ 36,881,425 | $ 37,065,832 |
| Business Licenses & Permits | $ 42,846 | $ 38,993 | $ 42,000 | $ 40,000 | $ 44,126 | $ 45,229 | $ 46,360 | $ 47,519 |
| Non-Bus. Licenses & Permits | $ 1,619,746 | $ 1,452,965 | $ 1,705,500 | $ 1,794,500 | $ 1,839,363 | $ 1,885,347 | $ 1,932,480 | $ 1,980,792 |
| Federal Grants | $ 36,999 | $ 198,102 | $ 55,900 | $ 12,100 | $ 12,403 | $ 12,713 | $ 13,030 | $ 13,356 |
| State Agencies | $ 7,001,767 | $ 6,800,243 | $ 6,784,000 | $ 6,760,500 | $ 6,490,080 | $ 6,230,477 | $ 5,981,258 | $ 5,742,007 |
| Contributions- Local | $ 188,667 | $ 171,189 | $ 180,000 | $ 180,000 | $ 184,500 | $ 189,113 | $ 193,840 | $ 198,686 |
| Charges for Services-Fees | $ 1,413,488 | $ 1,455,402 | $ 1,159,000 | $ 1,275,000 | $ 1,306,875 | $ 1,339,547 | $ 1,373,036 | $ 1,407,361 |
| Charges for Services-Rend. | $ 1,620,746 | $ 2,346,725 | $ 1,717,500 | $ 1,712,150 | $ 1,754,954 | $ 1,798,828 | $ 1,843,798 | $ 1,889,893 |
| Charges for Services-Sales | $ 172,760 | $ 154,366 | $ 157,000 | $ 150,500 | $ 154,263 | $ 158,119 | $ 162,072 | $ 166,124 |
| Charges for Services-Rec | $ 3,562,206 | $ 3,740,024 | $ 3,565,200 | $ 3,857,000 | $ 3,895,570 | $ 3,934,526 | $ 3,973,871 | $ 4,013,610 |
| Fines & Forfeits | $ 994,373 | $ 1,243,286 | $ 1,027,000 | $ 996,000 | $ 1,020,900 | $ 1,046,423 | $ 1,072,583 | $ 1,099,398 |
| Interest and Rents | $ 1,583,459 | $ 2,363,543 | $ 2,081,600 | $ 1,467,800 | $ 1,438,444 | $ 1,409,675 | $ 1,381,482 | $ 1,353,852 |
| Other Revenue | $ 493,433 | $ 546,469 | $ 510,550 | $ 486,070 | $ 498,222 | $ 510,677 | $ 523,444 | $ 536,530 |
| Other Financing Sources | | $ - | $ 4,951,200 | $ 4,307,060 | $ 5,201,855 | $ 5,331,901 | $ 5,465,199 | $ 5,601,829 |
| Transfers In | $ 7,001,703 | $ 4,635,621 | $ 3,210,280 | $ 5,235,710 | $ 4,388,347 | $ 767,968 | $ 645,604 | $ 643,182 |
| | | | | | | | | |
| Total General Fund Revenue | $ 60,961,425 | $ 60,826,764 | $ 63,455,420 | $ 64,608,080 | $ 64,745,258 | $ 61,358,476 | $ 61,489,482 | $ 61,759,972 |
| | | | | | | | | |
| | 2005/2006 | 2006/2007 | | | | | | |
| | Actual | Preliminary | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
| Expenditures | | | | | | | | |
| Legislative | $ 1,837,323 | $ 3,676,918 | $ 4,017,400 | $ 4,070,010 | $ 4,029,310 | $ 3,930,992 | $ 3,832,795 | $ 3,832,795 |
| Finance | $ 4,552,249 | $ 2,888,986 | $ 3,070,630 | $ 3,169,880 | $ 3,138,181 | $ 2,893,341 | $ 2,798,501 | $ 2,798,501 |
| Other Gen Government | $ 2,612,505 | $ 2,552,515 | $ 2,700,750 | $ 2,530,800 | $ 2,505,492 | $ 2,374,129 | $ 2,242,798 | $ 2,210,988 |
| Police | $ 21,945,433 | $ 23,147,967 | $ 24,060,510 | $ 25,042,630 | $ 25,530,548 | $ 25,275,243 | $ 25,022,490 | $ 24,772,265 |
| Fire | $ 4,036,110 | $ 4,376,861 | $ 4,317,390 | $ 4,335,950 | $ 4,292,591 | $ 4,078,004 | $ 4,125,004 | $ 4,125,004 |
| Building Inspection | $ 1,991,733 | $ 2,051,078 | $ 2,243,190 | $ 2,342,420 | $ 2,318,996 | $ 2,207,237 | $ 2,095,478 | $ 2,069,093 |
| Streets | $ 4,754,569 | $ 4,754,158 | $ 5,606,460 | $ 5,770,460 | $ 5,757,760 | $ 5,700,182 | $ 5,643,181 | $ 5,525,000 |
| Engineering | $ 2,835,770 | $ 2,676,718 | $ 3,136,960 | $ 2,970,870 | $ 2,941,161 | $ 2,789,457 | $ 2,637,753 | $ 2,600,798 |
| Recreation | $ 8,453,068 | $ 8,424,151 | $ 9,225,600 | $ 10,043,680 | $ 9,943,243 | $ 9,843,811 | $ 9,745,372 | $ 9,400,500 |
| Library | $ 4,780,602 | $ 4,805,280 | $ 5,066,530 | $ 4,331,380 | $ 4,288,066 | $ 4,043,047 | $ 3,948,028 | $ 3,888,342 |
| Transfers Out | $ 110,000 | $ 3,510,000 | $ 10,000 | | $ - | $ - | | |
| | | | | | | | | |
| Total General Fund Expenditur | $ 57,909,362 | $ 62,864,632 | $ 63,455,420 | $ 64,608,080 | $ 64,745,348 | $ 63,135,442 | $ 62,091,400 | $ 61,223,286 |
| | | | | | | | | |
| Undesignated General Fund Ca Balance | $ 11,157,403 | $ 10,787,420 | $ 7,692,040 | $ 2,456,330 | $ (1,932,017) | $ (4,476,951) | $ (5,724,473) | $ (5,830,969) |
| Percentage GF Reserves to GF Budget | 19.3% | 17.2% | 12.1% | 3.8% | -3.0% | -7.1% | -9.2% | -9.5% |

