

REPORT ON OUR CITY'S FINANCIAL OBLIGATIONS FOR FISCAL YEAR 2012

CITY OF GAYLORD



REPORT ON MEETING OUR CITY'S FINANCIAL OBLIGATIONS FOR FISCAL YEAR 2012

Introduction

The purpose of this report is to research and document options for providing the continuation of essential services in the City of Gaylord. This document will not suggest a recommended course of action, but will instead provide City Council and the public an objective look at the 2012 Fiscal Year Budget and the very real challenges the City is expected to face in the next few years due to declining revenues and increases in operating expenses beyond our control.

This document is a collaborative effort between the City Manager, Police Department, Department of Public Works and City Staff. The completed document has been reviewed by all parties who had a role in compiling and preparing the information.

Why This Report Has Been Created

In early 2012 the City will begin the budget process for the upcoming fiscal year. Based on preliminary information provided by the City Assessor, the General Fund deficit will continue into the next fiscal year unless steps are taken to increase revenues and/or reduce expenditures. The intent of this report is to provide City Council with a resource to be used in the evaluation of various options available to continue to provide good services to its residents. This report will include discussion of the Department of Public Works, Police Department and Administration.

This report does not include information relating to the Motor Pool, Water or Wastewater operations of the City due to the fact that revenues are based primarily on usage rates which can be adjusted to balance and operate these departments. Based upon comments made during the audit presentation by representatives of the Rehmann Group, it is anticipated at this time City Staff will be recommending City Council consider the adoption of an annual rate adjustment in both the Water and Wastewater Departments.

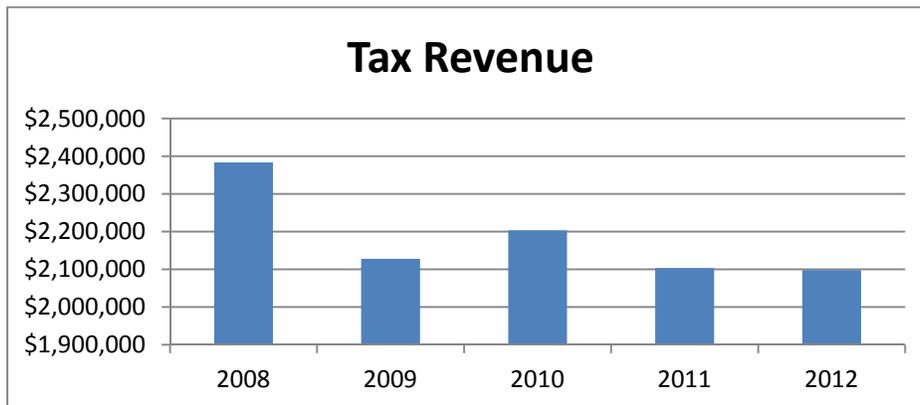
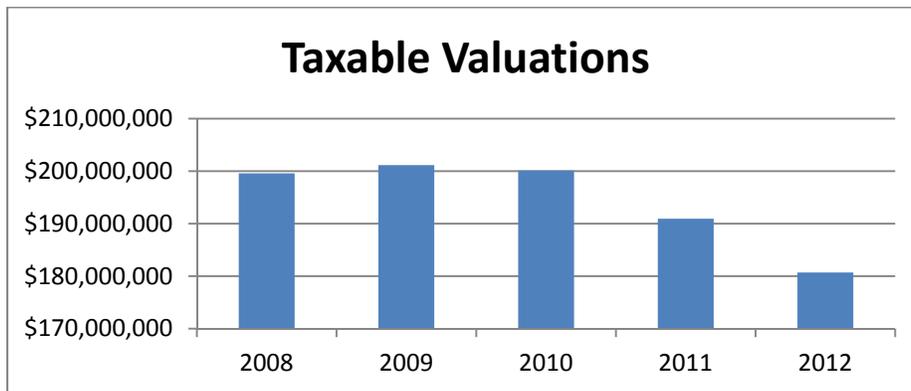
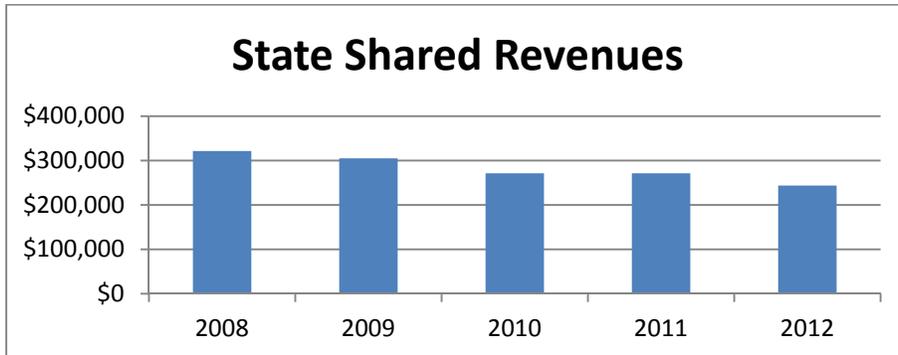
It is stressed that the focus of this report relates to General Fund.

Need for Evaluation

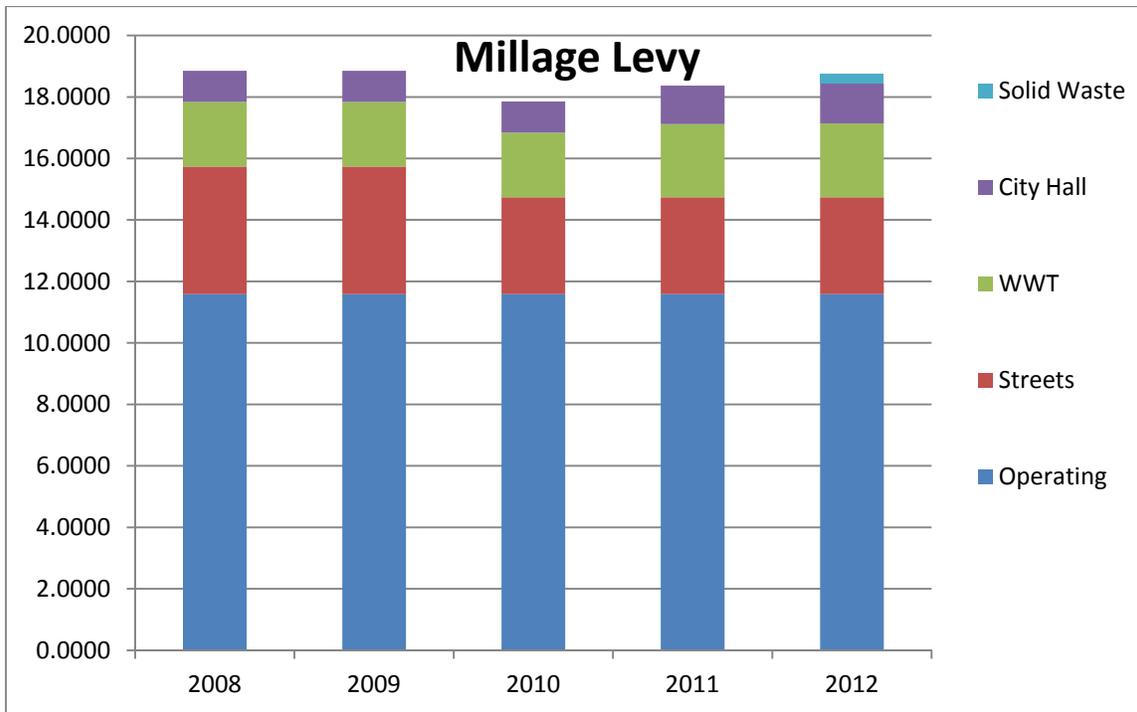
It is a fact that the same financial challenges faced by the City of Gaylord are shared by a multitude of public entities across the State of Michigan. The Department of Treasury has developed a "fiscal scoring system" to rate the financial health of the entities. Those entities with a score of 0-4 are placed in a category of "fiscally neutral", those with a score of 5-7 are placed in the "fiscal watch" category and those with a score of 8-10 are considered to be in a state of "fiscal stress". The last fiscal year the entities were reviewed was 2009, and at that time the fiscal score of the City was "6", placing us in the "fiscal watch" category. At that time 109 communities were on the fiscal "watch list". The Department of Treasury as defined this category in the following manner:

Watch List - Local Units that score in this category are considered to be in a financial circumstance that is cause for concern, but that can still be addressed by the local unit. Governing bodies of local units on the watch list should exercise added care when making financial decisions, and formulate a financial strategy to return the local unit to a fiscally neutral score. Local units may request assistance from the Department of Treasury in developing financial strategies that will assist in returning its score to fiscally neutral.

