



## FROM THE OFFICE OF THE CITY MANAGER

September 9, 2009

TO: Honorable Mayor and City Council Members

FROM: John Szerlag, City Manager

SUBJECT: 6-Year Organizational Restructuring Plan for the City of Troy;  
Fiscal Year 2009/10 through Fiscal Year 2014/15

### Executive Summary

As discussed at previous budget sessions, operating revenues are projected to decline from now through fiscal year 2014/15. As such, the City of Troy is going to have to reduce its full-time workforce by approximately 170 people. This reduction amounts to over 1/3 of all full-time personnel and will necessitate changes to the organizational structure and service delivery venues.

Said another way, we are looking at a declining revenue line every year for the next 5 years; so much so that by fiscal year 2014/15, the aggregate difference between expenditures and revenue will be in the area of \$22.6 million. Of course, we cannot let this deficit stand, and thus \$22.6 million of cuts in General Fund operations are required to balance this and future budgets. The matrix below will provide insight on cuts required to General Fund expenditures on a year to year basis.

	2009/10 (in Millions)	2010/11 (in Millions)	2011/12 (in Millions)	2012/13 (in Millions)	2013/14 (in Millions)	2014/15 (in Millions)
Revenue	\$ 62.0	\$ 58.1	\$ 54.3	\$ 53.1	\$ 52.2	\$ 51.5
Expenditures	\$ 63.6	\$ 64.3	\$ 60.3	\$ 56.3	\$ 55.1	\$ 54.2
Proposed Cuts	\$ (1.6)	\$ (6.2)	\$ (6.0)	\$ (3.2)	\$ (2.9)	\$ (2.7)
<b>Total</b>	\$ 62.0	\$ 58.1	\$ 54.3	\$ 53.1	\$ 52.2	\$ 51.5
Fund Balance	\$ 10.5	\$ 10.5	\$ 10.5	\$ 10.5	\$ 10.5	\$ 10.5
F/B % of Budget	16.9%	18.1%	19.3%	19.8%	20.1%	20.4%

The desired outcome of this report is twofold:

1. The governing body needs to advise on an organizational restructuring option, and partner with City management and other stakeholders in the community to deliver this option. As such, I propose we meet once a week in a workshop session format until a solution is achieved. Please know that we need to work with a sense of urgency on this matter.

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**Executive Summary, continued**

2. Identification of alternatives to lessen the impact of reduced service delivery and mitigate workforce reduction. These alternatives are delineated later in this memo.

**Assumptions**

1. General Fund revenues are projected to decrease every year for the next 5 years, primarily due to market conditions impacting assessed valuations, and reductions in state shared revenue. We estimate a decline in revenues from \$62.0 million in fiscal year 2009/10 to \$51.5 million in fiscal year 2014/15.
2. General Fund costs will increase at 2% per year because of items like insurance, utilities, materials, and other personnel related costs.
3. Personnel related costs constitute about 71% of all General Fund expenditures. However, this report takes all cost-reduction on the personnel side of the ledger. I know this is a conservative approach, but it may allow us to reinstate some positions as we receive more accurate data over time. Now, having made the rule, let me state an exception. General Fund expenditures this fiscal year are going to be greater than revenues to the tune of about \$1.6 million. And instead of looking to reduce the workforce this fiscal year, we are first looking to other venues which will be detailed in my next report to you. However, there are no guarantees, and we may reduce the workforce this fiscal year.
4. The restructuring models do not incorporate a millage increase or use of any Fund Balance.
5. Privatization and/or regionalization will save roughly 40% compared to the cost of providing services in-house. As an example, let's say a portion of the Building Department was privatized, and 10 employees were laid off as a result thereof.

If the savings from these lay-offs came to \$1 million, the assumption is that it would cost the City \$600,000 (or 60%) to have a private sector firm perform a similar on-demand type of service; hence the 40% savings.

Please know that I did not include any consolidation efforts in the service delivery options because a result cannot be guaranteed by a certain point in time. That said, it should be considered as a parallel option, and a valid one if consolidation can be achieved within an appropriate time frame.

