

May 14, 2019

The Honorable Mayor Fournier and  
Members of the City Commission:

I present to you the 2019-20 City Manager's Recommended Budget for the City of Royal Oak. This is the fourteenth budget that I have prepared for Royal Oak, three as finance director, ten as city manager and one as both. It will probably be my last.

Since this budget may mark an end to the Johnson era in Royal Oak, it is a good time to review. When I arrived in 2005, as director of finance, the 2005-06 budget I inherited called for using every penny of fund balance in the general fund and transferring balances from the automobile parking system fund and ice arena fund to the general fund. It featured the city's first attempt at a multi-year projection with an estimate for 2006-07 that showed a general fund deficit of \$5.1 million. Pensions were significantly underfunded, and retiree health care was not funded at all. The city had not invested in any park improvements in years. There was no local money spent on roads; road repairs and improvements were limited to what could be funded with our PA 51 of 1951 revenue from the state. There was essentially no capital improvement program. Our fire truck fleet included three pumper trucks which could not be counted on to pump water when it was needed. Some of our critics were suggesting the city should file for bankruptcy or request an Emergency Financial Manager from the state. Of note, this was the situation well before the real estate crash which would soon devastate our tax base and make a bad situation much, much worse.

Today, the city is on a solid financial footing. We finished 2017-18 with a general fund balance of \$21 million and a public safety fund balance of \$1.2 million. The general fund is not being supported by transfers from other funds. Pensions for general employees and retiree health care were over-funded until the actuarial assumptions were changed this year. We have made significant improvements at 18 existing parks, upgraded signage at all parks, completed one new park, Eagle Plaza, have what will be our largest park, Normandy Oaks, under construction and a designer for the planned new downtown park was just approved by the city commission. We have spent over \$2.4 million on capital improvements to existing parks in the past six years. This doesn't include money spent and money committed to the three new parks which totals over \$11.5 million. We are about half-way through a ten-year road improvement program which will expend about \$70 million of local money in addition to state road money on Royal Oak streets and roads. We have also recently seen an increase in state road money and the new governor is promoting a plan which would further increase state contributions. This is very much needed. We are averaging about \$5 million per year on water and sewer infrastructure improvements. We replaced most of our fire trucks, including the three problem vehicles. We have upgraded our vehicle fleet, replacing retired police cruisers for building, engineering and administrative vehicles with much more reliable and fuel-efficient compact SUVs.

Most significantly, we are in the process of building a new police station and city hall to replace the present inadequate, dilapidated structures. City hall should be completed in the spring of 2020 and the police station later that summer. A new parking structure (Center Street North)

opened last year and another new structure (11 Mile Road) is scheduled to open by June 1 of this year. In the fall of 2020, we will begin construction of a new downtown park on the site of the current city hall and police building.

City staff will be focused this year on completing construction projects which are not reflected in the 2019-20 general fund budget, except as bond payments. This is largely a status quo budget. No new positions are being recommended at this time although several were requested by departments. We are proposing no major new programs or activities.

The biggest single new expenditure is the additional pension and retiree health care contributions required because of new actuarial assumptions adopted by the retirement board. Overall, this will add \$2.7 million to city expenditures in 2019-20. Of that, \$2 million will be in the general fund and public safety fund.

The change in question was a reduction in the assumed rate of return on investments from 7.75% to 7.25%. I don't believe this change was necessary but members of the retirement board, including me, reluctantly acceded to the reduction because of pressure from the state on all systems to reduce their earnings assumptions. It is very difficult to predict the future and the future may not look like the past. That said, the stock market has consistently exceeded our old assumption when you look at 20 year moving averages rather than short term results.

Possibly the most significant new operating expenditure proposed in this budget is the Axon video system for the police department. This system includes a family of equipment and software including new in-car video cameras, officer worn body cameras, next generation Tasers, interview room recording, and cloud-based digital evidence storage and management.

Until now, we have been reluctant to embrace officer worn body cameras because we felt the technology was inadequate. Issues with video storage and management, the inability of body cameras to fully capture critical incidents, and privacy were among our chief concerns.

The system we are proposing addresses all those concerns. It provides unlimited cloud-based video data storage and a robust system for retrieving, redacting, and managing data. The officer worn body cameras are equipped with several automatic activation triggers that include the patrol car light bar, Taser arming, sidearm holstering, vehicle speed, and vehicle crash. In addition, the body camera is continually recording in a 30 second loop so the moments leading up to a camera activation, that are often very critical, are also recorded.

Body cameras allow for a higher degree of accuracy and more transparency of critical incidents. They also can result in higher levels of individual officer accountability. It is important to note, however, body cameras represent only one portion of the larger Axon system.

This proposed expenditure is a five-year subscription rather than a purchase. This includes new Taser 7s for the entire patrol division, replacement body cameras at year two and a half and at year five, and replacement in-car video cameras at year five.

Finally, the digital evidence management system will save significant time for both road officers and support staff because the intuitive video management system eliminates the need to download and the burn CDs.

We are proposing additional park improvements with projects in Fulton, Huntington Woods, Sullivan & Wendland parks totaling \$550,000 funded through the Community Development

Block Grant Program and \$377,000 in the general fund for improvements to Basset Park, the Salter Center and tennis courts. In addition, I would like the commission to also consider moving \$600,000 to the park improvement fund from the general fund to allow the trail system, nature area and pedestrian bridge at Normandy Oaks to be completed this summer or next spring. These features will ultimately be paid for by Oakland County Parks over the next three years. This advance is not presently reflected in the recommended budget numbers.