The third spreadsheet is basically the same as the previous information with the exception of increasing the existing mill levy of 9.28 mills to the rate of 9.69 mills that is allowed under the Headlee Amendment. The spreadsheet reflects the use of the additional mill rate to reduce the annual usage of the cash reserve balance by the equivalent of .41 mills, or using the current assessed valuation of $5.25 million per mill, the dollar equivalent of $2.153 million. Annual budget increases reflect 1.8%, the same as is being proposed for the 2008/2009 fiscal year.  In essence, this provides minimal salary and benefit adjustments for City employees

As is indicated on the spreadsheet, cash reserves can be held within Council policies through the 2008/2009fiscal year.  Unless other revenue sources are determined and implemented by the City Council, the City's budget will not comply with adopted Council cash reserve policies after June 30, 2011.

Table 3. Taxing at Headlee Limits with Nominal Expenditure Increases

| Description | 2005/2006 Actual | 2006/2007 Actual | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
|---|---|---|---|---|---|---|---|---|
| General Fund Revenues | | | | | | | | |
| Taxes | $ 35,229,232 | $ 35,679,836 | $ 36,308,690 | $ 36,333,690 | $ 36,515,358 | $ 36,697,935 | $ 36,881,425 | $ 37,065,832 |
| Business Licenses & Permits | $ 42,846 | $ 38,993 | $ 42,000 | $ 43,050 | $ 44,126 | $ 45,229 | $ 46,360 | $ 47,519 |
| Non-Bus. Licenses & Permits | $ 1,619,746 | $ 1,452,965 | $ 1,705,500 | $ 1,748,138 | $ 1,791,841 | $ 1,836,637 | $ 1,882,553 | $ 1,929,617 |
| Federal Grants | $ 36,999 | $ 198,102 | $ 55,900 | $ 57,298 | $ 58,730 | $ 60,198 | $ 61,703 | $ 63,246 |
| State Agencies | $ 7,001,767 | $ 6,800,243 | $ 6,784,000 | $ 6,648,320 | $ 6,382,387 | $ 6,127,092 | $ 5,882,008 | $ 5,646,728 |
| Contributions- Local | $ 188,667 | $ 171,189 | $ 180,000 | $ 180,000 | $ 184,500 | $ 189,113 | $ 193,840 | $ 198,686 |
| Charges for Services-Fees | $ 1,413,488 | $ 1,455,402 | $ 1,159,000 | $ 1,240,254 | $ 1,271,260 | $ 1,303,042 | $ 1,335,618 | $ 1,369,008 |
| Charges for Services-Rend. | $ 1,620,746 | $ 2,346,725 | $ 1,717,500 | $ 1,812,717 | $ 1,858,034 | $ 1,904,485 | $ 1,952,097 | $ 2,000,900 |
| Charges for Services-Sales | $ 172,760 | $ 154,366 | $ 157,000 | $ 213,204 | $ 218,534 | $ 223,997 | $ 229,597 | $ 235,337 |
| Charges for Services-Rec | $ 3,562,206 | $ 3,740,024 | $ 3,565,200 | $ 3,738,131 | $ 3,775,512 | $ 3,813,267 | $ 3,851,400 | $ 3,889,914 |
| Fines & Forfeits | $ 994,373 | $ 1,243,286 | $ 1,027,000 | $ 996,000 | $ 1,020,900 | $ 1,046,423 | $ 1,072,583 | $ 1,099,398 |
| Interest and Rents | $ 1,583,459 | $ 2,363,543 | $ 2,081,600 | $ 1,467,800 | $ 1,438,444 | $ 1,409,675 | $ 1,381,482 | $ 1,353,852 |
| Other Revenue | $ 493,433 | $ 546,469 | $ 510,550 | $ 486,070 | $ 498,222 | $ 510,677 | $ 523,444 | $ 536,530 |
| Other Financing Sources | $ 7,001,703 | | $ 4,951,200 | $ 5,074,980 | $ 5,201,855 | $ 5,331,901 | $ 5,465,198 | $ 5,601,828 |
| Additional Headlee Limit Amount | | | | $ 2,096,000 | $ 2,106,480 | $ 2,117,012 | $ 2,127,597 | $ 2,138,235 |
| Transfers In | | $ 4,635,621 | $ 3,210,280 | $ 2,472,429 | $ 2,887,977 | $ 2,331,998 | | $ - |
| | | | | | | | | |
| Total General Fund Revenue | $ 60,961,425 | $ 60,826,764 | $ 63,455,420 | $ 64,608,080 | $ 65,254,161 | $ 64,948,682 | $ 62,886,907 | $ 63,176,631 |
| | | | | | | | | |
| | 2005/2006 Actual | 2006/2007 Preliminary | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
| Expenditures | | | | | | | | |
| Legislative | $ 1,837,323 | $ 3,676,918 | $ 4,017,400 | $ 4,070,010 | $ 4,143,270 | $ 4,217,849 | $ 4,293,770 | $ 4,371,058 |
| Finance | $ 4,552,249 | $ 2,888,986 | $ 3,070,630 | $ 3,169,880 | $ 3,226,938 | $ 3,285,023 | $ 3,344,153 | $ 3,404,348 |
| Other Gen Government | $ 2,612,505 | $ 2,552,515 | $ 2,700,750 | $ 2,530,800 | $ 2,576,354 | $ 2,622,729 | $ 2,669,938 | $ 2,717,997 |
| Police | $ 21,945,433 | $ 23,147,967 | $ 24,060,510 | $ 25,042,630 | $ 25,493,397 | $ 25,952,278 | $ 26,419,420 | $ 26,894,969 |
| Fire | $ 4,036,110 | $ 4,376,861 | $ 4,317,390 | $ 4,335,950 | $ 4,413,997 | $ 4,493,449 | $ 4,574,331 | $ 4,656,669 |
| Building Inspection | $ 1,991,733 | $ 2,051,078 | $ 2,243,190 | $ 2,342,420 | $ 2,384,584 | $ 2,427,506 | $ 2,471,201 | $ 2,515,683 |
| Streets | $ 4,754,569 | $ 4,754,158 | $ 5,606,460 | $ 5,770,460 | $ 5,874,328 | $ 5,980,066 | $ 6,087,707 | $ 6,197,286 |
| Engineering | $ 2,835,770 | $ 2,676,718 | $ 3,136,960 | $ 2,970,870 | $ 3,024,346 | $ 3,078,784 | $ 3,134,202 | $ 3,190,618 |
| Recreation | $ 8,453,068 | $ 8,424,151 | $ 9,225,600 | $ 10,043,680 | $ 10,224,466 | $ 10,408,507 | $ 10,595,860 | $ 10,786,585 |
| Library | $ 4,780,602 | $ 4,805,280 | $ 5,066,530 | $ 4,331,380 | $ 4,409,345 | $ 4,488,713 | $ 4,569,510 | $ 4,651,761 |
| Transfers Out | $ 110,000 | $ 3,510,000 | $ 10,000 | | $ - | $ - | $ - | $ - |
| | | | | | | | | |
| Total General Fund Expenditures | $ 57,909,362 | $ 62,864,632 | $ 63,455,420 | $ 64,608,080 | $ 65,771,025 | $ 66,954,904 | $ 68,160,092 | $ 69,386,974 |
| | | | | | | | | |
| Undesignated General Fund Cash Balance | $ 11,157,403 | $ 10,787,420 | $ 7,692,404 | $ 5,219,975 | $ 2,331,998 | $ (2,006,222) | $ (7,279,407) | $ (13,489,750) |
| Percentage GF Reserves to GF Budget | 19.3% | 17.2% | 12.1% | 8.1% | 3.5% | -3.0% | -10.7% | -19.4% |

