

Business Advisory Committee Report

The committee's examination of the financial condition of the city revealed that expenditures have, over the past two fiscal years, substantially exceeded city revenues. During the 1979-80 fiscal year, operating expenditures were greater than operating revenues by \$1.3 million and the year-end accumulated deficit was \$1.4 million. Preliminary audit figures for FY 1980-81 show that expenditures exceeded revenues by \$2.1 million and the accumulated deficit grew to \$3.5 million.

While the current fiscal year does not end until June 30, 1982, the committee found that the best available estimates show expenditures in excess of revenues by about \$2.2 million. Expenditure estimates for the current year include \$870,000 due to police and fire retirees for 1981-82 benefits which have not yet been paid. In addition, the estimates include \$140,000 for pension benefit increases due to police and fire retirees, retroactive to July 1, 1981, as a part of the recent arbitration award for current police and fire employees. It now appears that the city will end the current year with an accumulated deficit of \$5.7 million.

In an effort to cope with the ever-increasing deficit situation, the city has reduced the work force over the past three years from 502 full-time positions in 1979-80 to the budgeted level of 332 positions for the current fiscal year. The proposed 1982-83 budget provides a further reduction to 249 full-time positions. The proposed level of 249 positions would provide Highland Park with a work force comparable in number to other similar-sized Michigan cities.

As a result of the city's critical financial condition, the committee feels that the city must hold the line in labor contract negotiations. Salary increases at this time would not only exacerbate the budget situation, but also the city's pension funding difficulties since salary increases for current employees translates directly into higher pension costs and benefits.

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The committee explored the delinquent property tax problem as well as other revenue collection difficulties faced by the city. For the current fiscal year approximately \$560,000 in property taxes are now delinquent, or approximately 12% of the total levy. In addition, the city placed approximately \$500,000 of delinquent water bills on the property tax rolls this year. The city must develop a system to enhance property tax and water bill collections. In order to insure compliance in the payment of individual income tax, the city should participate in the reciprocal exchange of income tax information program administered by the state department of treasury.

For the 1982-83 fiscal year, the city must take positive steps to bring expenditures in line with available revenues. The proposed reduction in personnel to 249 full-time positions for the 1982-83 fiscal year is a step in that direction. The committee recommends that at no time during the fiscal year should full-time employment exceed 249 positions. Additionally, the city must hold employee salaries at the 1981-82 level. The proposed budget is based on a continuation of the current year agreement to pay employees 36 hours pay for 32 hours work. The 6-week employee lay-offs in effect during the current year are to be discontinued July 1, 1982. At this time, this appears to be a reasonable employee compensation plan. The city should, however, attempt in future years to pay employees only for those hours actually worked.

Finally, the city must begin making the constitutionally required contributions to the employee pension systems. The city must make annual payments in excess of the payout to retirees in order to begin building reserves in the system. It is estimated that approximately \$3.5 million in employer contributions are required for the 1982-83 fiscal year to meet the constitutional funding requirements.

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### Conclusion

It is clear that the expenditure reductions noted above will be inadequate, by themselves, to balance Highland Park's budget for 1982-83 or to provide a basis for stability in city finances in the future. The only vehicle for providing adequate revenue is the increase in the city income tax. In this way, a portion of the burden of bringing balance to the city's finances will be shared by city employees, the users of city services, and city taxpayers, alike.

The committee therefore concludes that the proposed increase in the city income tax to two percent on residents and corporations and one percent on nonresidents is necessary. At the same time, the committee emphasizes that immediate action must be taken to assure the adoption of its recommendations for expenditure reduction and the meeting of pension obligations. Vigorous action in these areas is absolutely necessary to permit the future survival of the City of Highland Park and the orderly provision of services to its citizens.

## CITY OF HIGHLAND PARK FINANCES

<u>Expenditures</u>	<u>1981-82 Estimated</u>	<u>1982-83 Proposed</u>
Salaries	\$ 5,890,000	\$4,821,000
Fringe Benefits		
General Employees Pensions	650,000	999,000
Police/Fire Pensions	750,000	2,470,000
Benefits due to Retirees	870,000	—
Arbitration Increase Due to Retirees	140,000	—
Other Fringes	946,000	815,000
Operating Expenses	3,008,000	3,183,000
Debt Service	1,412,000	583,000
Interest on State Loan @ 14%	—	140,000
<b>TOTAL EXPENDITURES</b>	<b>\$13,666,000</b>	<b>\$13,011,000</b>
<u>Revenues</u>		
Property Tax		
Operating	\$ 3,586,000	\$ 3,644,000
Debt	1,457,000	583,000
Delinquent	(300,000)	(300,000)
General Revenue	485,000	510,000
State Revenue Sharing	2,766,000	3,371,000
Charges for Services	467,000	452,000
Miscellaneous	47,000	45,000
Local income Tax	1,190,000	3,800,000
Federal Revenue Sharing	808,000	736,000
Other Revenue	225,000	170,000
<b>TOTAL REVENUES</b>	<b>\$11,441,000</b>	<b>\$13,011,000</b>
Operating Surplus/(Deficit)	\$(222,500)	\$ -0-
Prior Year Surplus/(Deficit)	\$(3,481,592)	\$ (5,706,592)
Accumulated Surplus/(Deficit)	\$(5,706,592)	\$ (5,706,592)