

EASTERN MICHIGAN UNIVERSITY
Institute for Community and Regional Development

MEMO

October 25, 2005

TO: Ed Koryzno, City Manager, City of Ypsilanti

CC. Mayor and Members of Council, Department Heads, Participants

FROM: Dr. Joe Ohren, ICARD/EMU

RE: Minutes from Planning Retreat, 10/22/05

ATTACHMENTS: Cover Memo, 10/17/05
Agenda, 10/22/05
Updated Budget Exercise Spreadsheet with Priorities, HP 7 and LP 5

I have summarized below the Minutes of our meeting on Saturday October 22nd for review, reaction and continued reflection by members of the leadership group. As we agreed at the end of the session, this is a first cut at the priority-setting process; elected officials need to discuss the findings with constituents, department heads may want to respond to my suggestion below and identify possible further programmatic changes, and we collectively need to “listen” to the community in the remaining three Town Hall meetings. For the record, I have attached copies of my cover memo distributed prior to the meeting and the agenda I used to organize the session.

Most of the discussion during the meeting focused on the Budget Exercise that had been distributed prior to the session, and I have attached a revised spreadsheet indicating the results of our priority-setting exercise as part of these Minutes. Prior to completion of the exercise and discussion of results, Ed Koryzno updated the group on his best estimate of the projected budget shortfall for the 07 fiscal year and several subsequent years. As you heard, the estimated deficit for the 2006-07 fiscal year (July 1, 2006 to June 30, 2007) is approximately \$360,000. The deficit is projected to increase to \$1.1 million for the 2008 fiscal year, to \$1.5 million for the 2009 fiscal year, and to more than \$2 million for the 2010 fiscal year. The Blue Ribbon Commission and other experts refer to this as a structural deficit—expenditures are rising faster than revenues, even given conservative assumptions for expenditure growth.

Expenditure reductions will slow the growth of the deficit over time to the extent that they are permanent cuts; more to the point, significant reductions will need to be made to bring the budget into balance over the long term. To put it another way, cuts of \$360,000 will bring the FY 2007 budget into balance but will not assure balance for subsequent fiscal years. And, as it was also pointed out, the likelihood of “growing” our way out of the deficit is very small. Given current constraints on property taxes, little land for new development, and the limited likelihood of substantial new revenues from fees and charges, either new revenues or substantial increases in state revenues would be necessary to offset the deficit unless significant expenditure reductions are made.

I then reviewed the budget parameters spelled out in my cover memo dated October 17, 2005 to provide a context for our discussion (copy attached). In the interests of brevity I will not repeat that information. Suffice it to say that our “marching orders” for the day were clear; identify in tentative fashion those items in the budget that we collectively deem highest and lowest priorities. Ultimately, Council and the leadership group will want to finalize the budget priorities at the December 10 session to provide direction for the Manager and department heads in budget preparation. Please go over this material in advance of that meeting.

Discussion Questions

Prior to completing the exercise a number of questions and comments were explored. Several are worth noting here since they relate to the information included on the budget spreadsheet, which as I note above, has been updated with the priority ratings and attached here. Department heads, working with the assistant manager, prepared the program or service information in the exercise. The expenditure information is approximate since the budget does not necessarily organize expenditure information by function within departments. In some cases, program information is not available in detail, and this constrains the ability to make precise choices about level of services—for example, as you heard in the discussion, the police department information on the spreadsheet does not break out costs associated with different levels of patrol, although this was done for the fire department.

The expenditure information reflects “net” expenditures, to take into account the fact that some functions generate revenue. In these cases, expenditures are reduced by the amount of revenue generated, except in instances where the amount of revenue is quite small. Where revenue from performance of a function exceeds expenditure, the net figure is noted in parentheses.

The spreadsheet includes a column titled Category that prompted a good bit of discussion and the need for some clarification. I referred to the effort to categorize services in this way in my cover memo, but to reiterate, in preparing the spreadsheet Ed, Bob and I agreed that we needed to be sure that, as part of the “context” of decision-making, participants understood whether services were required, necessary or discretionary.