The fourth spreadsheet also uses the amount of funding allowed under the Headlee Amendment, but decreases annual adjustments to the expenditure side of the General Fund to 1% per year, again, almost enough to cover some amount of salary and benefit adjustments for employees paid from General Fund revenues. The one percent annual increases start in the 2009/2010 fiscal year. As is indicated in the spreadsheet, increasing mill rates to levels allowed by the Headlee Amendment and keeping General Fund expenditures to levels that are below those needed to offer services at levels Troy residents and investors have come to expect. As indicated, the budget would accommodate cash reserve policies an additional year through the coming fiscal year.

Table 4. Taxing to Headlee Limits with 1% Annual Expenditure Increases

| Description | 2005/2006 Actual | 2006/2007 Actual | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
|---|---|---|---|---|---|---|---|---|
| **General Fund Revenues** | | | | | | | | |
| Taxes | $ 35,229,232 | $ 35,679,836 | $ 36,308,690 | $ 36,333,690 | $ 36,515,358 | $ 36,697,935 | $ 36,881,425 | $ 37,065,832 |
| Business Licenses & Permits | $ 42,846 | $ 38,993 | $ 42,000 | $ 43,050 | $ 44,126 | $ 45,229 | $ 46,360 | $ 47,519 |
| Non-Bus. Licenses & Permits | $ 1,619,746 | $ 1,452,965 | $ 1,705,500 | $ 1,748,138 | $ 1,791,841 | $ 1,836,637 | $ 1,882,553 | $ 1,929,617 |
| Federal Grants | $ 36,999 | $ 198,102 | $ 55,900 | $ 57,298 | $ 58,730 | $ 60,198 | $ 61,703 | $ 63,246 |
| State Agencies | $ 7,001,767 | $ 6,800,243 | $ 6,784,000 | $ 6,648,320 | $ 6,382,387 | $ 6,127,092 | $ 5,882,008 | $ 5,646,728 |
| Contributions- Local | $ 188,667 | $ 171,189 | $ 180,000 | $ 180,000 | $ 184,500 | $ 189,113 | $ 193,840 | $ 198,686 |
| Charges for Services-Fees | $ 1,413,488 | $ 1,455,402 | $ 1,159,000 | $ 1,240,254 | $ 1,271,260 | $ 1,303,042 | $ 1,335,618 | $ 1,369,008 |
| Charges for Services-Rend. | $ 1,620,746 | $ 2,346,725 | $ 1,717,500 | $ 1,812,717 | $ 1,858,034 | $ 1,904,485 | $ 1,952,097 | $ 2,000,900 |
| Charges for Services-Sales | $ 172,760 | $ 154,366 | $ 157,000 | $ 213,204 | $ 218,534 | $ 223,997 | $ 229,597 | $ 235,337 |
| Charges for Services-Rec | $ 3,562,206 | $ 3,740,024 | $ 3,565,200 | $ 3,738,131 | $ 3,775,512 | $ 3,813,267 | $ 3,851,400 | $ 3,889,914 |
| Fines & Forfeits | $ 994,373 | $ 1,243,286 | $ 1,027,000 | $ 996,000 | $ 1,020,900 | $ 1,046,423 | $ 1,072,583 | $ 1,099,398 |
| Interest and Rents | $ 1,583,459 | $ 2,363,543 | $ 2,081,600 | $ 1,467,800 | $ 1,438,444 | $ 1,409,675 | $ 1,381,482 | $ 1,353,852 |
| Other Revenue | $ 493,433 | $ 546,469 | $ 510,550 | $ 486,070 | $ 498,222 | $ 510,677 | $ 523,444 | $ 536,530 |
| Other Financing Sources | $ 7,001,703 | | $ 4,951,200 | $ 5,074,980 | $ 5,201,855 | $ 5,331,901 | $ 5,465,198 | $ 5,601,828 |