The following graphs detail the reduction in Revenue Sharing, Taxable Valuations and Tax Revenue, and Decline in Millage. It will be noted that although there have been slight increases in millage relating to Debt Issues in order to finance debt obligations and to fund solid waste collection, the increases have been offset by the 1-mill reduction in the street millage levy.



**** 2010 Administration Fee Levy, 2012 Solid Waste Levy**



Based upon preliminary information from the Assessor, taxable valuations are expected decrease in the next fiscal year by 2%, as follows:

	<u>Real</u>	<u>Personal</u>	<u>Total</u>
2011	\$157,005,004	\$23,910,100	\$180,915,104
2012	\$155,681,471	\$21,343,750	\$177,025,221

With the anticipated decrease in valuation we can expect a further reduction in tax revenues in General Fund in the amount of \$45,100. It should be noted that the preliminary numbers do not include any estimated changes to the valuation that will result from Board of Review.

The reduction in taxable valuation will also mean a reduction in street millage revenues as well as any millage levy that finances bond or debt issues. Therefore it will be necessary to evaluate and possibly adjust the levies in 2012 accordingly to meet our financial obligations.

Conclusions are indisputable that revenues cannot continue to support the service delivery model of the past. Although the General Fund experienced an increase in fund balance at June 30, 2011, it was due primarily to forgiveness of debt, not an increase in revenues over expenditures. The budgeted ending fund balance in General Fund of (\$188,266) supports that revenues are not sufficient to support operating revenues. As recommended by representatives of the Rehmann Group during the audit presentation, additional cuts in services or personnel costs need to be made or additional revenue streams created in order for "status quo" services to be supported by revenues.

Existing Actions – Reduced Expenditures

Fortunately steps were taken in previous years along with attrition of personnel due to retirements, which have assisted in lessening the difference between operating revenues and expenditures and softening the impact on the fund balance of the General Fund.

In the last three (3) years, three (3) full-time employees in the Department of Public Works and one (1) full-time administrative employee have retired. In addition, the Police Department Desk Clerk was laid off, a full-time employee in the Downtown Development District resigned, and four (4) seasonal positions (cemetery, DDA, Wastewater Treatment and Bicycle Patrol) were not filled. Duties previously completed by these employees were assumed by existing personnel. In fiscal year 2012 we estimate the total savings from the combined loss of these employees to be \$419,730.18, based on rates of pay and benefit packages at the time of separation. It should be noted that the only a portion of the savings created by the reduction of the work force are realized in General Fund.

Further decreases in expenses associated with continuing education for employees, conferences and training have been realized except for those which are essential for retaining certifications. It is noted that for the last three (3) years the City of Gaylord has been in violation of the contract with its City Manager by its failure to budget for the Manager's attendance at the annual ICMA Conference.

Operational controls have been established, including 12-hour shifts in the Police Department, to limit comp time and overtime. Additionally the limitation of comp time and overtime has been mandated for all other departments. For example expenses associated with non-court or holiday associated overtime in the Police Department for the time period of July 1 to December 20, 2011, the date of this writing, totaled \$6,738. The previous year's expenses for the same time period totaled \$10,148.

Both the City Manager and Chief of Police have not accepted pay increases since July 1, 2008. Additionally all other nonunion employees accepted a three (3) year pay freeze for fiscal years beginning in July 2010, 2011 and 2012.

Union Contracts negotiated in 2010 for both the DPW and the Police Department reflect further reductions, which will be addressed below. The term of both the Police and DPW union contracts is July 2010 to June 2013.

Effect of Union Contracts, Years 2010 through 2012, Additional Effect on Nonunion Employees

Union Contracts for both DPW and Police Departments reflect further reductions in personnel expenses for current and future employees.

The DPW employees accepted a pay freeze throughout the three (3) year term of their contract. The Police Department accepted a pay freeze for the first two (2) years of their contract, and negotiated a 2.5% pay increase for fiscal year 2012. The estimated increase in the Police Department budget for the 2.5% raise beginning in July 2012 is estimated to be \$16,927.74, which includes the anticipated effect the increase will have on other benefits (pension costs, leave and comp time, payroll taxes, unemployment and worker's compensation).

Both contracts limit comp time, which in theory, does not reduce expenses due to the fact that overtime paid and banked, create the same expense. However, limiting comp time reduces the amount of overtime needed to fill shifts when comp time is taken.

Although the retirement expenses paid by the City on behalf of the Police Department are by far the heaviest burden of any retirement expenses paid by the City for any employee group, the 1% increase in the individual contribution of Police Department employees helps defray some of the expense. Savings due to the increase in individual contributions of those in this employee group from 2% to 3% reduces the overall City expense by approximately 0.9% annually (reduction in City paid contribution to retirement plan from 27.35% to 26.42%).

Both union groups agreed to a reduction in the percentage paid by the City into the employees' deferred compensation account. This reduction affects all nonunion employees also. Based on the current workforce, wage and benefit packages, this reduction is estimated to be \$8,832.79 annually.

Future Savings. The DPW employees agreed to accept a MERS Hybrid Pension Plan for all new hires. This change will affect all future nonunion employees also. Currently the City submits payments totaling approximately 23-24% of wages of both the DPW and nonunion group to MERS to fund the traditional Defined Benefit Program. Most of this is due to increases in benefit levels over the years, including Benefit E for retirees. Under the Hybrid Program, the maximum amount the City will contribute to the Pension Plan will be no more than 10%. No savings are currently realized, but future savings will be realized as the aging employee group retires and new employees hired.

The Police Department has agreed to return to the B-4, Defined Benefit Plan for future employees. Again, no current savings are realized, but as employees covered under the current plan retires and new employees hired, this will undoubtedly provide substantial savings to the City in the future. Although there is no way to estimate what those savings will be.

In 2012 we will see the first reduction in health care premiums in over a decade. Over the last five (5) years employees have accepted a larger personal financial share of medical costs, due to higher deductibles. City Staff is always researching new plans and policies to reduce health care premiums. The City continues to reimburse those employees (10 currently) who elect not to have health care insurance at a flat rate of \$575 monthly. The cost savings of this program in 2012 will be \$130,606.

Need for Evaluation of City Services

As is typical in most communities across the State, budgetary constraints are forcing a top to bottom evaluation of how and what type of services should be provided. As previously stated, preliminary reports from the Assessor indicating a reduced tax base, declining state revenues and increases in operational costs have put the City on a path that is unsustainable, even though the City's operating millage has stayed consistent.

Projected deficits persist despite financial management planning. Even with the reductions in personnel and benefits costs, as described previously in this document, the City's revenues can no longer support the traditional services provided in the past. The City of Gaylord must reinvent how its delivers services so the high quality of life enjoyed by residents can be maintained, yet find balance with financial realities and respect for employees. Without doing this or alternatively finding significant new revenue sources, the City will not be able to continue to function effectively.

Based on preliminary information provided by the Assessor, we estimate receiving \$45,100 less in tax revenue in General Fund in fiscal year 2012 than in the current year. We also know that the unresolved tax tribunals through the 2011 tax year may create an expense for General Fund in an amount up to \$65,000. The 2.5% projected wage increase beginning in July 2012 for the Police Department will create an expense in General Fund of \$16,900. Therefore even before final Board of Review information is available and not factoring in any new tax tribunal filings, we know that based upon the projected reduction in taxable value in 2012, the pending tribunal cases and the increase in wages and benefit expenses for the Police Department, it will be necessary to increase our revenue stream or reduce expenses in the amount of \$127,000 in fiscal year 2012 just to "break even". Additionally the information provided by the Rehmann Group during the recent audit presentation confirmed that although the General Fund did have a positive fund balance, the fund balance was "restricted", meaning there are no resources in General Fund at this time to be used as a payment source for additional expenses or offset the loss of revenues in the next fiscal year.

