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Louis Canfield
Grand Valley State University

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TOWARD FISCAL SUSTAINABILITY IN THE NEW ECONOMY: A CASE STUDY OF GRAND RAPIDS, MICHIGAN

LOUIS CANFIELD
Grand Valley State University

Fiscal stress has confronted many American cities during the past six years, as global economic restructuring and reduced inter-governmental transfers undermined traditional revenue sources. Consequently, city governments have scrambled to implement fiscal policies that support core services within the constraints of available resources. The City of Grand Rapids, Michigan is examined as a case study of a Midwestern core city that is in the process of shifting from unsustainable to sustainable fiscal policies. Ultimately, the author concludes, the City should be able to achieve sustainability without relying upon outside resources (i.e., inter-governmental transfers, joint service provision, or large-scale privatization), although obtaining such resources obviously would be beneficial. From a fiscal standpoint, this conclusion challenges the notion that core cities lack the internal capacity to meet their most critical challenges.

INTRODUCTION

Fiscal stress has been widely recognized as a critical challenge confronting all levels of American government in the first decade of this century. Two key trends, which have been intensifying for several decades, are principally responsible for this stress. First, the global economy has been restructuring in a way that tends to disadvantage core cities – especially the older, manufacturing-dependant cities that characterize the Midwest and Northeast. As technology and free-trade agreements have brought down barriers to trade, American businesses have found themselves facing increasing competition from around the globe, forcing them to re-evaluate their comparative advantages in the New Economy. Labor intensive manufacturing operations, such as furniture production and automotive assembly, have been relocating from high to low labor cost states, or to other countries. Firms in knowledge-based industries, such as high-value manufacturing (e.g., electronics), health care, education, and professional services have been far less likely to choose a location based upon labor cost alone. For manufacturing-dependant cities like Grand Rapids, Michigan, economic restructuring has translated into flat-to-contracting income tax revenue and relatively slow property tax revenue growth.
The second key trend that has contributed to local government fiscal stress has been the transformation of the funding relationship amongst the local, state, and federal levels of government. From the late 1970s, the federal financial commitment to local governments has been waning. While programs like the Community Development Block Grant (CDBG) continue to provide vital resources for such programs as neighborhood revitalization, housing code enforcement, and homebuyer assistance, funding has not kept pace with inflation, seriously undermining the buying power of the federal funds. More recently, as state governments have struggled to balance their budgets, general revenue sharing from state to local governments has been curtailed. Typically, cuts in revenue sharing have a regressive impact, particularly when funding formulas have favored areas of relatively high service need and low fiscal capacity. For core cities like Grand Rapids, the transformation of the funding relationship amongst the local, state, and federal governments has translated into reduced funds available to finance the services and amenities that make cities desirable places to live.

For core cities, sustainability requires that city governments walk a fine line between an uncompetitive revenue structure, and inadequate public services and amenities. An uncompetitive structure may amplify the impact of economic restructuring by adding to the cost of doing business within the jurisdiction. Service reductions may have a similar impact if residents relocate out of the community as a result of increasing criminal activity, deteriorating infrastructure, reduced amenities like public parks, etc. A fiscally sustainable city is one which has a viable plan to achieve long-term balance between its revenue structure, and its services and amenities. Achieving fiscal sustainability is one of the critical challenges facing cities like Grand Rapids.

**METHODOLOGY**

This work relies upon a literature review and single case study, limiting it as a foundation for generalizing about other communities, even ones with similar economic and demographic profiles facing similar levels of fiscal stress. There simply are too may other variables that may be relevant for consideration including culture (i.e., entrepreneurialism), the level of non-profit sector activity, and even individual benefactors. Nonetheless, the author asserts that this work is valuable from at least two standpoints. First, the community profiled serves as an example with respect to policies that may be implemented to cope with/overcome fiscal stress. The individual policies may be replicated in other communities with positive results, even if not to the same degree as experienced in the case study.

Second, the community profiled serves to counteract a sense of helplessness that is sometimes perceived on the part of local government. The notion that a community is entirely at the mercy of global economic and
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demographic forces, lacking control over its own destiny, certainly is an unhealthy and counter-productive stance. An example of a government that is acting vigorously to secure its community’s long-term fiscal health can serve to inspire others. For its usefulness as an example and for its inspirational capacity, the case study is worthy of consideration, in spite of the difficulties inherent in generalizing to other communities.

LITERATURE REVIEW

Since this case study relies upon the tools of policy analysis to evaluate the likely effectiveness of Grand Rapids’ current and potential responses to fiscal stress, it is critical to identify the significant policy categories that may be relevant for consideration. In *Fiscal Stress and Productivity Improvement: Local Government Managers’ Perspective*, Brian Stipak and Daniel E. O’Toole (1993) present a conceptual model (i.e., framework) of the relationship between fiscal stress (which in their study was presumed to be a tax limitation measure), a jurisdiction’s characteristics, and the jurisdiction’s responses to fiscal stress. They identify four categories of responses, which are “the extents to which the jurisdiction reduces services, raises revenues, improves productivity, and shifts service provision to others (load shedding).” These are “the major options for restoring fiscal balance” (p.102).

![Figure 1: Factors Affecting Local Government’s Response to a Tax Limitation Measure (Stipak & O’Toole, 1993, p.103)](image-url)
According to Stipak & O’Toole (1993), their conceptual model comports with jurisdictions’ actual patterns of behavior, as identified by a survey of public sector chief executive officers in Oregon following the passage of a property tax limitation measure in that state in 1990. Not surprisingly, “as fiscal stress reaches high levels, managers reply especially strongly on service reduction” (p.106). Larger jurisdictions, which typically employ more sophisticated management practices, tend “to make more use of all four of the strategies, especially service reduction” (p.107). Jurisdiction type also is a significant factor. “Cities are much less inclined to reduce services than counties and school districts. For counties and school districts, reducing services is by far the most popular strategy, but for cities it is the least popular strategy except for shifting services” (ibid). Stipak & O’Toole conclude that “productivity improvement has not . . . surpassed in importance the strategies of reducing services and raising revenues. At extreme levels of fiscal stress, cutting services remains the predominant strategy” (p.111).