| Additional Headlee Limit Amount | | | | $ 2,096,000 | $ 2,106,480 | $ 2,117,012 | $ 2,127,597 | $ 2,138,235 |
| Transfers In | | $ 4,635,621 | $ 3,210,280 | $ 2,472,429 | $ 2,887,977 | $ 2,331,998 | | $ - |
| | | | | | | | | |
| Total General Fund Revenue | $ 60,961,425 | $ 60,826,764 | $ 63,455,420 | $ 64,608,080 | $ 65,254,161 | $ 64,948,682 | $ 62,886,907 | $ 63,176,631 |
| | | | | | | | | |
| | 2005/2006 Actual | 2006/2007 Preliminary | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
| **Expenditures** | | | | | | | | |
| Legislative | $ 1,837,323 | $ 3,676,918 | $ 4,017,400 | $ 4,070,010 | $ 4,110,710 | $ 4,151,817 | $ 4,193,335 | $ 4,235,269 |
| Finance | $ 4,552,249 | $ 2,888,986 | $ 3,070,630 | $ 3,169,880 | $ 3,201,579 | $ 3,233,595 | $ 3,265,931 | $ 3,298,590 |
| Other Gen Government | $ 2,612,505 | $ 2,552,515 | $ 2,700,750 | $ 2,530,800 | $ 2,556,108 | $ 2,581,669 | $ 2,607,486 | $ 2,633,561 |
| Police | $ 21,945,433 | $ 23,147,967 | $ 24,060,510 | $ 25,042,630 | $ 25,293,056 | $ 25,545,987 | $ 25,801,447 | $ 26,059,461 |
| Fire | $ 4,036,110 | $ 4,376,861 | $ 4,317,390 | $ 4,335,950 | $ 4,379,310 | $ 4,423,103 | $ 4,467,334 | $ 4,512,007 |
| Building Inspection | $ 1,991,733 | $ 2,051,078 | $ 2,243,190 | $ 2,342,420 | $ 2,365,844 | $ 2,389,503 | $ 2,413,398 | $ 2,437,532 |
| Streets | $ 4,754,569 | $ 4,754,158 | $ 5,606,460 | $ 5,770,460 | $ 5,828,165 | $ 5,886,446 | $ 5,945,311 | $ 6,004,764 |
| Engineering | $ 2,835,770 | $ 2,676,718 | $ 3,136,960 | $ 2,970,870 | $ 3,000,579 | $ 3,030,584 | $ 3,060,890 | $ 3,091,499 |
| Recreation | $ 8,453,068 | $ 8,424,151 | $ 9,225,600 | $ 10,043,680 | $ 10,144,117 | $ 10,245,558 | $ 10,348,014 | $ 10,451,494 |
| Library | $ 4,780,602 | $ 4,805,280 | $ 5,066,530 | $ 4,331,380 | $ 4,374,694 | $ 4,418,441 | $ 4,462,625 | $ 4,507,251 |
| Transfers Out | $ 110,000 | $ 3,510,000 | $ 10,000 | | $ - | $ - | $ - | $ - |
| | | | | | | | | |
| Total General Fund Expenditures | $ 57,909,362 | $ 62,864,632 | $ 63,455,420 | $ 64,608,080 | $ 65,254,161 | $ 65,906,702 | $ 66,565,769 | $ 67,231,427 |
| Undesignated General Fund Cash Balance | $ 11,157,403 | $ 10,787,420 | $ 7,692,404 | $ 5,219,975 | $ 2,331,998 | $ (958,020) | $ (4,636,883) | $ (8,691,679) |
| Percentage GF Reserves to GF Budget | 19.3% | 17.2% | 12.1% | 8.1% | 3.6% | -1.5% | -7.0% | -12.9% |

Staff has prepared another spreadsheet to show the revenue and expenditure analysis of providing a dedicated mill rate for the Library/Museum, and using proceeds to finance other costs associated with the General Fund. As is indicated in the spreadsheet, the City's overall mill rate includes an increase of .41 mills that would be the city's mill rate cap under the Headlee Amendment. The spreadsheet indicates that the cash reserve's would dip below the Council adopted policies for the next two years, but would rise above the minimum policy limits in 2010/2011.