Current Service Levels

In order to evaluate what service levels best meet the community's needs, there are several fundamental questions that must be answered for each department (Police, DPW and Administrative).

- What service levels are desired by the community?
- What service levels are needed by the community?
- What level of service can the community afford?
- Is the current service delivery method the most effective and efficient?
- Are there alternative service delivery methods available?

In order to evaluate these questions, it is imperative to understand what the current service levels are, how they are delivered and what it costs to deliver those services. This information is critical in evaluating alternatives so one can intelligently gauge what the real and perceived trade-offs are for various options versus the status quo. It is also important to document these service levels to address any misconceptions that citizens may have. Equally important is a discussion of internal and external constraints on the City through laws, regulations, policies, financial condition and collective bargaining agreements.

The following three (3) sections of this document will evaluate each department of the City and attempt to provide recommendations and/or alternatives for City Council to consider when making any decision. The final section will provide an executive summary of the document.

Section 1

POLICE SERVICES

POLICE SERVICES

The current year’s budget in the amount of \$1,179,507 for the Police Department accounts for 47% of the total General Fund Expenditure budget of \$2,514,526. Since law enforcement is critically important to the City, but consumes the largest amount of resources of any single department financed by General Fund, it is logical to start here. It should be noted that this review is not intended to single out or balance the budget on the back of Police Department services, nor is it intended to be the last comprehensive review of City departments. This review should be viewed as a starting point. In these difficult economic times, every service provided by the City, and how these services are delivered, needs to be scrutinized. Taxpayers are tightening their own belts and prioritizing their budgets. They expect no less from government.

The following table details the increases and decreases in both the Police Department expenses and taxable valuation of the City since 2008.

Year	Police Dept. Expenses	+/- from Previous Year	Taxable Valuation	+/- from Previous Year
2008	\$1,005,869		\$199,586,392	
2009	\$1,145,579	+ 14%	\$201,149,490	+1%
2010	\$1,115,981	-2.5%	\$200,137,823	- 0.5%
2011	\$1,200,804	+ 7%	\$190,946,613	-5%
2012	\$1,179,507	- 2%	\$180,704,904	-5.3%

In evaluating the level of Police Department services, one can look at high level statistical data compiled by the department. However, to really understand this data (and the services provided) it requires a closer look at the details. Drilling down the data and looking at the component pieces is crucial as summary data can be misleading. It should also be noted that it is difficult to look at Police services and make objective judgments regarding their relative “quality” versus other communities, as this is a complex question and rarely anything is “apples to apples”.

Current departmental information and a discussion of the services levels and constraints are provided, as follows.

Staffing: The City currently operates a full-time department that operates 24/7. The budget for the current fiscal year is \$1,179,507. Staffing for the department is as follows:

- Chief 1
- Desk Clerk/Meter Patrol: 1
- Detective Sgt. 1
- Sgt. 2
- Officers 7

Scheduling: The department currently works the following schedule(s):

- **Chief Monday through Friday, 7:30 a.m. – 4:30 p.m. (Salary)**
- Detective/Sgt. works Monday through Friday, 8:00 a.m. – 4:00 p.m. (Hourly)
- Desk Clerk/Meter Patrol works Monday through Friday, 8:00 a.m. – 4:30 p.m. (Hourly)
- Sgt’s work six 12-hour shifts and one 8-hour shift in each two week block (Hourly)
- Officers work six 12-hour shifts and one 8-hour shift in each two week block (Hourly)

Vehicles & Equipment: The police department has the following vehicles and equipment (not a complete list):

- 2007 Ford Taurus Detective Vehicle (Unmarked)
- 2008 Ford Crown Victoria Vehicle
- 2009 Chevrolet Tahoe 4x4 Vehicle
- 2011 Ford Crown Victoria Vehicle
- 2012 Dodge Charger Vehicle
- Additional equipment includes rifles, shotguns, duty weapons, computers, cameras, tasers, radios, tracking devices, cell phones and other police related items.

Services Provided:

- Traffic enforcement and investigation
- Criminal investigation
- Security at major events in the City, sporting events, traffic control for all parades and most funeral details
- Parking permits
- Bike registration
- Office hours
- Work with school system to provide safety and security
- Extra patrols in school zones during morning and afternoon hours when school is in session
- Business checks
- Member of the Otsego Partnership for Substance Abuse Awareness who work to reduce drug related deaths and activity in the community
- Attend community meetings when requested
- Member of 911 Committee, Local Emergency Planning Board, SANE, School Safety Board, Northern Traffic Safety Committee and Community for a Lifetime

Departmental Statistics: For the period of July 1, 2010 to June 30, 2011, the Police Department had the following activity level:

- 3,287 Complaints
- 541 Arrests
- 618 Tickets

Variables over the year can have an effect on the activity level of the Department. At different times, there were issues with jail overcrowding meaning the Department was allowed to lodge only felons or those charged with serious misdemeanors. Meaning, that at times, officers were not able to arrest those stopped who had a warrant out for their arrest. In comparing statistics from year-to-year or with other agencies, factors such as these mentioned could contribute to higher or lower statistics in certain areas.

Budgetary Challenges/Responses:

- Chief, Salary Position, Pay Freeze (Last increase July 1, 2008)
- Elimination of Full-Time Desk Clerk, No Rehire
- Nonunion Parking Enforcement/Desk Clerk, Pay Freeze (Last increase July 1, 2009)
- Police Officer, 12-Hour Shifts to Limit Overtime
- Limit Comp Time to 80 Hours Annually

- Union Pay Freeze, Fiscal Years 2009/10 & 2010/11, Scheduled to Receive 2.5% Pay Increase July 1, 2012
- 3% Employee Contribution to MERS (Previously Was 2%)
- Return to MERS B-4
- Annual City Contribution of \$1,000 to Deferred Compensation Plan (Previously Was 3% of Base Wages)

Financial Implications

Using the same service model established, the 2011 and 2012 fiscal year budgets will be used as a baseline for establishing financial considerations for the upcoming fiscal year. In 2011 the Police Department budget was 57% of General Fund tax revenues. In 2012 the budget for the Police Department was 58% of General Fund Tax revenues. In absence of personnel reductions, and anticipating a 2.5% increase in wages for the next fiscal year, which will effectively increase benefit, payroll tax and pension costs, we expect this budget to continue to come under increasing inflationary pressures in the next fiscal year. For purposes of this discussion, we assume 3%.

Historical Analysis of the Police Department Budget

Historically personnel expenses account for over 90% of the Police Department budget. Until mid-fiscal year 2010, overtime costs “by type”, (i.e. holiday, court, traditional overtime), were not individually tracked. To obtain better data to be used for scheduling and budgeting purposes, the “type” of overtime is now detailed in the General Ledger. Therefore for the purposes of this analysis, specific information relating to overtime is not available for the last five (5) years, but included in total expenditures:

Year	Police Department Expenses	% of General Fund Expenses	% of General Fund Tax Revenue
2008	\$1,005,869	35%*	42%
2009	\$1,145,579	35%	54%
2010	\$1,115,981	41%	51%**
2011	\$1,200,804	43%	57%
2012	\$1,179,507	47%	58%***

* *City Hall Funds Transferred into Construction Fund Deducted*

** *First Year of City Admin Fee Levied*

*** *Does Not Include Compost Levy, Nor Tax Revenues in the Amount of \$60,000 Returned as the Result of Tax Tribunal*

Using an inflationary factor of 3% for budgeted Police Department expenses in the next fiscal year and a budgeted reduction in taxable value of 2%, along with a budgeted escrow amount of \$65,000 for outstanding tax tribunals and Board of Reviews, the data supports Police Department expenses will exceed 60% of total General Fund Tax revenue.