Those items deemed required were those that are mandated by Charter, statute or ordinance; to repeat the examples from my memo, Charter mandated functions include the City Manager and City Clerk, while statutory mandates include assessment and audit functions.

Another set of functions or services were labeled necessary; these are operational functions associated with a local government—accounting and financial reporting in Finance and payroll and risk management in Human Resources were the examples cited. While the level of spending for such required and necessary functions is discretionary, the services themselves are mandatory/required or operationally necessary. All other services provided by the city are therefore discretionary; that is they are not required by law or Charter or operationally necessary.

Having said this, we recognized that most people would agree that public safety functions are the most important services that local governments provide. Thus, there is a distinction that needs to be understood between what is legally mandated and what is deemed most important.

Hence, in setting priorities, participants were admonished to set priorities—high or low in the exercise—for all services, whether required, necessary or discretionary. If a required or necessary service is deemed low priority, that may mean we need to find ways to reduce spending on it. Finally, the point was made that in our budget actions we need to be explicit about setting expectations for residents; expenditure reductions need to be linked to service reductions to the extent possible—or to put it still another way, doing more with less is no longer an option.

Budget Priorities

With that as backdrop, participants were asked to individually and anonymously identify what they considered to be the highest priorities and the lowest priorities on the worksheet of sixty items. We then collected the information and presented it on the flipchart for review and discussion. It should be noted that I did not limit the number of items that could be deemed high or low priority in the exercise, and a review of the sheets revealed considerable variation among participants in the number of services so classified. Since the exercise is intended to show preferences, those differences do not affect the interpretation of the results.

I have presented the ensuing results in several different ways. The spreadsheet titled Budget Exercise Priorities present the earlier service information with new columns added indicating the number of participants who classified an item as high and low priorities. I then used the average of high and low marks, 6 and 4 respectively, as cut points to shorten the list, essentially eliminating the middle priority items. Thus, you have two other spreadsheets, one identified as Budget Exercise Priorities HP 7—containing only those service items that were ranked highest priority by seven or more participants—and a second one identified as Budget Exercise Priorities LP 5—containing only those services that were ranked lowest priority by five or more participants. In each of the latter two spreadsheets, I have retained the item number and service information for ease of analysis. Finally, my colleague Jerry Zhao organized the general information on priorities in graphic fashion in the bar charts below.

Discussion of Results

Participants spent almost ninety minutes after lunch reviewing and reflecting on the results of the exercise. Some comments were explicitly acknowledged as pleas for retaining items in the budget (lobbying as one participant called it), while others were intended to point out the connections between many of the services that were identified as discrete items in the list (eliminating the animal control function and shifting that responsibility to the county may mean a police officer will need to be on site until an animal is retrieved). It was also noted that seeking cooperative efforts with public, nonprofit and or private organizations—for recreation services for example—often costs more money in the short run in staff time as details are negotiated. Future labor costs might also be reduced through negotiations as contracts expire.

The discussion was helpful in making the information more meaningful, and thus perhaps more amenable to decision. But, I suspect that more than one of you felt at some point during the Saturday session that “I don’t have enough information to make this decision.” Hence, without intending to speak for the Manager, I wonder whether there are ways that department heads can “make” the information even more accessible for our follow-up discussion on December 10.

Are there ways within each program or department to identify service reductions, consistent with the priorities set by the group? That is, for those areas that have been identified as the lowest priorities, can we break out specific service reductions through which expenditures would be cut? Remember, linking expenditure reductions to service reductions was viewed as critical in helping residents understand the “new reality” as someone called it. It may be that even within those service areas identified as middle and highest priorities, department heads may be able to identify specific services that might be eliminated. Ultimately, the cuts we make for the coming fiscal year will be ones that will not need to be revisited next year.