Table 5. Removing Library/Museum Levy from the General Fund

| Description | 2005/2006 Actual | 2006/2007 Actual | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| General Fund Revenues | | | | | | | | |
| Taxes | $ 35,229,232 | $ 35,679,836 | $ 36,308,690 | $ 36,333,690 | $ 37,423,701 | $ 38,546,412 | $ 39,702,804 | $ 40,893,888 |
| Business Licenses & Permits | $ 42,846 | $ 38,993 | $ 42,000 | $ 40,000 | $ 41,000 | $ 42,025 | $ 43,076 | $ 44,153 |
| Non-Bus. Licenses & Permits | $ 1,619,746 | $ 1,452,965 | $ 1,705,500 | $ 1,794,500 | $ 1,839,363 | $ 1,885,347 | $ 1,932,480 | $ 1,980,792 |
| Federal Grants | $ 36,999 | $ 198,102 | $ 55,900 | $ 12,100 | $ 12,403 | $ 12,713 | $ 13,030 | $ 13,356 |
| State Agencies | $ 7,001,767 | $ 6,800,243 | $ 6,784,000 | $ 6,760,500 | $ 6,490,080 | $ 6,230,477 | $ 5,981,258 | $ 5,742,007 |
| Contributions- Local | $ 188,667 | $ 171,189 | $ 180,000 | $ 180,000 | $ 184,500 | $ 189,113 | $ 193,840 | $ 198,686 |
| Charges for Services-Fees | $ 1,413,488 | $ 1,455,402 | $ 1,159,000 | $ 1,275,000 | $ 1,306,875 | $ 1,339,547 | $ 1,373,036 | $ 1,407,361 |
| Charges for Services-Rend. | $ 1,620,746 | $ 2,346,725 | $ 1,717,500 | $ 1,712,150 | $ 1,754,954 | $ 1,798,828 | $ 1,843,798 | $ 1,889,893 |
| Charges for Services-Sales | $ 172,760 | $ 154,366 | $ 157,000 | $ 150,500 | $ 154,263 | $ 158,119 | $ 162,072 | $ 166,124 |
| Charges for Services-Rec | $ 3,562,206 | $ 3,740,024 | $ 3,565,200 | $ 3,857,000 | $ 3,895,570 | $ 3,934,526 | $ 3,973,871 | $ 4,013,610 |
| Fines & Forfeits | $ 994,373 | $ 1,243,286 | $ 1,027,000 | $ 996,000 | $ 1,020,900 | $ 1,046,423 | $ 1,072,583 | $ 1,099,398 |
| Interest and Rents | $ 1,583,459 | $ 2,363,543 | $ 2,081,600 | $ 1,467,800 | $ 1,438,444 | $ 1,409,675 | $ 1,381,482 | $ 1,353,852 |
| Other Revenue | $ 493,433 | $ 546,469 | $ 510,550 | $ 486,070 | $ 498,222 | $ 510,677 | $ 523,444 | $ 536,530 |
| Other Financing Sources | $ 7,001,703 | | $ 4,951,200 | $ 4,307,060 | $ 4,414,737 | $ 4,525,105 | $ 4,638,233 | $ 4,754,188 |
| Additional Headlee Limit Amount | | | | $ 2,096,000 | $ 2,106,480 | $ 2,117,012 | $ 2,127,597 | $ 2,138,235 |
| Transfers In | | $ 4,635,621 | $ 3,210,280 | $ 3,139,710 | | | | |
| | | | | | | | | |
| Total General Fund Revenue | $ 60,961,425 | $ 60,826,764 | $ 63,455,420 | $ 64,608,080 | $ 62,581,489 | $ 63,745,997 | $ 64,962,604 | $ 66,232,075 |
| | | | | | | | | |
| | 2005/2006 Actual | 2006/2007 Preliminary | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
| Expenditures | | | | | | | | |
| Legislative | $ 1,837,323 | $ 3,676,918 | $ 4,017,400 | $ 4,070,010 | $ 4,143,270 | $ 4,217,849 | $ 4,293,770 | $ 4,371,058 |
| Finance | $ 4,552,249 | $ 2,888,986 | $ 3,070,630 | $ 3,169,880 | $ 3,226,938 | $ 3,285,023 | $ 3,344,153 | $ 3,404,348 |
| Other Gen Government | $ 2,612,505 | $ 2,552,515 | $ 2,700,750 | $ 2,530,800 | $ 2,576,354 | $ 2,622,729 | $ 2,669,938 | $ 2,717,997 |
| Police | $ 21,945,433 | $ 23,147,967 | $ 24,060,510 | $ 25,042,630 | $ 25,493,397 | $ 25,952,278 | $ 26,419,420 | $ 26,894,969 |
| Fire | $ 4,036,110 | $ 4,376,861 | $ 4,317,390 | $ 4,335,950 | $ 4,413,997 | $ 4,493,449 | $ 4,574,331 | $ 4,656,669 |
| Building Inspection | $ 1,991,733 | $ 2,051,078 | $ 2,243,190 | $ 2,342,420 | $ 2,384,584 | $ 2,427,506 | $ 2,471,201 | $ 2,515,683 |
| Streets | $ 4,754,569 | $ 4,754,158 | $ 5,606,460 | $ 5,770,460 | $ 5,874,328 | $ 5,980,066 | $ 6,087,707 | $ 6,197,286 |
| Engineering | $ 2,835,770 | $ 2,676,718 | $ 3,136,960 | $ 2,970,870 | $ 3,024,346 | $ 3,078,784 | $ 3,134,202 | $ 3,190,618 |
| Recreation | $ 8,453,068 | $ 8,424,151 | $ 9,225,600 | $ 10,043,680 | $ 10,224,466 | $ 10,408,507 | $ 10,595,860 | $ 10,786,585 |
| Library | $ 4,780,602 | $ 4,805,280 | $ 5,066,530 | $ 4,331,380 | | | | |
| Transfers Out | $ 110,000 | $ 3,510,000 | $ 10,000 | | $ - | $ - | $ - | $ - |
| | | | | | | | | |
| Total General Fund Expenditures | $ 57,909,362 | $ 62,864,632 | $ 63,455,420 | $ 64,608,080 | $ 61,361,681 | $ 62,466,191 | $ 63,590,582 | $ 64,735,213 |
| Undesignated General Fund Cash Balance | $ 11,157,403 | $ 10,787,420 | $ 7,692,404 | $ 4,552,694 | $ 5,772,503 | $ 7,052,308 | $ 8,424,330 | $ 9,921,192 |
| Percentage GF Reserves to GF Budget | 17.2% | 17.0% | 12.1% | 7.0% | 9.4% | 11.3% | 13.2% | 15.3% |