Year	Police Department Expenses	% Increase/Decrease From Previous Year	% of General Fund Tax Revenue
2013	\$1,214,892	3%	61%

In the current environment of reduced revenues, this type of increase will invariably put pressure on other City departments and likely cause the termination of other City services. It is an unsustainable path in the long run, unless City revenues rebound dramatically.

Similar Communities that Operate a Full-Time Police Department

Bad Axe
Clare
Charlevoix
Boyne City

Options

1. Voted Millage

Based on an estimated decrease of 2% in taxable value in fiscal year 2013, a 1.15-mill voter approved levy would generate approximately \$196,000 after the TIF capture is factored in. For residential home owners whose property is valued at \$125,000, a 1.15-mill levy would increase their tax bill \$71.88 annually.

- Pros – This levy would fund the wages and benefit package of two (2) officers and would help keep staffing and service at current levels
- Cons – Could jeopardize renewal of the Street Millage Levy set to expire in 2013 (cannot be extended without voter approval; request for millage levies in two (2) consecutive years would be difficult to achieve)

2. Public Act 33 of 1951

Public Act 33 of 1951, Police and Fire Protection, is a state law that allows the creation of an ad valorem special assessment on real property for the purposes of operating and equipping Police and/or Fire Departments. This special assessment would be based on property values, and is an available resource for “qualified cities”, those being under 10,000 in population. This assessment would be in addition to the General Fund operating levy of 11.5869. The assessment may fund both equipment and operations and in essence, the property owners benefiting from the service are the ones bearing the costs. This funding source could be implemented in the 2013 fiscal year budget if endorsed by City Council.

- **Assumptions:** This alternative financing source assumes that the General Fund operating levy will be adjusted down when the assessment is put into place. Under this scenario City Council would have the ability to “choose” a revenue level it feels is appropriate to sustain desired City services. If utilized this could cause the City to have a significant unlevied operating millage below the Headlee cap and City Council would be able to establish the assessment levy annually as needed to fund the Department.
- **Service Level Impacts:** Implementation of this revenue source would allow the City to maintain whatever service level it desires. Assessments could be adjusted each year to meet the funding needs of the Department. It is assumed that City Council would need to adjust the rate of the special assessment each year to meet rising costs of providing Police services. This is very similar to the annual inflationary adjustments for water and sewer rates made by many communities annually.

- **Pros:** Additional funding source available to City; stable funding source for Police services and equipment; annual adjustment frees funding from constraints of variation in tax base and revenue sharing; City Council can choose service and staffing levels; City Council can levy and adjust assessment annually (not typically subject to vote); not levied on personal property; can be levied to fund Fire Service costs budgeted annually
- **Cons:** May be perceived as a “tax” or “tax increase”; assessment is subject to vote if 10% of land owners petition City Council; not levied on personal property therefore real property owners shoulder the burden (smaller tax base to draw from); applies to Brownfield, DDA properties and significantly impacts DDA capture; may be very unpopular due to multiple law enforcement agencies in community; could spark debate about funding levels for these services during budgeting

Preliminary information indicates the taxable value of real property in 2013 to be approximately \$155,681,471. In order to generate \$195,000 in revenue annually to finance the positions of two (2) officers and/or combination of personnel, equipment and operating supplies, a levy of 1.35 mills would have to be levied on the value of each real property owner. For residential property owners whose home is valued at \$125,000, this would increase their tax bill \$85 annually. To generate an amount to finance both 2 positions as well as Fire Services costs in 2012, estimated to be approximately a combined total of \$265,000, a levy of 1.7 would be needed, costing the same residential property owner an additional \$106 annually.

3. **Contract Out Police Services**

This concept has been discussed by various Councils over the years. The surrendering and/or transferring responsibility for all police services to another unit of government on a contractual basis. This model could likely be implemented within six months to one year of Council endorsement. However, this model would involve negotiations in which the City may not be able to estimate an exact time frame.

- **Assumptions:** The primary assumption is that this goal maintains a community approved, acceptable level of police service while reducing costs to taxpayers. Although most likely it would result in a reduced service level to the community. Agreements would have to be discussed, negotiated and approved by the various entities.
- **Political Realities:** The Sheriff is responsible by constitutional mandates to service the County. Daily deputy responsibilities include court security and inmate transfers to the courts. It is likely that even with a contract to provide road patrol in the City there would be times when officers hired to specifically patrol in the City, would be used to supplement needs of the Court or those outside the jurisdictional boundaries of the City. As it currently is, all officers of the City are deputized to provide law enforcement outside the City limits or to provide support to the Sheriff’s Department as well as the MSP. In addition, with all officers deputized and employed by the same agency, it would become much easier to begin to blur jurisdictional boundaries, (i.e. “dispatch the closest care” concept). A similar issue may be the pressure the Sheriff would receive to provide a larger presence in the County with more people on his staff. There could be a situation where all deputized personnel could be sent outside the City, based upon the County needs and complete control over personnel.
- **Service Level Impacts:** In theory there should be no service level reductions if we are able to negotiate with the Sheriff’s Department for two (2) patrol cars to be located inside the City limits 24/7. However, if we contract out police services the City would no

longer control the actions of the patrol cars. If an accident or emergency occurred outside the City limits, undoubtedly the Sheriff or Central Dispatch would direct patrol cars outside the City limits, thus leaving City residents with no or reduced police presence for a period of time. This will occur.

- **Financial Implications:** The exact financial implications of contracting out police services is impossible to predict with any degree of accuracy, until the scope and nature of any negotiations could be completed. Raw information would estimate the elimination of the administrative positions, Chief, Desk Clerk and Detective Sgt. saving the City potentially \$260,467 annually. It is thought that the City would negotiate a contribution/payment in the range of \$750,000-\$800,000 annually as a starting point for discussions.
- **Pros:** Intergovernmental cooperation; works to maintain 24/7 service; saves money
- **Cons:** Loss of authority and complete control of police services; dependence on the County; impossible to know financial impact until negotiations are completed; once a City Police Department is disbanded would be very difficult and expensive to reestablish; less community policing and ancillary services provided; question as to how City ordinances requiring Police support service would be accomplished; unpopular with City residents and commercial business who rely on swift law enforcement services; many unknowns as to the overall success

4. **Implement Income Tax**

A City income tax can be levied on all persons who work inside the corporate limits. For residents the levy is 1%, for nonresidents the levy is 0.5%. Studies can be completed that estimate the amount of revenue that can be generated. A City income tax is fairly common in certain states, and what it does is shifts the burden of financing City services (to some extent) to those that use those services, but do not pay property taxes. A complete study would cost about \$20,000.

- **Pros:** May be able to reduce operating millage; nonresidents who use City services would help finance them by payment of income tax; is tax deductible
- **Cons:** Overall tax burden to employed City residents may be greater than additional millage levy or special assessment to fund Police Services; unpopular with both residents and nonresidents; viewed as additional tax

5. **Emergency Services Cost Recovery Ordinance**

A cost recovery ordinance is an ordinance passed by a municipality that allows for the billing and recovery costs related to emergency services. These ordinances can be tailored to fit the needs of a community and may cover all manner of emergency service costs, depending on the community's desire. Typically, things like responding to car accidents are included; however this is just one example and the ordinance can be as narrow or as broad as desired. This supplemental funding model could be implemented within six to nine months of City Council adoption.

- **Assumptions:** This alternative financing source assumes that the City draft and adopt a cost recovery ordinance through the regular ordinance process. Once in place, the City would be responsible for documenting, billing and collecting costs to be recovered.