Carol W. Lewis (1994) highlights more specific tactics that cities have employed to respond to fiscal stress, including “minimal wage increases for most employees,” “selective staff reductions,” “health care cost containment,” “drawing down reserves or rainy day funds,” and revenue enhancements such as user charges and service fees (p.521). Lewis notes that “these tactics are often stamped gimmicks – the stuff of smoke and mirrors – whereby they are painted as scheme or stratagem” (ibid). However, there are a wide range of other techniques that may be used to achieve a formally “balanced” budget, even as current expenditures outstrip current revenues. These include “asset sales,” “shifting costs off the general fund,” “inter-fund transfers,” “shifting costs to the capital budget,” “underfunding accrued liabilities such as pensions,” “manipulation of estimates,” “off-budget entities,” “indiscernible credit arrangements,” “loan guarantees,” and “tax expenditures.” In general, these techniques only delay the onset of fiscal stress and may actually exacerbate it in the long-run, as the jurisdiction’s financial flexibility is reduced (p.522).

Shifting of service provision to others (i.e., load shedding, privatization, contracting out) has become an increasingly attractive option for fiscally stressed governments. As David Van Slyke and Charles Hammonds (2003) note in The Privatization Decision: Do Public Managers Make a Difference? “suggested reasons for privatization of services include “reduced costs” [emphasis added], better quality of service, management flexibility, specialized expertise, and reduction of public monopoly inefficiencies” (p.146). Although cost reductions may be achieved through the contractor’s economies of scale, de-unionizing of the workforce, and other factors, it is generally recognized that the contracting government will incur additional costs for personnel with contract management and policy expertise, the ability to design contracts including outcomes and evaluation criteria, and the financial and informational resources necessary for overseeing and holding contractors
accountable. Absent these features, a reduction in public management capacity is likely, also known as the “hollow state” phenomenon (p.147). Ultimately, any decision to shift service provision is a complex one requiring that the local government look beyond its immediate circumstances to evaluate the totality of the consequences – from the standpoints of quality and equity, in addition to cost.

Based upon the literature, there are four major strategies from which local government managers may choose to address fiscal stress: service reduction, revenue enhancement, productivity improvement, and shifting of service provision to others (load shedding). Within these broad strategies, a wide range of tactics is available, depending upon the particulars of the situation. Managers must look beyond the exigencies of the moment to ensure that the strategies and tactics are consistent not only with the immediate financial circumstances, but also with the long-term fiscal health of the community.

**CASE STUDY**

Following five years of dramatic expenditure reductions, the General Operating Fund of the City of Grand Rapids remains in a “precarious” financial position (City of Grand Rapids, 2006B, p.ii). According to the 2007 Fiscal Plan, further reductions of $38 million likely will be required through 2011, in order to comply with the financial guidelines adopted by the City Commission. This compares with total 2007 budgeted expenditures of $119 million. While the City has acted vigorously to balance its General Fund budget over the past four years – mostly by way of staffing and service reductions, along with transfers from other funds – such tactics are no longer viable. A longer-term strategy is needed in order to provide vital City services for a price that the community can afford.

The City of Grand Rapids (the City), with a population of approximately 200,000, is the second largest municipality in the State of Michigan. The broader metropolitan area, which includes the Cities of Muskegon and Holland, has a population of approximately 500,000. While the area’s employment structure is becoming increasingly diverse, due to significant growth in the medical, technology, and higher education fields, more than one-fifth of workers are employed in the manufacturing sector. These workers are particularly concentrated in the furniture industry, which “is typically the first to feel the impact [of an economic downturn] and the last to recover” (City of Grand Rapids, 2005, p.51). As of May 2006, the City’s unemployment rate of 7.7% was well above the national rate of 4.8% (City of Grand Rapids, 2006B, p.5).

The City’s government’s system of fiscal administration consists of many individual “fund” accounts. Gianakis and McCue (1999) note that this
accounting treatment is necessary because “government activities are diverse in nature, and a variety of fiscal entities are required to accurately record and summarize their operations” (p.40). The General Fund is “the principal reporting entity for every local government. All of the financial resources of the government not required to be accounted for in another fund are accounted for in the General Fund” (p.40).


General Fund expenditures budgeted for the current fiscal year (2007) total $119 million. These expenditures are heavily concentrated within four categories, which constitute 87% of the total: Public Safety Services (58%), Other Services (12%), Neighborhood Services (9%), and Fiscal Services (8%) (City of Grand Rapids, 2006B, pp.39-40). (See Appendix A for more detailed information on the General Fund budget).

General Fund revenues budgeted for the current fiscal year total $115 million. Similar to expenditures, revenues are heavily concentrated within four sources, which constitute 90% of the total: City income taxes (48%), state shared revenues (20%), charges for services (12%), and property taxes (10%) (City of Grand Rapids, 2006B, pp.39-40). (See Appendix A for more detailed information on the General Fund budget).

The City’s finances have been strained as a result of the economic downturn that began in 2001 and by other factors that are beyond its control.

Grand Rapids is experiencing its worst economic downturn in over 60 years. From 2000 to 2003, the average household income for area households fell by 9.1%. This is unlike prior recessions, when employees were laid-off and recalled back to work. Several large employers, including Steelcase [furniture], Delphi [automotive], Electrolux [appliances], and General Motors have either relocated jobs out of the City or are seeking substantial wage and benefit concessions (City of Grand Rapids, 2006C, p.2).