As stated previously, the projections don't paint a very rosy picture, especially when cash reserves have to be spent down just to make the budget work. As is indicated on the chart, the only way to keep cash reserves above Council policy is to make significant cuts to the General Fund Operating Budget. Worse yet, the only way to make the cuts of the magnitude needed is to reduce work force, meaning significant cuts in services provided to the public in all departments, across the board. Reductions will also mean renegotiating union contracts and seeking concessions from the 5 City bargaining units. Reduction in wages and benefits are a plausible alternative to complete layoffs, but reduction of wages and benefits also reduces the quality work force that the City now employs.

Expenditures for commodities are nominal with the exception of products used for snow removal materials and meeting normal maintenance needs. Contractual service costs will continue to increase due to normal government price index trends, and again, are nominal in comparison with personnel related expenditures.

As is indicated in the spreadsheet, in order to maintain Council cash reserve policies, as well as meet challenges of stabilized revenue trends and other cutbacks in important revenue sources, expenditures will have to be significantly reduced over the next four budget fiscal years. However, this trend won't likely stop due to the fact that inflation will continue at some rate meaning that buying power will decrease and the normal costs of doing business will increase.

Return on Under or No Investment:

This year will mark the first time in many years of an almost constant level of assessed valuation. Final valuation totals could actually show a decrease in value due to losses in personal property taxes collected from the business community. Staff is looking at budget cuts and reduced salary and benefit totals for all departments. The City already has one of the lowest property tax mill rates in the state, but still manages to appropriate funding that provides a modicum of upkeep to the physical infrastructure, but by no means keeps up the improvements that ultimately mean steady assessed valuation totals for the property owners of Troy.

By reducing investment in infrastructure and services that provide value to properties, the City runs the risk of increasing the probabilities of reduced security related services and property values to even higher rates. The proof of this statement is evident in many of the "North Coast" metropolitan areas such as Cleveland and Gary who have already experienced what the Detroit metropolitan area will experience if lessons aren't learned.

There is little doubt that investment in the community will cost a great deal of money and human capital. But what about the other side of the slate—What happens if the City doesn't invest in its future?

The easy answer is to look at those cities that haven't invested. Metro areas throughout the so-called North Coast, i.e., Detroit, Cleveland, that haven't invested in keeping pace with the style or spirit of the times will see movement of resources in the form of businesses, citizens and capital away from the area into the suburbs, or to other states. In far too many cases, crime rates increase, property values decrease, and the capital to stem or eliminate the issues reaches untenable levels. While Troy is not in danger of becoming a part of a deteriorating metropolitan area in the near future, failure to keep pace with change and changing needs will see the community declining from the recognized leader of the southeast region of the state.

Failure to commit adequate funding can lead to other consequences. Those consequences could include, but are not limited to:

- Decreased ability to keep current businesses in Troy
- Decreased ability to recruit new business
- Increased costs each year that roads and other infrastructure is not maintained
- Potential for having to issue interest bearing bonds to finance maintenance.
- Inflationary impacts resulting in reduced buying power on a year to year basis.
- Decreased property values for residential and commercial property owners
- Potential increases in property taxes to finance normal maintenance costs or to pay debt service on bonds. Depending on the length of debt service payments, infrastructure could begin to deteriorate prior to the time the bonds are paid out. Additionally, if project work is completed over even a short period of time, inflation will begin to reduce the buying power of the bond proceeds.
- In terms of bond ratings, two major criteria are reinvestment in infrastructure and carrying an adequate cash reserve. Under the possibilities included in this paper, the City will most definitely lose its AAA bond rating.

Policy Options for Revenue & Expenditure Challenges:

Potential Revenue Enhancements:

The primary source of revenue of the General Fund is property taxes. The current economic situation will extend to other financial elements such as bond ratings, and the abilities to attract new business and residents to Troy. The City will also be subject to inflationary impacts exemplified by the Municipal Cost Index indicating the buying power of the City will be decreased by about 3.5% per year.

Staff fully understands that the same elements directly impact our investors, so measures will be taken to do even more with less and to steward tax dollars with an ultimate aim of giving a valid rate of return. However, at some point in time, revenues and the normal rate of inflation will result in reduction of services, or reduction of the quality of services that are offered to the people that pay the bills.

What are the options? Staff has prepared a preliminary list of options that could be available to the Council. Options include, but are not limited to:

- The Council could look at automatic annual increases in fines and fees that would reflect the cost of doing business. Over the past two years, American City-County Magazine reports that the Municipal Cost Index has increased at 3.5% per year. The fees and other ancillary revenue sources would reflect the true cost of doing business.
- The Council could look at increasing the property tax mill rate to adequately cover the costs of doing business. However, the City only has .41 mills of room under the Headlee Amendment which would generate (under today's valuation totals) a little over $2.2 million dollars.
- While extremely dubious that the state legislature would consider such an option, the Council through the MML could lobby the legislature to provide local governments with a 1% sales tax on all goods. It is estimated that a 1% sales tax would generate approximately $24 million dollars per year for Troy, meaning that the City would have a balanced tax base and that property taxes could be significantly reduced. A sales tax would be very beneficial in Troy since over 50,000 people who don't live in Troy work here and make some of their purchases in Troy. This would mean that a significant portion of sales tax revenues would be generated by non-Troy residents.
- The Council could give consideration to a separate mill levy for operation of the Library and museum. If the Council chooses to support the construction of a new library facility, staff would recommend a separate mill levy of 1.75 mills to fund both debt service and operation of a new facility. If a new library is not approved, staff would suggest a separate levy of 1 mill for operation and maintenance of the facility. Staff would further recommend that the 1 mill left available in the General Fund by the creation of a separate mill rate for Library/Museum operations be divided for capital outlay and operations.
- If revenue sources continue to stabilize or decline, the Council will more than likely have to look at the issuance of bonds to do major street repair and/or