- **Service Level Impacts:** Emergency response services would not be directly impacted by implementing such an ordinance. Revenue would be increased which would help to stabilize the City's General Fund. However, administrative burden would increase a significant amount due to the increased record keeping, billing and collection functions.
- **Financial Implications:** This funding source has the potential to help stabilize the City's finances by making it easier to raise the necessary revenue to help fund Police services. The potential revenue that could be raised is directly proportional to the depth and breadth of the proposed ordinance.
- **Entities That Have A Cost Recovery Ordinance:** Many communities have this type of ordinance, they are very common. They include the City/Village of Montrose, Ewart and Tawas and our own, **County of Otsego.**
- **Pros:** Additional funding source available to City; enhances revenue to pay for key City services; makes people aware of the true cost to provide services
- **Cons:** May be perceived as an unwarranted additional cost for City services already being funded by City taxes; if applied to nonresidents only significantly limits effectiveness; collection of billed costs can be difficult; increase in administrative work.

6. **Reduction of Services, Staff, Officers, Positions, and/or Equipment; Further Reduction in Personnel Related Expenses**

This assumption is the one most commonly considered when financial challenges exist in communities.

- **Reduction of Services:** The elimination of one (1) specific work task or shift, such as the night shift, could provide savings by providing for the elimination of personnel. The City could inform the Otsego County Sheriff's Department that the Gaylord Police Department would be out of service between the hours of 11 p.m. until 7 a.m. the following day. Savings would be attained by laying off officers to accommodate this service reduction. Each patrol officer costs the City approximately \$95,600 in wages and benefits annually.
- **Reduction of Staff:** In 2011 one (1) full-time Desk Clerk position was eliminated, saving the City approximately \$54,600 in the current fiscal year. The Parking Enforcement employee was moved to the Desk Clerk position, and it was thought at the time, there would be time within the schedule for some, although very diminished, parking enforcement activity. This has not been the case, and currently there is no parking enforcement within the City limits. The possibility remains to further reduce the Desk Clerk position from a full-time position to a part-time position, and leave any parking enforcement complaints handled by the Chief of Police and/or Police Officers. This would require a reduction in office hours, for example 10 a.m. – 2 p.m., or full-time hours on Tuesday and Thursdays, for individuals to obtain accident reports, or obtain other information, and would put a heavier reliance on Central Dispatch to monitor and dispatch officers on behalf of the City. It may also cause confusion to residents and business owners who have been accustomed to a Police Department who maintains regular business hours. Any savings would be directly related to the number of hours worked by the Desk Clerk.
- **Elimination of Officers:** The average cost of a non administrative Police Officer, factoring in wages and benefits, beginning in the next fiscal year is estimated to be

\$95,600 annually. The elimination of one or more officers would effectively mean that there would be instances where only one officer was on duty at a time, and the Sgt/Detective and/or the Chief of Police, if on duty, would be called to provide backup. It is also possible that other agencies located in the community could be called to provide backup, although this would place a heavier burden on the already taxed Sheriff's Department and MSP. The time waiting for other agencies to respond to provide backup could be the difference in a life saved and a life lost. When this option has been discussed in the past, the safety of the officers was the deciding factor to maintain the policy of having two officers on duty at all times.

- **Elimination of Positions:** The union contract that governs the Police Department provides that a Sgt/Detective and Sgt positions may be appointed, although the union contract does not put forth any requirement that one or all of these positions exist in the department. The union contract provides that these positions get a wage differential of 12% more than the regular patrol officers. Currently the department consists of a 4/7 ratio, of Chief/Sgt Detective/Sgt positions to non supervisory Police Officers, respectively. It is noted that the lowest seniority officer has over five (5) years experience, therefore it is assumed that all officers are adequately trained to handle routine situations without a supervisor on each shift. It is noted that the Detective/Sgt conducts investigations, and that each sergeant has been delegated supervisory duties that include personnel scheduling, uniform purchases, equipment maintenance scheduling and training opportunities, along with other duties. It is also noted that three (3) sergeants are afforded smart phones paid for by the City to provide a method of communication between officers and themselves. The elimination of positions would also cause the elimination of a portion of the smart phone expense which is approximately \$3,600 a year. Although this savings would be minimal, at best.
- **Reduction in Equipment:** It is a fact that patrol vehicles, equipped with light bars, cameras and cages are a necessary tool for the Department. As well, weapons, uniforms and radios are essential. This report does not suggest the elimination of any of these items, or other equipment necessary to conduct the business of law enforcement in a manner that helps insure the safety of the officer while doing so. What this report may suggest are policy changes that may prolong the overall life of the equipment. One such assumption is that the vehicles be placed on a schedule, with the older, higher mileage vehicles used primarily instead of a heavier reliance on newer, less mileage vehicles. Although this will mean the older vehicles will at some point in time have very high miles, the theory behind this assumption is "first in, first out", and the older, high mileage vehicles would be placed out of service when new vehicles are purchased. This policy will help insure that the mileage of the newer vehicles will not be comparable with the mileage of the older vehicles at the end of a year in service. Also a policy of "resting" a vehicle between shifts may assist in prolonging the life of the vehicle. Assigning two (2) officers to each vehicle at a time, as opposed to each officer on a shift patrolling individually, in theory, reduces the mileage by 50% during a shift. Another policy change to be considered is the elimination of the routine road patrol during the night shift, with vehicles dispatched only in the case of accident or emergency. In any case, the Chief of Police should prepare a study to evaluate the number of miles placed on vehicles during any shift along with the time of the shift, in comparison to the number of officers working, factoring in special events or routine everyday occurrences, such as patrolling school zones while school is in session. It is noted that the

Sgt/Detective has use of a vehicle he is permitted to drive home each night. This may seem to be a minor expense, but this equates to approximately 3,000 to 5,000 additional miles on the vehicle each year, without factoring in fuel costs. The financial cost savings of any of these policies are unknown, but if the Department can reduce the number of miles placed annually on the vehicles, which will also save fuel costs and may reduce maintenance expenses, it will not only save money in both the Equipment and General Funds, it will prolong the life of the vehicle. Although costs to purchase and the maintenance of vehicles used by the Police Department are a direct expense of the motor pool fund, these costs are evaluated annually and the Police Department is charged an Equipment Rental fee each year to cover the motor pool's expenses for maintenance and purchase of equipment for the Police Department.

- **Further Reduction in Personnel Related Expenses**

This study evaluates ways to further reduce personnel related expenses, while not significantly financially impacting the majority, if not all the employees, of the Police Department. These assumptions are based upon keeping supervisory positions unchanged. They are also based on each employee earning their base salary at year's end, at the current rate of pay. (80 hours per pay period x wage). All of the following are contract related items that would require further negotiations with the unions.

- Request the union stay at the current rate of pay in the next fiscal year, as opposed to a 2.5% increase. This would save the City from funding an increase estimated to be \$16,900, after wages and benefits are factored in.
- The Department is operational 24/7, and unlike the other employee groups, do not traditionally get "days off" for holidays. Officers who work the holiday earn double time plus an additional eight (8) hours of holiday pay. Officers who do not work, are paid a straight eight (8) hours of holiday pay. Traditionally a minimum of four (4) officers are scheduled to work each holiday. By union contract the following are considered paid holidays, New Year's Day, President's Day, Good Friday, Memorial Day, Fourth of July, Labor Day, Veteran's Day, Thanksgiving, day after Thanksgiving, Christmas Eve, Christmas Day, and New Year's Eve. Negotiating a reduction in the number of holidays and/or compensating employees who work at a ratio of time and one-half as opposed to double time, will reduce wage and overall benefit expense. Further the elimination of an extra day's pay for those who work the holiday will not only further reduce personnel expenses, it is consistent with the City's other employee groups and both other private and public sector employees. In theory, the elimination of the extra day will further reduce overtime costs associated with filling shifts. It is noted that the City affords all employee groups with a very generous leave package, affording those employees who work the holiday sufficient leave time to take an additional day off during the week. As leave time accrued and not used is shown as a liability in the City's audit, the reduction of leave time further improves the City's financial standing.
- As opposed to eliminating positions, permit voluntary layoffs of employees up to certain periods of time. This is a practice that has been used in private sector businesses over the last number of years as a way of retaining already trained employees and still reducing costs. This would allow the City to evaluate how service levels are being performed with a reduced number of employees, and may provide guidance on schedule changes needed to best serve the public. It

may also in the end, keep a position in abeyance for an employee that may be lost through a permanent layoff.