Economic weakness has had a dramatic impact upon income tax revenues, which fell 8.8% between 2000 and 2003 (City of Grand Rapids, 2006C, p.2). The manufacturing sector, already mentioned as a major source of employment in the City, has experienced a slow, “jobless” recovery. Nationally, most new jobs are being created in the service and knowledge-based sectors. General Fund income tax revenues have stagnated in the $50-52 million range are not expected to regain their 2000 high until 2007 (City of Grand Rapids, 2006B, p.x). According to Chief Financial Officer Scott Buhrer (2004), “It
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continues to look like the recovery from this economic downturn will occur at a slow, grinding pace” (p.2).

Unlike the manufacturing sector, the City’s housing market has remained strong, so property tax revenues have continued to grow (City of Grand Rapids, 2006B, pp.xii-xiii). However, under Michigan law – specifically Proposal A and the Headlee Amendment to the State Constitution – this growth is constrained. The combined effect of these two laws is that property tax millage rates are adjusted down when growth in property values outpaces inflation, but the millage rates cannot adjust up when inflation outpaces growth (City of Royal Oak, n.d.). Absent voter approval of a millage rate increase, General Fund property tax revenues are expected to remain in the $12-13 million range through 2011 (City of Grand Rapids, 2006B, p.39).

The City’s General Fund receives significant inter-governmental transfers from the State of Michigan. From 1939 onward, the State repeatedly restricted local governments’ power to tax sales and income, instituted statewide taxes, and passed some of the revenues on to localities. At present, the State Constitution requires that 15% of proceeds collected on the first 4% of the 6% state sales tax be transferred. In addition, a formula under State law specifies an additional amount that is supposed to be passed along. Had the State Legislature funded this full “statutory” amount, Grand Rapids would have received $21 million more from 2001 through 2006 (City of Grand Rapids, 2006B, p.xiv). “The City remains tied to the financial condition of the State of Michigan” (Buhrer, 2004, p.12).

In light of Michigan’s financial woes, the state is unlikely to increase shared revenues. Based upon Fiscal Services’ projections, between 2007 and 2011 the City may receive approximately $45 million less than the statutory amount from the State (City of Grand Rapids, 2006B, p.xiv). General Fund State shared revenues are projected to remain flat at $23 million in from 2006 to 2011 (City of Grand Rapids, 2006B, pp.xiv, 39).

Even as the City’s major revenue sources have been constrained, some if its major costs have been increasing rapidly. Nationwide, health care costs have been growing by 10% or more per year, which is reflected in rising health insurance costs for the City. “The cost of care associated with the graying of our population is simply eating government alive” (Osborne and Hutchinson, 2004, p.5). The price of gasoline, required to run police cruisers and other City vehicles has more than doubled during the past three years. Other expenses have been rising because infrastructure maintenance has been deferred for too long. “Our public infrastructure of roads, bridges, airports, and water and sewer systems is in no condition to absorb cuts; if anything, we have deferred maintenance for so long that future costs will rise” (Osborne and Hutchinson, 2004, p.6).

Given stagnant revenues and rapidly rising costs, the City’s Fiscal Services Office forecasts a significant budget gap, or imbalance between
revenues and expenditures, in future years. According to the 2007 Fiscal Plan, expenditure reductions of $38 million likely will be required through 2011, in order to comply with the financial guidelines adopted by the City Commission (City of Grand Rapids, 2006B, p.x). The extent of this problem may be appreciated by the size of the across-the-board cut that would be needed to balance the General Fund budget in 2010 alone. Based upon the forecast, a cut of approximately $10 million would be required.

Yet given the notorious fickleness of financial projections, how confident can one be in Fiscal Services’ prediction of a budget gap? One need only recall the debates of the 2000 presidential election about what to do with the federal budget “surplus” to realize that forecasts can change quickly. Might the annual deficits be smaller than anticipated? Clearly, the answer is yes. The forecast incorporates a number of reasonable assumptions for key independent variables, particularly the local economic growth rate, national medical cost trends, pension fund returns, and wage growth, any of which could ultimately be more (or less) favorable than anticipated.

Sensitivity analysis is a useful policy analysis tool for quantifying the potential impact of deviations from the assumptions. Might economic growth alone close the budget gap without any action on the part of the City? The answer is all but certainly no. According to Fiscal Services, “If the City’s budgetary difficulties could be solved by economic growth, the growth would have to occur in the income tax segment,” since the other revenue sources are constrained by law (Buhrer, 2004, p.6). Unfortunately, income tax revenue growth will be hampered by the recent elimination/relocation of 1,200 furniture manufacturing jobs. Additionally, “$60 million of payroll will relocate out of the City when [a local hospital moves] in the fall of 2007” (City of Grand Rapids, 2006B, p.xii). Of course, any growth beyond the assumed rate would be welcome, since it would reduce the size of the problem.

Might smaller than anticipated medical cost increases, greater than anticipated pension fund growth, a wage freeze, or other factors result in sufficiently lower expenditures to close the budget gap? With respect to the first two factors, the answer is all but certainly no. National medical costs have been increasing by approximately 10% per year, driven largely by demographic trends, specifically the aging population. Such trends usually change very slowly. Dramatic pension fund growth, of the sort experienced during the powerful bull market of 1998-2000, could save the City up to $26 million in anticipated pension contributions. Yet such bull markets are rare, perhaps once-in-a-generation events. The forecast already assumes pension fund growth in line with long-term market trends. On the other hand, a wage freeze from 2008 through 2011 could save the City up to $19 million, making a serious dent in the budget gap (Buhrer, 2004, pp.4, 8, 11). An outright freeze, however, probably would not be acceptable to the largely unionized workforce.
It may be stated with considerable certainty that there will be a significant General Fund budget gap through 2011, unless a major policy change is implemented. In the interest of precision, this case study accepts Fiscal Services’ aforementioned $38 million figure as the best estimate available.