infrastructure or facility upgrades. The down side of this option is that bonds carry significant interest rates and the principal and interest costs will more than double the costs paying for project improvements with cash. Additionally, annual inflation rates will decrease purchasing power by about 3.5% annually. It should be noted that the City cannot invest bond proceeds for the purpose of adding value to the proceeds due to bond arbitrage laws. Therefore, any interest earned on the proceeds has to be reinvested in the projects indicated in the bond sale.

- The Council can hope for rapid redevelopment of the City. This could improve economic conditions, but the pace of development and redevelopment depends heavily on the regional market and investment from outside sources. Redevelopment also is contingent on the City's willingness to invest in infrastructure to show the development and financial community that the City of Troy is committed to the future.

Administratively, the City will move toward an even smarter government. Staff will look at new ways of doing business. Primary focus will, as usual, be placed on how to maintain vital services even in times of fiscal uncertainty and staff will look at how the organization can reinvent the way business is done.

<u>Potential Expenditure Policy Options</u>:

- The most obvious, but by far the most vituperative change for the future, in terms of service delivery, protection and value added functions, is to make significant cuts to the expenditure side of the General Fund Budget. If this is the course of action taken by the Council, staff would recommend that the Council look at developing a series of core products and that funding be appropriated to fulfilling the requirements of the core products. A listing of current City of Troy Core Products is attached for review and consideration. As of the beginning of the coming fiscal year, the City will have 23 less staff than 5 years ago, so additional cuts will impact service delivery and protection functions.
- The Council could also reduce the level of services that are offered to the City's investors. The Council would have to develop priority services that would get the highest appropriations of available revenues. All other service levels would be reduced or eliminated depending on public demand.
- In the face of a pending mill levy freeze on the General Fund and Capital Projects Fund, the City will have an even more difficult time in supplying public services. The proposed mill levy freeze is a two sided issue in that any proposed increase in property tax rates would have to be approved by the voters of the City, and due to the fact that the cost of living increases impact government just like any other business or consumer, eventually, services will have to be reduced

and employee staffing levels will have to be decreased.  Another caveat of the proposed mill levy freeze would be that the Council would have to approve any property tax increase going on the ballot, which could mean that the Council could preclude a question from going to the voters.

- The State will move toward an economic recovery, but projections indicate that that the recovery probably won't be realized until around 2010.  The potential for Troy remaining as a job center and an economic catalyst is high, but there is a growing sense of urgency to develop and initiate the policies that will keep the community strong and vital.

CITY OF TROY CORE PRODUCTS/ FUNCTIONS

Economic Vitality

**Business Retention**
**Business Recruitment**
**Planning**
**Property Acquisition**
**Building Inspection**
**Marketing**
**Human Capital**

Investment

**Accounting**
**Budget Preparation**
**Budget Monitoring**
**CIP Planning/Prog.**
**Risk Management**
**Information Technology**
**Building Operations**
**Debt Issuance**

Security Services

**Police**
**Fire**
**Comm. Services Programs**
**Emergency Preparedness**
**Regional Dispatching**
**EMS (Contract)**
**Homeland Security**
**Hazardous Materials**

Community Connections

**Community Affairs**
**Customer solutions**
**Elections**
**Records Management**
**Human Resources**
**Birth/Death Statistics**
**Passports**

Quality of Life

**Parks & Recreation**
**Aquatics Complex**
**Golf Courses**
**Library**
**Museum**
**Community Fair**
**Engineering Services**
**All DPW Functions**

## ***Future Tax***

There appears to be a basic premise that low taxes equate to people investing in the community because of the extra money, and because the cost of doing business is decreased. This logic presupposes that (1) there is a market to sustain, and that (2) people are willing to invest in an economy that is in flux. In the case of Michigan, neither is currently the case. The Troy job market, once the most substantial part of the local economy is stabilizing, and in fact, most of the significant job growth is going to the second and third tier suburbs. This is substantiated by the fact that Troy now sees an average vacancy rate in office building of about 18%.

Another factor—the predominant theme in this paper—is that Troy property values are showing signs of stabilizing. If this trend continues, needless to say, there will be less money to invest in infrastructure improvements. The options are to let the infrastructure continue to deteriorate, or to issue interest bearing bonds to finance the costs of infrastructure improvements.

In terms of critical projects to budget allocation, Troy is reinvesting less and less in maintenance and upgrades to infrastructure systems, meaning that at some point in time the realities of having to issue debt to pay the costs of upgrades could be the norm. The only thing that is accomplished by delaying the inevitable is to lower tax rates for today at the expense of Troy residents of the future. Commitment to the community does not necessarily rest with low taxes. Commitment to the community means that profits associated with government are not in terms of dollars, but tend more to mean a safe and clean environment, public improvements that add value not only to property owners, but to the community as well. Commitment to the community is quality of life venues that create healthy and safe social interaction. Commitment to the community asks citizens to understand that investment back into the community is to add value to their lives and properties without an undue financial burden now or especially in the future.

