# CITIZENS RESEARCH COUNCIL

## OF MICHIGAN

Detroit - Lansing

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TO: HIGHLAND PARK BUDGET STABILIZATION COMMITTEE

FROM: CITIZENS RESEARCH COUNCIL OF MICHIGAN

RE: UPDATE TO SPECIAL MEMORANDUM OF DECEMBER 3, 1981

DATE: MAY 6, 1982

Pursuant to your request, we have updated the special memorandum on the financial condition of the City of Highland Park. Since the memorandum was issued to the Mayor and City Council in December, 1981, several events have occurred to worsen the financial condition of the city. These include:

1. A $123,000 reduction in state revenue sharing.

2. A $136,000 reduction in federal revenue sharing.

3. An arbitration award to firefighters totaling $105,000.

4. An arbitration award to policemen totaling $260,000.

5. A substantial increase in delinquent property taxes (total amount not yet determined).

These and other factors have virtually doubled the anticipated current year operating deficit from the original projection of $1.4 million to the current estimate of $2.8 million. This increase in the current operating deficit together with a $922,000 increase in the June 30, 1981, deficit brings the estimated accumulated deficit from $4.0 million to $6.3 million as of June 30, 1982. Thus, the major imbalance between current operating expenditures and current operating revenues reported in December has increased dramatically over the past five months. The revised estimates for the current fiscal year are included in the first column in Table 1.

Voter approval of the proposed income tax increase would reduce, but not eliminate, the imbalance between current expenditures and current revenues. The second column in Table 1 shows that for the fiscal year beginning July 1, 1982, based on the 1981-82 staffing level of 332 full-time employees and current rates of compensation (including 4-day work weeks and 6-week lay-offs), the general fund budget would remain out of balance by approximately $1.5 million. The revenue assumptions are based on a doubling of the local income tax rate effective July 1, 1982. It is apparent that the city must reduce expenditures not only to balance the 1982-83 budget, but also to begin financing the accumulated deficit estimated to be $6.3 million at the end of the current fiscal year or 51.6% of 1982-83 general fund revenues.

In order to balance the 1982-83 operating budget including meeting minimum actuarial requirements for the funding of pensions, a 25% reduction in the 1981-82 staffing levels would be required. The third column in Table 1 shows the resulting change in anticipated expenditures, if 83 full-time budgeted positions were eliminated. A reduction of 25% in the Highland Park work force together with the adoption of the proposed income tax increase could generate a surplus of approximately $237,000 in 1982-83.

Clearly the emergency loan board would require, as a part of a long-range financial plan, the elimination of the city's accumulated deficit. To that end, the fourth column in Table 1 shows that a 30% reduction (100 full-time positions) in the city's work force would result in a $653,000 surplus and could be applied toward the accumulated deficit. A reduction of 83 to 100 budgeted positions would still provide Highland Park with a work force comparable in number to other similar-sized Michigan cities.

We will be pleased to provide the committee with any additional information that is requested.

Table 1

## City of Highland Park Finances

| *Expenditures* | (1) FY 1981-82 Estimates | (2) FY 1982-83 w/o Personnel Reductions | (3) FY 1982-83 w/25% Personnel Reduction (83 positions) | (4) FY 1982-83 w/30% Personnel Reduction (100 positions) |
|---|---|---|---|---|
| Salaries (per budget) | 5,801,164 | $ 6,166,000 | $ 4,622,000 | $ 4,306,000 |
| Fire Arbitration | 105,000 | | | |
| Police Arbitration | 260,000 | | | |
| Fringe Benefits | | | | |
| Gen Employee Pensions | 650,000 | 993,000[b] | 993,000[b] | 993,000[b] |
| Police/Fire Pensions | 2,050,000 | 2,260,000[c] | 2,260,000[c] | 2,260,000[c] |
| Other Fringes | 907,000 | 11000,000 | 750,000 | 700,000 |
| Operating Expenses | 2,805,380 | 3,000,000 | 3,000,000 | 3,000,000 |
| TOTAL OPERATING EXPENSES | $12,318,544 | $13,419,000 | $11,625,000 | $11,259,000 |
| Debt Service | 1,457,330 | 700,000 | 700,000 | 700,000 |
| Interest/State Loan | — | 140,000 | 140,000 | 140,000 |
| TOTAL EXPENDITURES | $14,035,874 | $14,259,000 | $12,465,000 | $12,099,000 |
| *Revenues* | | | | |
| Property Tax | | | | |
| Operating | $ 3,586,154 | $ 3,600,000 | $ 3,600,000 | $ 3,600,000 |
| Debt Service | 1,457,330 | 700,000 | 700,000 | 700,000 |
| Less: Delinquency @ 15% | (750,000) | (750,000) | (750,000) | (750,000) |
| General Revenue | 465,000 | 465,000 | 465,000 | 465,000 |
| State Revenue Sharing | 2,766,390 | 3,371,000 | 3,371,000 | 3,371,000 |
| Charges for Services | 502,000 | 502,000 | 502,000 | 502,000 |
| Miscellaneous | 60,000 | 60,000 | 60,000 | 60,000 |
| Local income Tax | 1,900,000 | 3,800,000 | 3,800,000 | 3,800,000 |
| Federal Revenue Sharing | 744,000 | 744,000 | 744,000 | 744,000 |
| Other Revenue | 260,000 | 260,000 | 260,000 | 260,000 |
| TOTAL REVENUES | $10,990,874 | $12,752,000 | $12,752,000 | $12,752,000 |
| Current YR Operating Surplus/ (Deficit) | $(3,045,000) | $(1,507,000) | $287,000 | $653,000 |
| Prior YR Accumulated Surplus/(Deficit) | $(3,481,592)[a] | $(6,526,592) | $(6,526,592) | $(6,526,592) |
| YR End Accumulated Surplus/(Deficit) | $ (6,526,592) | $(8,033,592) | $(6239592) | $(5,873,592) |

[a] preliminary.

[b] Includes $325,000 interest on contributions receivable.

[c] Includes $255,000 interest on contributions receivable.