General Fund expenditures have exceeded revenues since 2003, but “the City has been successful identifying one-time budget solutions to get through the budget cycle year by year” (Buhrer, 2004, p.1). These “solutions” have included transfers from other funds, such as the Budget Stabilization Fund and Parking Services Fund, into the General Fund, as well as delays of capital expenditures. Unfortunately, such measures are unsustainable. According to Buhrer (2004), “Many of the budget tools employed in the past will increase expenditure requirements in the future” (pp.1-2).

Consequently, during the past four years the City has taken dramatic steps to reduce its ongoing expenditures. In 2004 and 2005, “the various General Operating Fund departments were given target reduction percentages to achieve” (Buhrer, 2004, p.15). This approach is potentially more sustainable than one-time fixes. So long as the reductions do not cut into activities that are mandated by law or prevent individual departments from fulfilling their missions, they may be maintained over a period of years.

Two of the key independent variables mentioned above are within the City’s “policy envelope”: medical costs and wage growth. While the City cannot directly impact national medical cost trends or wage inflation rates, it can negotiate with its employee unions for more favorable terms. In 2005, the City “modified the health care plan administration [and] worked with the unions to achieve health care cost savings through increased employee co-pays” (City of Grand Rapids, 2005, p.17). All of the City’s union contracts are up for renegotiation in 2006 and 2007 (City of Grand Rapids, 2005, p.37), so it may be possible to reduce the rate of wage and benefit growth from what is currently anticipated.

A third key independent variable within the City’s policy envelope is the number of budgeted employee positions. Inevitably, staffing cuts have a major component of the City’s expenditure reduction efforts, since wages and benefits account for approximately 70% of General Fund expenditures. The 2007 General Fund budget included funding for 883.55 positions, a net reduction of 14.45 from the previous year (City of Grand Rapids, 2006B, p.xxx). Since 2001, the City has reduced its workforce by approximately 17% (ibid).

As a consequence, departmental service levels have been reduced. General Fund departments that experienced staffing reductions in the 2007 budget included Parks and Recreation, Community Development, and Fire. Most other departments, with the exceptions of the Comptroller’s Office, Environmental Projection Services, Fiscal Services, and Management Services, also experienced net reductions. Some departments no longer have sufficient staff to comply with all of their legal mandates, so they simply do the best they
can. As Buhrer (2004) notes, “Employing ongoing across-the-board cuts is not a sustainable strategy. In fact it is the one sure way of assuring that all functions will ultimately fail” (p.15).

The activities included within the General Fund budget are a fourth key independent variable within the City’s policy envelope. In addition to staffing cuts, the City has eliminated, or is in the process of phasing out, funding for certain activities.

“The Fire Department eliminated its Training Division and Emergency Medical Coordination . . . . The City closed three [of six] swimming pools in 2005 . . . . Four playgrounds were closed, 5 wading pools were closed, adult athletic programs were eliminated, and special events were eliminated. All of these services will hurt the quality of life in the City” (City of Grand Rapids, 2006, p.4).

The City will no longer contribute financially to parades and festivals. Additionally, City funding for the Public Museum of Grand Rapids was sharply reduced in the 2006 budget and is scheduled to end by 2009 (Associated Press, 2005A). For the most part, the eliminated activities have been cultural and recreational in nature.

Productivity is a fifth key independent variable within the City’s policy envelope. For the City, the most important measure of productivity is the ratio of services rendered to expenditures. Given that approximately 70% of General Fund expenditures are for wages and salaries (City of Grand Rapids, 2006), the most significant productivity increases are likely to result from process improvements that allow adequate service levels to be maintained at lower staffing levels. The City has implemented an Administrative Lean Process, based upon the Toyota Production System, which has been applied successfully in manufacturing settings. According to Mayor George Heartwell, “The opportunity to save in a single, small process . . . exists in dozens – perhaps hundreds – of small processes in a complex organization such as city government. Substantial savings will be realized through this important process improvement effort” (Heartwell, 2006, p.6).

Finally, revenue rates are a sixth key independent variable within the City’s policy envelope. While City officials cannot increase the income or property tax rates without a vote of the people, they can place such measures on the ballot and inform the public of why an increase is necessary. Presently, the City income tax rate is a flat 1.3% for residents and 0.65% for non-residents. The millage levy for General Fund operations is approximately 2.86 mils (City of Grand Rapids, 2006B, pp.xiii). Additionally, City officials may implement or increase user charges for services. A recent example was the City Commission’s decision in charge non-residents a $75-per-hour fee to rescue them from the Grand River (Associated Press, 2005B). Beyond fees, some City officials, including the Mayor, have raised the possibility of a tax increase.
The purpose of this case study is to ascertain whether the City of Grand Rapids has the internal capacity to achieve fiscal sustainability, without depending upon outside resources (i.e., inter-governmental transfers, joint service provision, large scale privatization). For the purpose of this analysis, fiscal sustainability necessarily entails two objectives: 1) achieving balance between General Fund revenues and expenditures through 2011, within the financial guidelines established by the City Commission, while maintaining a reasonable tax burden, and 2) achieving sufficient fiscal resources for the City to provide an attractive mix of services to residents. Given the deep across-the-board cuts of the past four years, the author believes that the current service level is close to or below the minimum acceptable level. Consequently, elimination of additional activities from the General Fund is incompatible with this goal, unless those activities are shifted to another fund or provided in some other manner. Further staffing cuts are incompatible with this goal, absent productivity improvements that at least off-set the cuts. The major units of analysis are dollars and fiscal years.