The true questions are “Do low taxes and poor quality of community services and dilapidated infrastructure really benefit “future” Troy? Will the added future costs of revival of the community really entice people to stay or to come to Troy? Is the policy of cutting taxes only delaying the inevitable need to improve infrastructure, especially when the City is faced with reduced buying power associated with annual inflation and increasing costs for service delivery and protection functions? By mortgaging future generations of Troy to finance infrastructure improvements are we meeting the definition of community sustainability?

*Future Tax Versus Community Sustainability & Preservation of Natural Resources*

Over the past 3 years, the City’s property tax mill rate has been reduced from 9.48 mills to 9.45, and subsequently to 9.28 mills. This translates to a property tax savings for the owner of property valued at $288,000 (average taxable value of $124,885) to approximately $26 over the actual 2 year payment period.

For the sake of comparison and to show true costs paid by Troy investors, staff used only one element associated with community sustainability, *traffic mobility and its impact on natural resources and the environment*. In order to provide a quantitative comparison, several assumptions based on factual data were used. Assumptions include where:

- Each single family dwelling averages 9 vehicle trips per day. Traffic Engineers indicate a trip being from point A to point B. A second trip is point B to point C and so on.
- Average length of trip is 6.5 miles
- Average number of stops at signals made during each trip is 4
- Amount of fuel wasted idling and accelerating is 1.75 ounce per signal (2 ounces per signal is the accepted figure, but staff chose to be conservative)
- Every intersection per trip operates at level of service "D" meaning that each platoon of vehicles makes it through the intersection during one green cycle
- Number of days per year trips are made is 325
- Using EPA estimates, each gallon of fuel burned emits 20 pounds of carbon dioxide into the atmosphere.

*Level of Service "D" is perhaps the level of service of a busy shopping corridor in the middle of a weekday, or a functional urban highway during commuting hours: speeds are somewhat reduced, motorists are hemmed in by other cars and trucks. In busier urban areas this level of service is sometimes the goal for peak hours, as attaining LOS C would require a prohibitive cost in bypass roads and lane additions.*

Using these assumptions, the family making on the average 9 trips per day wastes over 160 gallons of fuel per year sitting at stop lights idling and accelerating from stop lights. Using today's price of fuel, the average households spends about $542 sitting at traffic signals. One household would then emit an estimated 3,200 pounds of carbon dioxide into the atmosphere on an annual basis. For purposes of comparison, the $542 constitutes about 47% of total property taxes paid to the city of Troy over the course of a year.

Now take the numbers and extrapolate them by the number of households in Troy, that being, 32,596. Over the course of the year without adequate money being spent to improve roadway capacity alone, over 5.21 million gallons of fuel, at a cost of over $17.7 million dollars are wasted sitting at just 4 intersections per trip idling and accelerating.  Over the course of the year, 104 million pounds of carbon dioxide are emitted into the atmosphere at intersections that don't have sufficient capacity to accommodate traffic flow.

Conclusions

The purpose of this paper is not about asking for more money to run the functions of government.  The primary purpose is to let the policy making body of the City of Troy know that the City is heading for significant financial challenges.  The real focus of this paper is that the City of Troy has to figure out the variables in creating infrastructure, programs and projects that sustain the current community and not mortgage the potential of future Troy.  This is the time when program focus should be on reducing the demand for governmental services by investing in community sustainability measures that serve that very purpose.  This focus has the greatest capability of saving investor dollars now and in the future.

This is also the time when it is very important to understand that the property owners of Troy expect services to be delivered at the highest levels possible and within reasonable costs.  Property owners—the investors of Troy—expect to be safe, and while every citizen does not think the same things are important as others, they do expect this community to be a "complete" as is possible in terms of service delivery, protection, quality of life, economic stability and added value to properties.

The Council has a full plate of policy issues that have to be addressed. None is as big as providing adequate financial resources for today, but more importantly for tomorrow. There are too many vivid examples of waiting to make improvements to infrastructure that have led to deterioration not only of the core, but of the edge communities as well. While it is nice to have the lowest taxes of any city in the metropolitan area, the true outcome will be a very long-term mortgage for future Troy to pay.

Staff recently met with the new owners of 1.2 million square feet of office space in Troy. Their current vacancy rate is close to 50%, but they chose Troy for a number of reasons, one of the biggest being that Troy maintains a AAA bond rating.  As another example of what it might mean if the City were to lose the rating, the investors of Troy would have to pay an addition 25 to 50 basis points on long-term debt which would mean additional tax burden on property owners in Troy.  It could also mean that potential investors in Troy would look elsewhere.

It has been proven quantitatively and qualitatively that the residents in Troy get a significant rate of return on investment.  It is no single action, or any single department that has placed Troy in the position it has today. It is a partnership of many things including a very involved citizenry, an excellent staff, and motivated City Council members who understand that today pays for tomorrow or conversely, that planning for tomorrow pays for today.

If it is the real intent of the Council to cut taxes, staff asks that the Council please think about the cuts in terms of cause and effect. The same company that recently bought the huge amount of office space said nothing about the mill rate or how low taxes are, they talked in terms of long-range planning, fiscal capabilities and sound infrastructure as the basis for their move here. Through practical experience and empirical data short term-term minimal savings usually result in long-term expensive cures.

Staff will continue to look for ways to keep essential services operating at peak efficiency. In terms of services, staff will determine future service levels based on the value added for investors both current and future. As example, performance measures will be viewed in terms of public safety, value added, and how services can continually add value to life and property. As example, the number of building permits will be one performance measure, but more importantly, building permits will be tied to the value of homes, how many fire alarms occurred over a given period of time, and how many complaints about builders and their work were registered.

While business think of success in profits and bottom line, government's profits are measured in having a safe community, a clean environment, strong property values, quality of life or reinvestment in the community. This being the case, Troy's profits and bottom line are sound. The next true measure is how the City plans and prepares for the future.