- Reduction in vacation and sick leave schedules; payoff amounts.

7. Use of Part-Time Employees

This last assumption proposes the use of part-time sworn officers to fill shifts during vacation, holiday, community special events and seasonal periods. Due to the fact that there are two (2) other law enforcement agencies in the City it is felt that there is a pool of retired officers, knowledgeable with the City, that could easily fill this need. The use of part-time employees would not require the payment of benefits, other than the normal payroll tax related benefits, although it may require an amendment to the union contract to provide for these positions.

Section 2

DEPARTMENT OF PUBLIC WORKS SERVICES

DEPARTMENT OF PUBLIC WORKS SERVICES

The budget for all Departments associated with General Fund for the DPW for the current fiscal year total \$596,576 or 24% of General Fund expenses. This expense would be further reduced if utility costs associated with the operation of parks, cemetery, DPW, streetlighting, etc., were deducted. As with the Police Department many of the services provided by the DPW are considered to be essential services, sidewalk and parking lot maintenance, parks and cemetery care and maintenance, streetlight maintenance, care and maintenance of other City owned property.

Again in these difficult economic times it is important that every service provided by the City, including how those services are delivered, be scrutinized.

In evaluating the level of DPW services, a “quality of life” discussion for residents and the business community needs to take place. For example, pedestrians will still be able to travel to school and through the residential and business community without sidewalks being cleared during winter months, but does the benefit of this service outweigh the cost. Additionally, a well maintained and diverse park system is not essential to the health, safety and welfare of our residents, but does contribute positively to a community. Further, spring and fall clean-up, composting of yard waste, elk herd care and maintenance, assistance during special events like Alpenfest, cannot be considered essential services, but are considered popular programs that residents have grown to expect and look forward to. The elimination of one or a combination of these services would directly result in a monetary savings to the City, but may be considered as diminishing the “quality of life” that we have grown to simply expect. These are the same tough decisions that are facing community after community throughout the State and are not specific only to the City of Gaylord.

Current departmental information and a discussion of the services levels and constraints are provided, as follows.

Staffing: The City currently operates a full-time department that operates Monday through Friday, from 7 a.m. to 3:30 p.m.

- Superintendent: 1
- DPW Crew 5

Vehicles & Equipment: As it is with the Police Department, it is not possible to segregate pieces of equipment used by the DPW that are specific to General Fund only. Equipment rates established by the State of Michigan are charged to each fund based on hours used and rate of equipment, and charged as an expense to the Department in which it is used. For example the hourly cost of a loader to maintain parking lots in the winter is charged as an expense to the Department. Revenue equal to the expense is transferred to the motor pool, who uses the revenue to purchase new equipment when needed. Equipment rental expenses are a large, but necessary expense of the DPW.

Services Provided:

- Plow streets, parking lots, sidewalks
- Maintenance of streets (i.e. shoulder repairs, driveway maintenance, patching, drainage, etc.)
- Sweep streets
- Maintain sidewalks (winter and summer repairs)
- Curb repairs
- Manhole repairs and maintenance
- Pick up brush, leaves and grass clippings

- Mow parks and parking lot areas, restroom maintenance, playground equipment repairs and maintenance
- Maintenance of ski trails and trail lighting
- Tennis court maintenance
- Maintain irrigation system and planting beds (Edelweiss Village, Air Industrial Park, Gaylord Industrial Park)
- Mow grounds on all City properties
- Cemetery care and maintenance, Fairview & Bagley, including burials, foundations, sprinkler system maintenance
- Maintain and care for Elk Herd
- Operate and maintain composting operation
- Maintenance on City properties (i.e. City Hall, wellhouses, garages, salt barn, water building, etc.)
- Christmas decorations, including care, maintenance and placement
- Tree care, right-of-way trees
- Tree lights in DDA District
- Pavilion Events, setup and take down
- Stage setup
- Pavilion curtain closures
- Flag raising and lowering of flags on municipal properties
- Fix and assist water and wastewater main repairs, valve repairs, utility breaks and replacements
- Maintenance of street light poles and electrical boxes in the DDA District
- Street sign maintenance and placement
- Trash and rubbish removal, as needed
- Stockpiling inventory
- Assistance with special events (i.e. Alpenfest, Otsego County Fair, Oktoberfest, etc.)
- Address citizen complaints, as it relates to department activities
- Setup and wiring of new police vehicles
- Routine maintenance of police vehicles and equipment used in other departments

Budgetary Challenges/Responses:

- DPW Superintendent, Salary Position, Position Effective 02/2011, Pay Freeze 2012
- Cap Comp Time to 80 Hours Annually
- Union Pay Freeze, 2010, 2011, 2012
- MERS Pension Plan Changed to Hybrid Program for All New Hires
- Annual City Contribution of \$1,100 to Deferred Compensation Plan **(Previously Was 3% of Base Wages)**
- Restriction on Overtime to Providing Essential Services or As Budgeted Only (i.e. Alpenfest road closure and opening, winter maintenance, etc.)

Historical Analysis of the DPW Department Budget

In 1998 the DPW had 10 employees on the crew, today they have 5. Historically personnel expenses account for 42-50% of the total expenses in the DPW budgets. Overtime costs are not individually budgeted or detailed for each activity of the DPW, as it is now being tracked in the Police Department. Therefore for the purposes of this analysis, this type of detailed information is not available for the last five (5) years, but included in total expenditures. Again, other expenses such as operational costs for

Departments in which the City has little or no control, such as utility expenses, are included in the total expenses detailed.

Year	Total DPW Expenses	+/- from Previous Year	% of General Fund Tax Revenue
2008	\$809,938		34%
2009	\$864,161	+7%	41%
2010	\$758,827	-12%	34%
2011	\$731,941	-4.5%	35%
2012	\$596,576	-18.5%	29%

Year	**Total DPW Personnel Expenses	% Increase/Decrease From Previous Year	% of General Fund Tax Revenue
2008	\$387,611		16%
2009	\$417,306	+8%	20%
2010	\$388,809	-8%	18%
2011	\$391,295	+.06%	19%
2012	\$253,146	-35%	12%

***Does not include personnel costs included in promotional funds*

Using an inflationary factor of 2% for budgeted expenses for the next fiscal year and a budgeted reduction in taxable value of 2%, along with a budgeted escrow amount of \$65,000 for outstanding tax tribunals and Board of Reviews, the data supports DPW expenses are estimated to be 31% of the total General Fund Tax revenue.

Year	DPW Expenses	% Increase/Decrease From Previous Year	% of General Fund Tax Revenue
2013	\$608,508	2%	31%

In the current environment of reduced revenues, any increase will continue to place pressure on all City departments and may in the end result in the termination of City services, essential and nonessential alike. It is an unsustainable path in the long run, unless City revenues rebound dramatically.

Options

1. **Voted Millage.** (See Section 1, Police Department)
2. **Income Tax Levy.** (See Section 1, Police Department)
3. **Contract Out Services**

There are a number of services performed by the DPW and funded by the General Fund that could be contracted out to commercial contractors. Mowing in City parks and cemeteries, winter maintenance activities in parking lots and on City sidewalks are a few which come quickly to mind. During the current winter season maintenance on sidewalks will be contracted out on

an hourly basis to a private company, although part of the agreement will include use of City equipment which would not be a typical component of most contracts for contractual services. It is unknown the amount of savings that could actually be realized unless bids were solicited and compared with documented actual costs, although this assumption estimates savings of 10-20% at a minimum. But there are numerous services performed by the DPW that would have to be contracted out on per need basis. Streetlight maintenance, maintenance of sprinkler systems, sweeping sidewalks and parking lots, etc. Since the services provided by the DPW crew are much broader than those funded solely by General Fund (i.e. street winter maintenance, equipment pool maintenance, construction activities relating to water and wastewater fund activities), it may make it difficult to reduce the number of current employees and still maintain the ability to perform the varied services that it does. Reduction in quality and control is a major concern of any service which may be contracted out. Additionally, the reduction in equipment pool revenue, a direct result of contracting out services would have a substantial negative impact on the Equipment Fund and its ability to purchase new equipment when needed. Although in theory it may be possible to defer the purchase of new equipment simply based on a longer-life due to the reduction in use by City employees.