Many values – some of them potentially contradictory – inform the General Fund budget. The City has been intentional about identifying and prioritizing these values by involving citizens in the budget process. In large part, the General Fund budget is a reflection of citizen priorities based upon citizen surveys and community meetings. Over the past decade, citizen surveys have consistently found that public safety, street maintenance, environmental protection, and economic development are highly valued services. Attractive neighborhoods and city parks are moderately valued services. Less valued services include programs for disadvantaged youth, assistance for low-income homeowners and homebuyers, cemetery maintenance, and cultural events (City of Grand Rapids, 2004B).

It is important to note the inherent political nature of these values, along with the inequities that would result from making policy based upon the survey results alone. Public safety and environmental protection serve basic human needs. Economic development increases job opportunities, which are vital for a good standard of living. Adequately maintained streets enhance mobility, which is a key attribute of our modern society. That these services are the most highly valued is not surprising. However, allowing these services to “crowd out” all others, which Buhrer (2004) indicated may be in progress, would be highly inequitable. Low income residents and minorities would suffer the most. Their neighborhoods, with older housing stock and less resources for repair and improvement, would be the first to deteriorate in the absence of City programs. Their children would have fewer recreational opportunities if City parks were to close. Also, it would be generationally inequitable for the City to allow cemeteries to deteriorate after promising previous generations that it would maintain them.
While all City residents are stakeholders in the budget process, it is possible to identify some key groups, without whose support a new policy is likely to fail. These include the Mayor, City Commission, City Manager, Chief Financial Officer, City department heads, City employee union leaders, business leaders, community/neighborhood leaders, and City employees. To have a reasonable chance of being implemented, a policy must be acceptable to all, or nearly all, of these stakeholders.

Geographically, the impact of the projected General Fund budget gap extends far beyond the City’s boundaries. The metropolitan area has a population of approximately 500,000 and includes the Cities of Holland and Muskegon. Additionally, the City is recognized as the leading community within the broader West Michigan region. Experience shows that a healthy urban center is in the interest of the entire surrounding region. There can be no doubt that a serious budgetary problem for the City of Grand Rapids is a serious problem for the surrounding metropolitan area and for the entire State of Michigan.

Grand Rapids is a regional governmental center, as Kent County seat and home to a federal district court and various State government offices. The City also is a major business center, with a variety of professional service providers and business facilities, including the DeVos Place convention center, concentrated downtown. Major cultural resources, including the Van Andel Arena, DeVos Hall, the Grand Rapids Symphony, Civic Theater, and many others, are enjoyed by individuals from throughout the region, and even from other parts of the state.

In summary, the City of Grand Rapids has made, and must continue to make, difficult budgetary choices. The City is being buffeted by financial forces that are outside of its control, including the weak manufacturing economy, cuts in state revenue sharing, and rapidly rising costs for health care and energy. In response, it has slashed expenditures by cutting staff, reducing service levels, eliminating programs, or employing one-time measures such as inter-fund transfers.

**EVALUATION CRITERIA**

**Effectiveness**

For the purpose of this analysis, the effectiveness of a policy alternative is defined as the extent to which it narrows the anticipated General Fund budget gap, while maintaining an attractive mix of City services. The size of the anticipated budget gap will be assessed in dollar terms, based upon existing projections by Fiscal Services and from other sources. The closer a policy alternative comes to achieving balance, the more effective it will be deemed to be. An attractive mix of City services is a more subjective matter, and will be assessed based upon the author’s informed judgment.
Economic Implications

Economists recognize that taxation and spending policies have important macroeconomic impacts. Rising tax burdens and reductions in government spending are associated with slower economic growth, since they tend to reduce the amount of money circulating in the private sector. Falling tax burdens and increases in government spending are associated with faster economic growth, since they tend to increase the amount of money circulating in the private sector. Of course, these relationships are based upon the disputable premise that the private sector makes better use of capital than the public sector. In some circumstances, the reverse may be true. Consider the basic City service of street maintenance: A relatively small public investment may obviate a much larger private investment in vehicle repairs and may facilitate transportation of goods, movement of customers, etc. City tax rates and expenditures must be set at reasonable levels.

Inter-place competition is a significant issue for local governments, since residents and businesses may choose to move from a higher-tax jurisdiction to a lower-tax one in order to reduce their tax bill (Levy, 1995, p.199). Some have referred to this phenomenon as “foot voting.” Determining whether tax rates are the overriding factor in an individual’s decision to relocate may be difficult, since other factors may be relevant. Urban areas tend to have higher tax rates than suburban and rural ones, but are also disadvantaged by higher crime rates, less attractive public schools, and other social problems. Nonetheless, it seems reasonable to assume that a significant increase in tax rates will cause some residents and businesses to move out of the City. It seems even more likely that a significant increase in tax rates will deter some residents and business from locating within the City, who otherwise would have done so.

Political Viability

Most voters are taxpayers who tend to perceive the costs associated with government more clearly than the benefits it provides. Every week, or every other week, they see City income taxes withheld from their paychecks. Homeowners pay major property tax bills twice per year. Obvious benefits manifest less regularly. Citizens utilize City streets on a daily basis, but may not consider the resources needed to maintain them until the pavement is riddled with bumps and potholes, or until a major construction project is under way. Police and fire services seem distant until the moment they are needed to respond to an emergency. Some services may seem of no benefit whatever to the individual taxpayer, particularly those targeted at low income residents. The average taxpayer does not qualify for housing rehabilitation assistance, for example, but he or she does benefit from a more attractive and livable community. Similarly, parks, festivals, and other recreational opportunities may seem of no benefit to taxpayers who prefer to stay at home.
This mismatch between obvious costs and less obvious benefits leads most voters to favor service reductions over increased tax rates. The City must recognize the possibility that voters will persist in this way of thinking, even after the dramatic cuts of the past several years. However, it does seem likely that increasing numbers of voters perceive the impact of the cuts would at least consider a tax rate increase in order to avoid further dramatic service reductions.