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**Methodology**

We are a mid-size complex organization delivering an array of life-safety, regulatory, and quality of life services. So when reducing expenditures to match a declining revenue line, the options available to restructure the organization are so numerous as to become cumbersome. Therefore, two general restructuring options have been developed so as to be a manageable starting point for our discussions. Before going there, however, I wish first to provide a definition of terms.

For the sake of this report, privatization means that an outside private sector firm will perform the service on behalf of the municipality. An example would be utilization of outside civil engineers to perform work currently performed in-house by civil engineers.

Regionalization means that another layer of government will perform the service on behalf of the City. An example here is that Oakland County Assessing Department can perform some or all of the Assessing functions for the City of Troy.

Consolidation means that local units of government agree contractually to perform a service so as to achieve an economy of scale. We have examples of consolidation here in Troy like our contract with Clawson for police dispatch and jail services. And although consolidation is not included in any of our models, it should not be discounted and City management will continue to attempt partnerships with our surrounding communities so as to achieve an economy of scale. Again, the models do not include consolidation efforts in the service delivery options because a timeframe cannot be guaranteed for implementation, and our financial crisis mandates a timely resolution.

Our methodology was to look at each department and determine if it could be privatized, regionalized, consolidated, retained in-house, or a combination thereof. Departmental elimination was also viewed as a method to reduce costs.

Outlined below are two options available to us given the above slate of assumptions:

**Option 1**

The following departments would be eliminated:

- Library
- Community Center
- Museum
- Nature Center
- Community Affairs
- Risk Management (function will still be maintained)

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**Option 1, continued**

The following departments would be privatized to varying degrees:

- Building Inspection
- Engineering
- Public Works
- Parks and Recreation
- Human Resources
- Real Estate and Development

Most of the City Assessor's Office personnel would be regionalized as Oakland County would take over this function.

The following departments would experience reduction of employees:

- City Attorney's Office
- City Clerk's Office
- Purchasing
- Finance

The Fire Department would lose 3 full-time personnel and 1 part-time person.

The impact on the Police Department under this option will be a reduction of 47 full-time personnel. This represents a combination of sworn and non-sworn employees.

**Option 2**

This option keeps the Library, Community Center and Museum opened on a limited basis. In order to accomplish this, however, lay-offs in the Police Department must increase by 20, bringing the total decrease from 47 personnel to 67 personnel. Please know that 67 personnel in the Police Department represent about 35% of departmental strength. Of course, other departments listed in **Option 1** for elimination, privatization, regionalization, and reduction would still be in place.

**Options to Lessen the Impact of Reduced Services and Mitigate Workforce Reduction**

- 1) Seek employee concessions. Please know that I'm currently working with our labor attorney and HR director on this matter. This is subject to contract negotiations, and legal restrictions. However, fiscal year 2014/15 calls for a 32-hour work week for all full-time employees with the possible exception of employees in the Police and Fire Departments. This was the most functional way to balance the 2014/15 budget.

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**Options to Lessen the Impact of Reduced Services and Mitigate Workforce Reduction, continued**

- 2) City Council can ask the voters if they wish to approve a General Fund millage increase.
- 3) City Council can ask the voters if they wish to approve a millage increase for a specific use, like a library.
- 4) City Council may be able to establish an independent library board separate from the City of Troy's General Fund and levy up to one mill for the operation thereof. This could possibly be accomplished without voter approval. Legal counsel is researching this matter.
- 5) City Council can authorize the use of the Budget Stabilization Fund, Fund Balance, and increase some administrative fees.
- 6) City Council can transfer some funds from General Capital to General Operating, although I would not recommend any reduction to Capital Funds allocated for road improvements.

**Conclusion**

This is a complex issue, and I'm sure you have many questions I did not address. I stand ready to answer them. Additionally, a more detailed report is forthcoming on the ramifications of these options in terms of level of service.

c: Department Directors