Another option would be to contract out all services performed by the DPW, including those funded by other than General Fund. This could potentially result in downsizing the DPW crew to two (2) employees, most likely the DPW Superintendent and mechanic. The responsibility of these individuals would be to insure that all contractors are honoring the terms of the contract and that all equipment used by other funds is maintained and in good working order. Contracts for major services, such as snow plowing, would require a performance bond by the contractor to insure the work is being performed and funds available if the contractor ceases to fulfill the contract.

- Pros: Potential savings in General Fund of 10%-20%; potential reduction in the need to purchase new equipment; reduction in personnel and benefit costs if DPW personnel could be further downsized.
- Cons: Potential loss of control and in the quality of services provided; crew size not sufficient to adequately perform other services not funded by General Fund; loss of revenue in Equipment Fund due to reduction in revenues generated by use of equipment.

4. Reduction of Services, Employees; Further Reduction in Personnel Related Expenses

This assumption is the one most commonly considered when financial challenges exist in communities.

- **Reduction of Services:** This assumption assumes along with a reduction in services, a correlating reduction of employees. Elimination of one or combination of the following: elk herd; ski trails and trail lighting in Aspen Park; irrigation systems including those in the cemetery, parks and Industrial Park; assistance with community events such as Alpenfest; public restrooms in Doumas and Freel Parks; street lighting in the Industrial Park; sidewalk maintenance in the winter; removal of playground equipment; etc.
- **Reduction of Employees:** The crew size of the DPW has been reduced in the last three (3) years due to attrition. In 1998 the number of "street employees" was ten (10), today there are five (5). Additionally upon the retirement of the previous Superintendent, the new Superintendent was hired from "within" without his former position on crew being replaced, compensated as a salary position as opposed to an hourly position. Only a

portion of the services provided by the DPW are funded by General Fund, the majority of which are relied upon by the community (i.e. cemetery care and maintenance, maintaining and keeping the park system in a safe condition). Previous assumptions address the issue of contracting out some of the services provided, or the elimination of other services. Both assumptions assume the further reduction of employees.

- **Reduction in Equipment; Equipment Rental Related Expenses**

Reduction in the number of DPW employees, along with elimination of services or contracted services, will reduce the need for City owned equipment. Until decisions are made regarding either of the aforementioned, it is difficult to estimate the amount of savings that would be realized. Although it is understood that any service contracted out would include expenses related to equipment usage.

- **Further Reduction in Personnel Related Expenses**

This study evaluates ways to further reduce personnel related expenses, while not significantly financially impacting the employees of the DPW. These assumptions are based upon staffing levels staying at current level, and supervisory positions unchanged. They are also based on each employee earning their base salary at year's end, at the current rate of pay. (80 hours per pay period x wage). All of the following are contract related items that would require further negotiations with the unions.

- By union contract the following are considered paid holidays, New Year's Day, President's Day, Good Friday, Memorial Day, Fourth of July, Labor Day, Veteran's Day, Thanksgiving, day after Thanksgiving, Christmas Eve, Christmas Day, and New Year's Eve. Negotiating a reduction in the number of holidays may reduce personnel related expenses, although not as significantly as it would in the City Police Department simply due to the fact that there are many holidays in which employees do not work. It is noted that the City affords all employee groups with a very generous leave package, affording those employees who work the holiday leave time to take an additional day off during the week. As leave time accrued and not used is shown as a liability in the City's audit, the reduction of leave time further improves the City's financial standing.
- As opposed to eliminating employees, permit voluntary layoffs of employees up to certain periods of time. This is a practice that has been used in private sector businesses over the last number of years as a way of retaining already trained employees and still reducing costs. This would allow the City to evaluate how service levels are being performed with a reduced number of employees, and may provide guidance on schedule changes needed to best serve the public. It may also in the end, keep a position in abeyance for an employee that may be lost through a permanent layoff.
- Reduction in vacation and sick leave schedules; payoff amounts.

Section 3

ADMINISTRATIVE EMPLOYEES

ADMINISTRATIVE EMPLOYEES

For the purposes of this assumption, administrative employees include the City Manager, City Treasurer, City Clerk, Human Resource Manager and City Assessor. Again in these difficult economic times it is important that every service provided by the City, including how those services are delivered, be scrutinized.

In order to evaluate these questions, it is imperative to understand what the current service levels are, how they are delivered and what it costs to deliver those services. This information is critical in evaluating alternatives so one can intelligently gauge what the real and perceived trade-offs are for various options versus the status quo. It is also important to document these service levels to address any misconceptions that citizens may have. Equally important is a discussion of internal and external constraints on the City through laws, regulations, policies and financial condition of the City. Unlike other employee groups, administrative employees do not fall under the “protection” of union contracts nor have traditionally been offered the opportunity to negotiate wage and benefit packages. The duties of the City Manager and City Assessor are defined by City Charter and individual employment contracts. The City Treasurer and City Clerk are elected positions whose **minimum** duties are defined by City Charter. Both receive \$3,000 annually for their Charter duties. Other duties performed by the City Clerk and City Treasurer are considered to be “at will”. The Human Resource Manager is an at-will employee whose duties are governed to a large extent by State and Federal law. Of the administrative employees, only the City Assessor’s position is funded entirely by General Fund. The compensation of other administrative employees is funded by multiple funds.

In evaluating the level of administrative services, one must question the level of service needed to efficiently meet the needs of the City, as it relates both to customer service and “behind the scenes” duties. Current departmental information and a discussion of the services levels and constraints are provided, as follows.

Staffing: The City currently operates a full-time department that operates Monday through Friday, from 8 a.m. to 4:30 p.m. Hourly employees work an eight (8) hour shift.

Services Provided: As with DPW employees, services provided by administrative employees are varied and relate to all funds of the City. Services provided are not limited to “office duties”, customer service is an important component of administrative employees daily duties.

Duties include, but are not limited to, the following:

- 3,000 Assessment notices prepared and mailed annually
- 3,000 Tax bills prepared and mailed twice annually
- 1,800 Utility bills prepared and mailed monthly
- Responding to customer requests for assessment, tax and utility information including work orders relating to utility service
- Administrative duties relating to Fairview Cemetery, including lot purchases, preparation of deeds, work orders for burials, billing for services rendered
- Receipting and depositing of revenues relating to all billing items of the City, including cemetery, taxes, utility and other accounts receivable invoices
- Accounts payable
- Budgeting
- General accounting, including general ledger and bank reconciliation
- Payroll, from processing of time sheets to submission of payroll taxes and reports in accordance with State and Federal law
- Elections and maintenance of voter registration rolls

- Planning Commission, Zoning Board of Appeals scheduling of meetings, attendance and preparation of minutes
- City Council meeting attendance and preparation of minutes
- DDA meeting attendance, preparation of minutes and financials used by Board
- Assistance with DDA special events, publishing and marketing campaigns and guides
- Zoning, sign ordinance and complaint enforcement
- State Trunkline reports
- Member of Economic Alliance, Commission on Aging, Fire Board, Task Force
- Assessment roll and tax roll maintenance
- Collection of personal property taxes
- Maintenance of City's computer system
- Other duties as may be required, including responding to general questions, correspondence, report submission and attendance at meetings, as necessary or required

Budgetary Challenges/Responses:

- City Manager, Salary Position, Pay Freeze (Last increase July 1, 2008)
- City Assessor, Salary Position, Pay Freeze (Last increase July 1, 2009)
- City Treasurer, City Clerk, HR Manager, Hourly, Pay Freeze, (Last increase July 1, 2009)
- MERS Pension Plan Changed to Hybrid Program for All New Hires
- Annual City Contribution of \$1,100 to Deferred Compensation Plan (Previously Was 3% of Base Wages)
- Restriction on overtime

Historical Analysis of the Administrative Budget

Administrative employees have traditionally received wage and benefit considerations that have paralleled those which have been negotiated by the unions, primarily the DPW. The last employee hired as an administrative employee was the City Manager in 1998. In July 2011 the administrative staff lost an employee due to retirement. All duties of the retired employee were assumed by other administrative employees, and the position not replaced by a new employee.