**Equity**

Reduced government service levels tend to impact low income and minority groups more than others. Consequently, they have a negative impact upon equity within the City. As Osborne and Hutchinson (2004) observe,

Leaders have turned to across-the-board cuts, which weaken every program equally, regardless of its impact on citizens. When these are exhausted and real choice must be made, legislatures typically cut in an ad hoc and highly political fashion, based largely on which interest groups have the most muscle and scream the loudest. This process inevitably victimizes the weakest members of society, who have the least political clout (p.6).

City service reductions have already impacted low income families with children, based upon the closing of pools and playgrounds. Given that citizen surveys show programs for disadvantaged youth and assistance for low-income homeowners and homebuyers as among the least valued City services, it seems likely that further service reductions will have a negative impact upon equity in the City.

**POLICY OPTIONS**

A host of policy options could be employed to address the City’s projected General Fund budget gap. For the sake of convenience, these options may be grouped into three categories: expenditure reducing, revenue increasing, and combined expenditure reducing / revenue increasing. As was stated previously, this analysis is limited to major policy changes that could substantially reduce the projected $38 million budget gap. The author recognizes that in practice, a combination of expenditure reduction measures and fee increases is likely to be implemented regardless of whether or not the City implements such a major policy change. However, small measures will not solve the problem. For the purpose of this analysis, a policy change that could save $500,000 per year is not, on its own, of interest as an alternative, but a package of such changes might be.

The author also recognizes that some potentially attractive policy alternatives are simply outside of the realm of reasonable possibility, at least through the 2011 time horizon. While the City’s unionized workforce might accept a slower rate of wage growth than they have experienced in the past, a
wage freeze would almost certainly be unacceptable, and might drive some highly qualified employees out of the ranks. Regional inter-governmental cooperation might improve the productivity of certain services, but would reduce the power of individual local governments and politicians. Such cooperation may take decades to develop.

**No Action Policy Option**

This analysis adopts the no action policy option as the first of four options to be evaluated. By articulating the consequences to the City of continuing on its present budgetary course, the no action option serves as a useful benchmark against which to compare alternatives, and can also be an impetus to action.

By law, municipal governments are not permitted to run General Fund budget deficits, so the no action option is best understood as an expenditure reducing option. Fiscal Services projects a $38 million budget gap, but the City cannot finance it by borrowing. Absent a major policy change, the City will have to cut millions of dollars from the General Fund budget during each fiscal year through 2011. This has been the dominant approach of the past several years. Unfortunately, reserve funds have been depleted, capital expenditures have been delayed, and other one-time or short-term measures have already been employed. It seems likely that future cuts will have to be at least as dramatic as those of the past, in order to force the General Fund budget into balance.

**Citizen Budget Advisors Policy Option**

In 2005, recognizing the challenges that the fiscal year 2007 budget cycle would pose, the City Commission appointed 21 members to a new Citizen Budget Advisors (CBA) panel. City staff assisted the panel, whose mandate was “to advise the City Manager in his preparation of the City’s fiscal plan for fiscal year 2007, prior to its presentation to the City Commission for adoption” (City of Grand Rapids, 2006A, p.2). Since the recommendations, which were issued in March 2006, do not include any tax increases, they are best understood as an expenditure reducing option.

This analysis adopts CBA’s recommendations as a second policy option. The recommendations consist of three broad goals: 1) redesign the City’s organizational structure, 2) align employee compensation levels, and 3) explore revenue issues. These broad goals are augmented by a number of strategies and “considerations” for implementing those strategies.

The Citizen Budget Advisors option seeks to improve the City’s productivity in a systematic fashion, by identifying and eliminating any remaining wasteful spending, and by relentlessly pursuing efficiency. The rationale for this approach is that it would reduce the General Fund budget gap while maintaining a higher level of City services than the no action alternative. Some of CBA’s recommendations are specific, permitting a reasonable estimate
of the savings that might be realized. Others are general, so the savings are difficult to estimate. Finally, some of the recommendations are vague, making an estimate all but impossible.

It is important to remember that individuals from outside the City government ultimately were responsible for the Citizen Budget Advisors option. On the one hand, outsider recommendations can be helpful, pointing toward beneficial actions that the organization has missed or ignored. On the other hand, outsider recommendations can be redundant or counter-productive. Consider CBA’s suggested strategy “review staffing.” The City has already cut its workforce by 17 percent. Further reductions would reduce costs, but how can CBA be certain that they will improve productivity? One function of a manager is to allocate resources, including human resources, to value-added tasks. Perhaps eliminating management positions will reduce productivity. The point is that general recommendations made by outsiders may not achieve the intended results.

**Linked Parks and Recreation Millage Policy Option**

Fiscal Services is not optimistic that productivity improvements alone can close the General Fund budget gap. According to Buhrer, “Without increases in revenues the City will be required to substantially reduce services. The question is when, not if, service levels will need to be reduced” (Buhrer, 2004, p.1). Since this analysis includes maintaining an attractive mix of City services in its measure of effectiveness, it is appropriate to consider revenue increasing options.

As was previously noted, the City’s three largest revenue sources are the City income tax, State shared revenues, and the property tax. For the purpose of this analysis, State shared revenues are outside of the City’s policy envelope. While significant lobbying activities, perhaps in partnership with other communities, could pressure the State Legislature to increase revenue sharing from the amount anticipated by Fiscal Services, any increase is unlikely to solve the City’s budget problem, given the State’s own financial woes.