The design of the downtown park will be completed during the upcoming fiscal year but construction will not start until fall of 2020, at best. We cannot start building the park until after the existing buildings are removed which cannot happen until the new buildings are completed and we have moved all employees and operations. It is not reflected in this budget, but we will be spending at least \$5 million on the downtown park.

With the opening of the new 11 Mile Road Parking Structure, a temporary shortage of parking in the north east part of downtown will be alleviated. The new structure will open at least a year before the Henry Ford Building is completed. When that building opens, it will be the largest single customer for the new parking structure. We will need to re-address our parking rate policies before that happens. I don't see how we can possibly offer two hours of free parking to patients who will make up the majority of our customers and who will seldom stay two hours. We may also need to reconsider our policy of moving to a fixed rate after 5 pm. That works for the evening customers on the west side of downtown, but it will not work for library customers or people attending meetings at city hall.

We are proposing a tax reduction for the solid waste levy. We are proposing to reduce the levy for the voted 1 mill levy to .7016 mills. We anticipate continuing to levy approximately that amount for the next three to five years but see the need to return to 1 mill (less Headlee millage reduction) after that. In addition, we are proposing to change our refuse collection program to use a 90-gallon wheeled container provided by the city instead of individual trash cans. These containers are just a larger version of the carts we introduced for recycling in 2017. These are much more convenient for the user, better for the collection personnel who don't have to lift them and most importantly, they will make it much more difficult for rodents and other animals to access our garbage. We think this will have a significant impact on the rodent population, but we have no illusions that it will completely solve that problem. Rodents have many other sources of food besides garbage. We are showing this as a planned 2020-21 expenditure but moving it forward into the tail end of 2019-20 should be possible.

We do not actually adopt a budget for enterprise funds. Never-the-less, I want to spend some time discussing water and sewer because there are several important things happening. First, the commission understands we are planning to separate storm water from water and sewer. This is an outgrowth of the Schroeder case settlement. We were challenged in that case for using revenue from water and sewer billing, based on water consumption, to fund the stormwater debt paid through the Oakland County Water Resources Commission. We have a consulting engineering firm working on a plan for creating a stormwater utility which will be funded by fees based on the amount of impervious area, the best proxy we have for stormwater flows. There are some complications which have delayed that process. We are currently aiming for implementation in January of 2020 if those can all be resolved.

We have had several instances where water and sewer customers have run up large bills because our present meter and billing system doesn't provide usage information soon enough for them to identify and fix leaks. We currently only read meters quarterly and it can take another month before the customer receives a bill. A lot of water can flow through a leak in four

months. We are working on a plan for replacing all our old-style meters during the next two years. The new equipment will provide the ability for customers to track their usage on-line and to subscribe to a system that will provide real time high usage alerts via phone, text or email. This should go a long way toward solving unintentional high usage problems. It will also solve our problems with under-reporting remote reading devices and will provide customers with real time usage information they can use to manage their consumption. We have not provided for this program yet in the budget numbers as we are still working on it.

A huge concern is the state's proposed lead and copper rules. As it now stands, the state Department of Environmental Quality has issued a directive requiring cities and other operators of water supply systems to replace privately owned service lines if the existing line is made of lead or noncontinuous lead-jointed copper. We have several major concerns with this directive. First, we do not know which properties are impacted and have no way of knowing without a massive and costly inspection program. Second, these service lines are private property. The city does not own them. The city did not install them. Third, the cost will be astronomical and is presently uncalculatable. Fourth, we believe this is a clear violation of the Headlee amendment which requires the state fund state mandated costs. Finally, this will do almost nothing to improve water quality. These types of water service lines have over time developed a protective coating inside that prevents lead contamination of the water flowing through them. SOCWA's regular testing of known locations have proven these lines to be safe for use.

This directive is clearly a misguided response to the Flint water crises which was largely caused by the state telling Flint they didn't need to add anticorrosive chemicals to water supplied from the Flint river. A lawsuit has been filed by the Oakland County Water Resources Commission opposing these requirements. We should continue to support the WRC in these efforts to fight an unfunded, unnecessary requirement.

The state construction code fund is doing extremely well. Perhaps too well. We will once again be separately proposing a reduction in building department permit fees. We reduced fees significantly a few years ago but we are still bringing in more than we are spending. We need to maintain higher fund balances here than in other funds because the state construction code fund is entirely funded by permit fees and this revenue can be very volatile. It wasn't all that long ago that we needed to subsidize this fund from the general fund during the housing slump. That subsidy was repaid.

Finally, I would like to address our strategic planning process and propose a change. The existing process started under my watch and I think it has been a very effective tool. The commission annually spends a day, or several separate days recently, considering what it wants to accomplish in the upcoming fiscal year. That has allowed us to include commission objectives in the budget. I think it's time to separate this into long-term planning and short-term planning. It isn't that we haven't addressed long term objectives before, we have. However, we tend to focus more on the near term. I think it's time we start looking at where we want to be in five, ten, twenty or more years.

Respectfully submitted,

  
Donald E. Johnson  
City Manager