Year	Administrative Expenses	% Increase/Decrease From Previous Year	% of General Fund Tax Revenue
2008	\$272,306		11%
2009	\$308,629	+13%	15%
2010	\$279,584	-9%	13%
2011	\$291,318	+4%	14%
2012	\$238,370	-18%	12%

Using an inflationary factor of 2% for budgeted expenses in the next fiscal year and a budgeted reduction in taxable value of 2%, along with a budgeted escrow amount of \$65,000 for outstanding tax tribunals and Board of Reviews, the data supports administrative expenses are estimated to be 13% of the total General Fund Tax revenue.

Year	Administrative Expenses	% Increase/Decrease From Previous Year	% of General Fund Tax Revenue
2013	\$243,137	2%	13%

In the current environment of reduced revenues, any increase will continue to place pressure on all City departments and may in the end result in the termination of City services, essential and nonessential alike. It is an unsustainable path in the long run, unless City revenues rebound dramatically.

Options

1. **Voted Millage** (See Police Services, Section 1)
2. **Income Tax Levy** (See Police Services, Section 1)
3. **Contract Out Services**

Although the majority of the administrative staff positions are required by Charter, the Charter does not specify that the positions are full or part-time, nor to what extent the administrative staff are required to perform them. For example, the Charter requires that the administrative staff of the City include the position of City Attorney, which is a duty that has been contracted out in excess of twenty-five (25) years. The City Clerk's duties, as mandated by Charter, are essentially Clerk of the Council, custodian of records, and elections. The current City Clerk's duties have been expanded to include budgeting, accounting, bank reconciliation, zoning and accounts payable duties. As mandated by Charter, the City Treasurer "shall receive all money belonging to and receivable by the City", although a portion of revenue collected is done so by electronic transfer of funds from the customer's account. Bids could be solicited for assessing services, accounting, accounts receivable and payroll and other human resource services, zoning and utility billing maintenance, preparation and collection of payments, as long as the minimum requirements of the Charter are fulfilled.

- Pros: Potential savings in General Fund of 10%-20%; reduction in personnel and benefit costs if personnel could be further downsized or positions made part-time positions.
- Cons: Potential loss of control and in the quality of services provided; staff not sufficient to adequately perform other services not funded by General Fund; heavy reliance on contractors for information or to respond to questions relating to primary functions of the City (i.e. assessments, taxes, utility billing, payroll, zoning, etc.); significant reduction in administrative office hours.

4. **Reduction of Services, Employees; Further Reduction in Personnel Related Expenses**

This assumption is the one most commonly considered when financial challenges exist in communities.

- **Reduction of Services:** As with other employee groups, it is unclear how a reduction of services can be accomplished and still adequately address the needs of the taxpayers. The City has a responsibility to directly answer and respond to questions relating to taxes, assessments, utility billings, cemetery information, elections and ballot information, zoning, or to provide information as to where the information can be obtained. Other services that do not affect the general public such as accounting, payroll, accounts payable and accounts receivable functions that are still essential to the operation of the City could be contracted out. But it would be very difficult to ascertain which services could be eliminated.
- **Reduction of Employees:** Unless services are contracted out, the further reduction of employees would not be feasible. Other than services that relate specifically to the City

Manager or City Assessor, the administrative staff dealing with the basic day to day operations of the City (billing, collection, accounting, payroll, reporting, utilities) is operating with a 25% reduction in personnel from just a year ago.

- **Further Reduction in Personnel Related Expenses**

This study evaluates ways to further reduce personnel related expenses, while not significantly financially impacting the employees of the administrative staff. These assumptions are based upon staffing levels staying at current level, and supervisory positions unchanged. They are also based on each employee earning their base salary at year's end, at the current rate of pay. (80 hours per pay period x wage).

- The administrative staff is afforded the same holidays as other employee groups, therefore a reduction in holidays provided other groups would most likely affect the administrative staff group also. It is noted that as opposed to other groups, the likelihood of this employee group being required to work any holiday, therefore being eligible for overtime compensation is slim. A possibility for this employee group is to eliminate holiday pay for certain holidays in which the office is closed. As with other employee groups, administrative employees are afforded a generous leave package, therefore in lieu of any loss of holiday pay the employee could use leave time. This policy change may not reduce the overall payroll expense if leave time is used in lieu of holiday pay, but it will ultimately reduce the City's liability for unused sick and vacation time. In the private sector, employers have been known to require employees to use vacation time before applying for unemployment in cases where the private employer's business is temporarily shut down. Usually in these cases, the shutdown is for periods of a week or less. The theory behind use of leave time in lieu of holiday pay is not unlike the policy used in the private sector. Other than the City Manager, salaried employee's contracts should be amended to provide a choice to reduce compensation or reduction in permitted leave time also.
- As opposed to reducing the number of employees, permit voluntary layoffs of employees up to certain periods of time. This is a practice that has been used in private sector businesses over the last number of years as a way of retaining already trained employees and still reducing costs. This would allow the City to evaluate how service levels are being performed with a reduced number of employees, and may provide guidance on schedule changes needed to best serve the public.
- Reduction in hours each full-time administrative employee works, along with a corresponding reduction in office hours. For example, administrative office hours could be changed from Monday through Friday, 8 a.m. to 4:30 p.m., to Monday, Wednesday and Friday, or from 10 a.m. – 3:00 p.m., Monday through Friday.
- Reduction in vacation and sick leave schedules; payoff amounts.

Retirement Age Policy Change for All Employee Groups

Lastly, it is well known that many of the City's employees have at least half, if not more, years of service required to retire. Of the administrative staff, three employees are currently eligible to retire. One employee in the Police Department can retire in one (1) year, and others in the DPW, Water and Wastewater Departments are only lacking one component, age or final years of service, before they become eligible. With changes made in the last union contracts, new hires will have a different pension plan which will result in reduced expenses for the City. A policy that would require employees to retire no later than the time their pension plan is maximized, would assist the City in reducing their unfunded pension liability by replacing more costly employees with less costly ones. This would be accomplished by the reduced costs associated with pension plans covering new hires, new salary and benefit packages and/or employee agreements. It would also establish a timeline for each employee, and assist the City in preparing for replacement of employees in key positions. It is assumed the only exempt employee from this provision would be the City Manager.

CONCLUSION

Conclusion

Although this report has presented several options for each of the three (3) employee groups, the delivery of any service is ultimately a balancing act between the level of service provided, the cost to deliver that service and the relative level of risk, if any. Nothing can change this fact. Any changes made to the status quo, whether incremental or all-encompassing, will result in a different service/cost relationship; but nevertheless, one that must be managed and affordable to the community. The difficulty is in gauging the desires of the city and ultimately finding the correct balance between safety, service and affordability.

One option that is not viable is maintaining the status quo without addressing a method of funding this service level. This path is not sustainable and will ultimately lead to the necessity for potentially even tougher decisions than we are faced with today. The City of Gaylord is currently on the State “watch list” as previously addressed. If no action is taken to improve the current economic situation of the City, and if the State determines the financial condition of the City to be further diminished, it is not beyond the realm of possibility that an Emergency Financial Manager appointed by the Governor be sent to improve the state of the City. I encourage you to look online at what has occurred in the communities and school systems for which an Emergency Financial Manager was appointed. Mercy for the employee base was not a consideration nor was continuation of services to their residents and students. Saving money was the prime consideration and how it was achieved, had little to do with the overall effect on the community or school system.

Finally any changes will likely result in impacts to existing employees. One of the reasons for carefully studying this issue and involving the affected employee groups in the discussions is to ensure that employees have input into the process and are shown the highest level of respect. But City Council must be prepared because whatever decisions are ultimately made will impact employees and/or the community in some fashion.