This analysis adopts a ballot request that citizens approve a 1.75 mil property tax levy to fund parks and recreation as a third policy option. These new revenues would be allocated to a Parks and Recreation Fund, separate from the General Fund. General Fund expenditures for Parks and Recreation Services and for cemeteries would be shifted to this fund, reducing the projected budget gap by the amount of expenditures shifted. Since most of the need for additional revenues is attributable to the State’s reductions in revenue sharing, this millage rate would be linked to a restoration of “statutory” (see p.10) revenue sharing. A full restoration of funding to the level specified under State law would eliminate the new 1.75 mil levy. A partial restoration would partially reduce the levy, based upon a formula to be determined by Fiscal Services. The possibility
of the levy’s being reduced or eliminated should make it more palatable politically.

**Income Tax Increase Policy Option**

This analysis adopts a ballot request that citizens vote to approve an increase in the City income tax by 0.2 percent for residents and by 0.1 percent for non-residents as a fourth policy option. This would be a permanent tax rate increase and would reduce the projected budget gap by the amount of revenue generated.

**EVALUATION OF POLICY OPTIONS**

**No Action**

The no action policy option would be ineffective because the City would be unable to maintain an attractive mix of city services. The projected $38 million budget gap would have to be closed by major cuts in staffing and reductions in service levels. Likely impacts would include significant reductions in the number of police officers and fire fighters, further deterioration of streets and other infrastructure, additional park closures, and reduced services for children and low income individuals. The City might even find it necessary to eliminate entire departments.

Near-term, the no action option would be economically neutral. Tax rates would not increase, so foot voting would not be an issue. However, the longer-term economic costs would be high. Severe reductions in service levels would suggest an unstable City government, limited in its ability to protect residents from crime and to maintain an adequate infrastructure. Significant foot voting likely would ensue, reducing revenue further and exacerbating the City’s problems.

Near-term, the no action option would be highly viable politically. Voters accept the current tax rates and service levels. Longer-term, the no action option would not be viable. Voters likely would demand change at all levels.

Finally, the no action policy option would be inequitable. The first services eliminated likely would be those that lack a strong political constituency, including services for children and low income individuals.

**Citizen Budget Advisors Policy Option**

The Citizen Budget Advisors policy option would be partially effective. This conclusion is based upon the author’s estimate of the savings that might be realized by following CBA’s recommendations. Again, it is important to note that some of the recommendations are specific, permitting a reasonable estimate of the savings that might be realized. Others are general, so the savings are difficult to estimate. Finally, some of the recommendations are vague, making
an estimate all but impossible. In light of this uncertainty, the author estimates that savings in the range of $15-25 million may be possible through 2011 (see Appendix B). A budget gap of $13-23 million would remain, necessitating smaller, but still dramatic cuts in staffing and service levels, in comparison to the no action policy option.

Near-term, the Citizen Budget Advisors option would be economically neutral. Tax rates would not increase, so foot voting would not be an issue. Longer-term economic costs would be modest – considerably less than the no action policy option. Some reductions in service levels would suggest a struggling City government. Minimal foot voting likely would ensue, with little to no impact upon the City’s fiscal sustainability. The Citizen Budget Advisors option would be highly viable politically, since voters accept the current tax rates and service levels.

Finally, the Citizen Budget Advisors option would be modestly inequitable. As with the no action policy option, the first services eliminated likely would be those that lack a strong political constituency, including services for children and low income homeowners.

Linked Parks and Recreation Millage Policy Option

The linked parks and recreation millage policy option would be effective, since it would reduce the projected General Fund budget gap by approximately $30 million (see Appendix B). A budget gap of approximately $8 million would remain, obviating the need for serious cuts in staffing and services.

In the author’s judgment, the economic cost of this option would be manageable. An additional 1.75 mil property tax levy would cost the typical homeowner approximately $113 per year, or approximately $0.30 per day. While a few homeowners or businesses may choose to move out of the City based upon this increase, the number probably would be small.

From a political standpoint, this option seems moderately viable over both the short term and the long term. Since the millage levy would be subject to a vote of the people, the City government would not appear to be forcing a tax increase or service reduction upon residents. There also would be some clear points on which to persuade the voters. First, the levy would be requested because the State reneged on its revenue sharing formula, not because of City mis-management. Second, the levy would result in an immediate increase in cultural and recreational opportunities for citizens. Third, the millage levy would be phased out if and when state revenue sharing is restored.

Finally, this option would be moderately equitable, since recreational opportunities for children would be restored and more of the other activities funded by the General Fund, including those for low income residents, could be maintained.
Income Tax Increase Alternative

The income tax increase policy option would be moderately effective, since it would reduce the projected General Fund budget gap by approximately $35 million (see Appendix B), effectively closing the gap and perhaps allowing for the restoration of some previously eliminated City services. However, in the author’s judgment, some of this benefit would be offset by economic costs, since the tax increase would apply to non-residents who can more easily direct their activities to a location outside of the City. A 0.2 percent income tax increase would cost the typical resident household approximately $75 per year, or $0.20 per day. While a few homeowners or businesses may choose to move out of the City based upon this increase, the number probably would be small.

From a political standpoint, this option seems less viable than the linked property tax alternative. Since it would be subject to a vote of the people, the City government would not appear to be forcing a tax increase or service reduction upon residents. However, there would be no guarantee that the new revenues would be used for additional cultural and recreational opportunities for citizens. Neither would there be a mechanism for phasing out the tax.

Finally, this option would be highly equitable, since it would provide more revenues to the General Fund than any other alternative, permitting the greatest funding for programs for children and low income individuals.

