



MANAGEMENT MEMORANDUM

September 11, 2014

One of Michigan's Fiscal Hospice Municipality's

From: Steve M. Duchane, City Manager

Reference: Reduction of Cost recovery of \$220,000 from Bad Actors caused by Cunningham decision

Let me give you a dose of our reality as we prepare for the demise of Michigan City general services

In 2008/2009 Eastpointe's assessed value was \$879.7 million, in 2013/2014 it is \$431.3 million, a 51% decline and still dropping.

In 2008/2009 Eastpointe's taxable value was \$786.1 million, in 2013/2014 it is \$430.4 million, a 45% decline (52% on residential) and still dropping.

In 2008/2009 Eastpointe's general property taxes raised \$15.4 million for operations, in 2013/2014 it is \$8.5 million, a \$6.9 million annual reduction and still dropping.

In 2008/2009 Eastpointe spent \$18.6 million on general operations, in 2013/2014 it is \$13.3 million, a 29% reduction with minimal impact to residents.

In 2008/2009 Eastpointe spent \$3.7 million on costs for general operations retirees, in 2013/2014 it is \$5.2 million, a 42% increase.

At the end of 2008/2009 Eastpointe had fund balance of \$13.0 million, on June 30, 2016 Eastpointe is bankrupt.

Eastpointe has been well managed and aggressively addressing financial issues for the past decade. Excerpt from S & P credit rating report 2-7-14:

We consider management very strong. We revised Eastpointe's Financial Management Assessment score to "strong" from "good" based on the new policies adopted by management in early 2012. Management provides quarterly updates of budget and investment performance to the council. The city undertakes detailed departmental budgeting with frequent review of major revenue and expenditure assumptions. The city maintains a formal 10-year capital improvement plan that is incorporated into the annual budget and a comprehensive five-year financial management plan. The city also has formal debt management and fund balance policies. It has a policy of maintaining committed emergency, operating, and budget stabilization reserves at 1%, 4.4%, and 10% of the average actual general fund revenues, respectively, for the preceding five fiscal years. There is no specific goal for the unassigned fund balance.

Pay cuts and/or reduced hours have been implemented. Pensions have been reduced for existing employees or pension contributions have been increased, with new hires going into DC plans or a hybrid DC/DB plan. Healthcare changes have moved significant burden onto the employees, but the premium costs keep going up. Thanks Affordable Care Act. Fulltime staffing has been reduced from 180 in 2003 to 105 today. Consolidation and new authorities have been created to save money. There is nothing left to cut except providing a bucket brigade for fire service and Barney Fife as police protection.

State statues prohibit us from asking residents to increase their taxes to maintain current services. Legislation being contemplated in Lansing, if fully implemented, would allow us to raise taxes to levels still below 2008/2009 and still leaving us in a deficit. Even if housing values increased substantially, Proposal A and Headlee will prevent us from seeing any of that benefit limiting the growth in taxable value to 2.6% or rate of inflation whichever is less.

I have served on the State Treasurer's local government task force and presently sit on the SEMCOG local government revenue task force and speak to treasury officials constantly regarding the municipal funding crisis. NO option such as fees or charges replaces the loss of property taxes since the great recession and our point is even stable governments face this issue. We have proposed life saving amendments such as amending the police and fire assessment (Act 33) that were supported by the treasurer's task force and passed the Senate by 37-0 only to be stifled in the house rabbit hole.

The discussion needs to immediately turn to the reason we have cities and all local governments, why Michigan needs them, and how they can be retooled for local sustainable success. The State of Michigan should follow its leading principals, streamline its duplicative services and give municipalities the tools for success instead of the shaft that stifles growth and guarantees failure. Failure to restore the ability to make bad actors pay will result in a reduction of \$220,000 annually to the City of Eastpointe.