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Seeing red

General fund balance drops; immediate cuts requested

by Brad Lindberg

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An audit showing a negative \$210,000 unreserved fund balance prompted an accountant on the Grosse Pointe Shores finance committee to call for cost savings by making immediate cuts to non-union employee benefits.

"We can't afford them," said Ted Kedzierski, in his first term on the city council. "This should have been done years ago."

He wants to reconfigure the pension plan, retiree health care and a sick-day policy that lets employees cash out unused days allotted for sick time.

The audit this month by Plante & Moran showed, for the period ending June 30, the city's general fund balance dropped \$727,000 during the last two years. In March 2007, the fund totaled \$802,000. One year later, \$477,000; and in June, \$75,000.

"Of that \$75,000, \$285,000 is reserved for sanitation-related expenditures," said Plante & Moran senior manager Jenny Cederstrom.

That means the unreserved fund balance is \$210,000 in the red.

The accounting firm is required to report the deficit to the state.

Such reports are triggered by "any fund with a deficit," explained David Harrington, a Plante & Moran partner.

The state will respond by putting the Shores on a deficit reduction plan.

"If you can demonstrate during the current-year budget process that you will have a positive number June 30, 2010, that gets you off the (state's) radar screen," Harrington told the council.

Brian Vick, hired last winter as city manager, said the negative balance is an "inevitable" consequence of the former village's three-month reconfiguration this year to a city form of government.

"For a three-month period, residents did not pay taxes," Vick said. "We used available revenue we had to move through that three month period. The overall budget is not in debt. Essentially, we owe ourselves some money."

"(Having) \$75,000 at the end of the year is better than you anticipated," Cederstrom told the city council at last week's meeting, "primarily because you came in better than anticipated for the three-month period; but also because you had built up (\$477,000) reserves from the previous period."

The deficit had resident John Booth concerned about receivership.

"To my knowledge, this community has never had a negative, overdrawn general fund," Booth said. "The big issue is the chronic inability of the council and its finance committee to come up with any kind of realistic revenue projections. The pie-in-the-sky revenue projections of the last three years have exhausted almost all funds we had in reserve, resulting in a demerit from the state. It is a travesty to continue that."

He recommended the city create a resident task force of financial experts to help city officials resolve budget problems.

Legacy costs

Kedzierski's cost-cutting plan targets legacy costs and sick pay.

Shores employees currently can bank up to 200 sick days and cash out up to 100 percent of them, depending on the department, according to Kedzierski.

Look at the union contracts under source documents on this web site. The incumbents inked them just a year ago, when the adverse fiscal trends were clear!

The incumbents said the tax increase was to give us a positive fund balance, hiding the fact we were already in the hole when they voted to raise taxes!

The incumbents said being a city would save money!

Our sick pay liability as of June 30, is \$708,050, and it's going up \$50,000 to \$60,000 per year," Kedzierski said. "That represents what we owe the city's nearly 50 employees for sick pay. They can cash that out. If they all retired right now, we'd have to write them checks for \$708,050. That is not in the budget."

He said sick pay should be offered on a use-it-or-lose-it basis.

"To me, sick time is for when you're sick," he said. "It's not meant to enrich yourself."

As for legacy costs, Kedzierski would reduce them by adding five years to the current 25 years of service an employee must work to qualify for full retiree benefits.

In addition to requiring 30 years of employment, he wants the city to stop paying health care coverage for retirees' spouses and dependents; plus stop providing at age 65 a Medicare Advantage policy that includes extra coverage.

"I'd like to amend the plan to have provisions similar to the state, which requires 30 years of service," he said.

Spouses and dependents would no longer receive health care coverage, at least for life, he added.

He also wants to change the city's defined retirement benefit plan into a defined contribution plan in which a stated amount of money each year is paid into the retirement fund.

"We have excellent services because we have great employees," Kedzierski said. "But, after being on the finance committee for the last couple of months and looking at our finances, we can't continue to do business as usual."

New reality

Why don't the incumbents see it can't be business as usual?

The auditors said the Shores, like "every community" in Michigan, is facing declining revenues. Property values are going down, which translate into lower municipal income.

Revenues (as of June 30) came in less than budgeted by about \$130,000," Cederstrom said. "They were lower than anticipated, primarily in property tax revenue. That's due to declining property tax values."

Property taxes comprise about 84 percent of Shores' income, according to Cederstrom.

The city's tax receipts are expected to go down another 9 percent, according to Kedzierski, citing Wayne County officials.

"Our real estate tax is about \$5.2 million," Kedzierski said. "Nine percent of that is just over \$450,000. We have to find that somewhere."

"When any community or organization sees their revenue decrease, they have to change," Harrington said.

He forecast, based on current conditions and practices, the community will see a structural deficit grow to about \$400,000 per year by 2012 and stay that way for years. The prediction came despite this year's municipal budget including \$300,000 in cuts from the year before.

"Now's the time to address how this community wants to examine steps they'll take to get back to a balanced budget," Harrington said.

Don't fall for the auditor trying to sugar coat the critical nature of things! While all cities are facing declining revenues, only 20 other cities are under fiscal watch by the state! What's different for the Shores is that under the incumbents there has been:

No long term financial planning. Other cities have a 5 year or longer advance plan.

No significant effort to control excessive legacy costs.

Huge unfunded liabilities in the retiree pension and health care funds.

Poor effort to recognize let alone react responsibly to the unfavorable fiscal trends.