

EASTERN MICHIGAN UNIVERSITY
Institute for Community and Regional Development

MEMO

December 15, 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, 12/10/05

Attachments: Cover Memo 11/27/05, Agenda 12/10/05

I have summarized below the Minutes of our meeting on Saturday December 10th for review, reaction and continued reflection by members of the leadership group. As we agreed at the end of the session, we will schedule another follow-up session after the first of the year. The focus of that third session is spelled out at the end of the Minutes, and I will work with Mr. Koryzno's office for scheduling purposes. Ultimately we need to revise the Goals prior to the end of January to meet the Charter requirement. 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. As the need for the third session suggests, and as I think we all are aware, we did not complete the ambitious agenda set out for the day.

Budget Update

After an overview of the agenda for the day, the group quickly reviewed the Minutes from the October 22 retreat session. Though not designed to amend the Minutes, several comments were offered about the budget priority-setting process employed during the October session. The concerns related to the complexity of the budget; for example, the budget information in the spreadsheet doesn't indicate the interconnectedness of programs and services, nor does it include information about multiple funding sources. Some services supported in other funds, for example, were not included on the spreadsheet, which only included programs supported by the general fund (while the largest fund in the city, not the only fund). In addition, at least one item identified as a low priority in the exercise, Ypsilanti District Library—SBT, is required; the city cannot choose to eliminate that payment. Additional discussion may be necessary to insure understanding of these budget complexities as the leadership group makes budget decisions.

Mr. Koryzno then provided an updated five-year budget projection for the city, indicating that the estimated deficit for fiscal year 2006-07 is approximately \$480,000. This updated figure reflects the impact of negotiated wage increases, increases in employee fringe benefits including significant increases in health costs, increases in retiree costs, utility increases, and other cost escalators.

Revenue figures for the year do not reflect any changes in property tax revenues associated with the anticipated closing of Visteon, a significant component of property tax revenues, since the best current information is that no change is expected during calendar 2006. Future increases are estimated using the same escalators for the out years. The \$480,000 figure represents the amount of reductions or revenue increases necessary to balance the budget for 2006-07, essentially the target for the leadership group.

In addition to the budget update, the Manager also distributed an extended memo providing details from the several department heads describing the anticipated impact of reductions of what were deemed low priority programs in our first round of discussions. Each department head was asked to indicate the potential impact of such cuts on services and staffing levels. This prompted a great deal of discussion over the next several hours.

Discussion

Participants reviewed the information from Department Heads on a whole range of services, exploring issues of:

- service connectedness—the work of the animal control officer relieves the burden on a police officer who may have to wait with a potentially dangerous animal while someone comes to take care of it;
- possible contracting—in some cases bids have been sought to support service delivery but in DPW at least city employees can provide services at lower costs; other possible contracting arrangements might be pursued in human resources;
- impact of employees with multiple assignments—the same employees who pick up the leaves also provide some park maintenance and street work, hence eliminating the leaf pickup for example would have ramifications for other services, and in the DPW all employees are cross-trained;
- use of alternative service arrangements—changing the approach to leaf pickup to require residents to use bags;
- shift from a car for certain department heads to a car allowance;
- constraints imposed by union agreements that limit the use of temporary personnel as substitutes for full-time personnel that are laid off;
- changes in the approach to retiree benefits—the HR Director was asked to provide further information on the approach underway and the potential for cost-savings;
- services supported by other funds—street and road maintenance costs are covered by Act 51 monies from the state, so reducing those services actually reduces revenues;
- capital equipment and infrastructure obligations—reducing such commitments may be “penny wise and pound foolish” to use the old saying;
- the “out year” effects of reductions made now—recognizing that the deficit is structural, that is current revenues do not cover current spending, reductions will need to be made that will reduce the deficit over the long-term.

While the issues are complex, the magnitude of the reductions facing the city will require thinking differently; employees cannot be asked to do more with less, and reductions at this stage will literally mean reductions in services or service levels. The metaphor used by one participant captured the severity of the problem; we can no longer just reduce, we now need to amputate.

Questions were also raised about the potential for reducing the city subsidy for bus service to AATA, currently in excess of \$220,000. The subsidy reduces the fare paid by transit riders embarking within the city, but fares have not been adjusted for six years. The Manager was asked to gather more information on the number of riders, how riders are counted as Ypsilanti riders for fare purposes, possible changes in route structure, and the direction of ongoing discussions at AATA with respect to other sources of funding (e.g., broadening the property tax base for the transit system). Reductions in this area potentially impact low-income riders, but currently the subsidy also extends to all riders embarking in Ypsilanti.

On the revenue side of the budget, participants discussed a range of both short-term and long-term strategies that might help address the structural deficit. While fees and charges have generally been adjusted to reflect changes in costs over time, some fees have not been set to reflect the true costs of providing services. Recognizing that the law requires that fees reflect only the actual cost of providing service, it was suggested that some fees be examined to determine whether costs are being covered or whether general fund subsidies are being made.

This issue was raised in general terms and then focused specifically on special event permit fees, such as fees for use of Riverside Park or Frog Island. Currently the fee structure does not capture all costs—a typical event may require involvement of the building official, the city attorney, police and fire personnel, and public works staff. While such events as the Heritage Festival serve community-building purposes, and hence warrant support from the general fund, given the budget constraints adjustments may need to be made in the permit fee to assess a greater portion of the actual costs of supporting such events. Or, alternatively, local officials could identify a small number of events that would be supported and simply not make permits available for other events. While the concern was expressed that some groups might not be able to pay higher permit fees, if it costs the city money every time someone holds an event in the park we may need to rethink the level at which we can support events.

Participants were cautioned that fees and charges make up about a quarter of total general fund revenues, and given the statutory constraints, are not likely to cover a greater portion of the total operations. Hence, while useful short-term actions, they would not significantly affect the long-term budget picture. Suggestions were made to revisit the decision on the local income tax—putting it before voters for approval will require a significant educational campaign—or consider a donation campaign, seeking individual contributions to support the work of the city.

One thing clear in the discussion was the issue of expectations; the community needs to be made aware that expectations in terms of service levels will need to change as proposed reductions are implemented. Given the magnitude of the deficit, and past efforts at controlling what might termed discretionary items, it seems clear that reductions in services will need to be made. This implies an educational campaign to complement action on the budget, making clear to the community what reductions have been made, why (the town hall meetings have begun to explain the situation that Ypsilanti and other older fully developed communities face) and the expected consequences.

Next Steps

As was apparent at the end of the October retreat session, the challenge facing local decision-makers is substantial, and the size of possible reductions and their potential ramifications are not easy to grasp. It was agreed that Department Heads, working with the Manager, would make a second cut at recommendations regarding reductions in all their programs (not just those designated low priority in October), using 3% and 10% below base targets for planning purposes. The 3% figure represents slightly less than the deficit in relation to the total general fund budget, while the 10% figure represents substantially more.

While budget detail will emerge later in the Manager's planning process, the purpose of this additional information at this stage is to identify the level and kind of reductions that program managers recommend, with ultimate choices to be made by Council with a clearer understanding of the consequences of reductions. The intent is not to produce across the board reductions, each program cut by 3% for example, but to allow informed choices on service reductions that will make up the deficit. High priority programs may be reduced by 3%, but lower priority programs may be reduced by 10%. Having information on consequences of reductions will help in the priority-setting process.

A third retreat session will be scheduled shortly after the holidays at which the second round of DH recommendations will be reviewed, and discussed, with tentative conclusions made, and then Council and the leadership group will not need to modify the Goals and action strategies to reflect the budget reductions and changed expectations.