DISPLAY OF POLICY OPTIONS

Given the politically sensitive nature of this topic, the results of the analysis are displayed in a Goeller scorecard format, with the best and worst option(s) indicated for each criterion.
## Selected Policy Alternatives

<table>
<thead>
<tr>
<th>Selected criteria</th>
<th>No action</th>
<th>Citizen Budget Advisors</th>
<th>Ask Citizens for Linked Parks and Recreation Millage</th>
<th>Ask Citizens for Income Tax Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effectiveness</strong></td>
<td>$0 savings = $38 mln. budget gap; leads to major cuts in staffing and services, possible elimination of dep’ts.</td>
<td>$15-25 mln. savings = $13-23 mln. budget gap; leads to significant cuts in staffing and services</td>
<td>$30 mln shifted from GF = $8 mln. budget gap; leads to minimal cuts in staffing and services</td>
<td>$35 mln. more revenue for GF = $3 mln. budget gap; leads to stabilization of staffing and services</td>
</tr>
<tr>
<td><strong>Economic Implications</strong></td>
<td>Loss of services, perception of ineffective government results in modest population loss</td>
<td>Loss of services, perception of struggling government, but little/no impact upon population</td>
<td>1.75 mils costs typical homeowner $113/year; deters some in-movement</td>
<td>0.2% inc. tax increase costs typical household $75 per year; deters some in-movement</td>
</tr>
<tr>
<td><strong>Political Viability</strong></td>
<td>High short-term viability; low long-term viability</td>
<td>High short-term viability; moderate long-term viability</td>
<td>Moderate short-term viability; moderate long-term viability</td>
<td>Low short-term viability; moderate long-term viability</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>Inequitable; significant service loss</td>
<td>Modestly inequitable; some service loss</td>
<td>High equity; funding for most services maintained</td>
<td>High equity; funding for most services maintained</td>
</tr>
</tbody>
</table>

**Legend**

- ■ Best policy option
- □ Worst policy option
LIMITATIONS OF ANALYSIS

This analysis relies heavily upon data compiled by the City of Grand Rapids, including some estimates that are more than 12 months old. Some of the estimates may have changed, but are not yet publicly available. However, given the continuing weakness of the manufacturing sector and the State’s strained finances, it seems unlikely that the projected budget gap has significantly narrowed.

The effectiveness of the policy options was evaluated in part based upon the author’s financial calculations. Since he is not an expert in public finance, the author’s calculations may not have been made in the generally accepted manner. However, the author does believe that the calculations are sufficiently accurate for evaluating the likely affect of the policy options upon the General Fund budget.

CONCLUSION

Despite the apparently “precarious” position of the City of Grand Rapids’ General Operating Fund, the preceding analysis of policy options suggests that the City retains the capacity to achieve long-term fiscal health. While the merits of each policy option were evaluated individually, it is important to note that they would be most effective implemented in various combinations, and perhaps in degrees (i.e., revenue rates) that differ from those presented. For example, a relatively small 0.50 mil parks and recreation millage, combined with the Citizen Budget Advisors’ option, could close the budget gap while maintaining a higher level of recreational opportunities than would otherwise be the case.

Importantly, the case study demonstrates that Grand Rapids has not been “boxed” into a corner with respect to its long-term fiscal health. While municipal managers may sense such a predicament, in light of overall flat revenues, rising costs, and a public distaste for taxes, the City has not lost control of its fiscal future. Grand Rapids is not entirely at the mercy of economic and demographic trends outside of its control. This, in itself, is a hopeful message. Entrepreneurial managers are seeking to do more with less, utilizing innovative management tools such as the Administrative Lean Process. City departments are working together more closely, to reduce the duplication of functions, share valuable information, and achieve a more efficient level of operation than would otherwise be the case.

In short, the municipal government has been forced, by difficult circumstances, to become an even more careful steward of the public purse than previously had been the case. Yes, services have been reduced, some amenities have been eliminated, and some infrastructure is deteriorating. But the story does not end there. Philanthropic funds will support the operation of all of the
City’s pools in 2007; adopt-a-park programs are helping to preserve safe and adequately maintained spaces for public recreation; innovative economic development efforts are supporting and diversifying the local economy. It seems clear that fiscal challenges are strengthening the public-private partnership that has long characterized the Grand Rapids community. Can productivity improvements and public-private partnerships on their own secure the community’s fiscal health? At this point, there is not a clear answer. Eventually, local leaders may have to appeal to the voters for additional revenues, if non-critical services are to be maintained. The preceding analysis suggests that such a request can be justified on the basis of fiscal effectiveness, economic considerations, political viability, and equity. No one likes tax increases, but the notion that public services should continue to be pared away, without ever asking the general public if they are interesting in paying to maintain those services, seems unfounded.

Grand Rapids does indeed, have the internal capacity to secure its fiscal health through a combination of feasible policy options. This case study should serve as a positive example for other communities struggling to secure their future as they are buffeted by turbulent economic and demographic forces.

REFERENCES


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## APPENDIX A - SELECTED GENERAL FUND BUDGET INFORMATION (CITY OF GRAND RAPIDS, 2006)

### GRAND RAPIDS, MICHIGAN

#### GENERAL OPERATING FUND - STATEMENT OF OPERATIONS

<table>
<thead>
<tr>
<th>Fiscal Year</th>
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<th>Budget</th>
<th>Estimate</th>
<th>Forecast</th>
<th>Forecast</th>
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### APPENDIX B - SELECTED GENERAL FUND BUDGET IN THE STATE OF GRAND RAPIDS, 2006

#### APPENDIX B - SELECTED GENERAL FUND BUDGET INFORMATION (CITY OF GRAND RAPIDS, 2006)

<table>
<thead>
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<th>Fiscal Year</th>
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<th>Estimate</th>
<th>Forecast</th>
<th>Forecast</th>
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### APPENDIX C - SELECTED GENERAL FUND BUDGET INFORMATION (CITY OF GRAND RAPIDS, 2006)

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<th>Budget</th>
<th>Estimate</th>
<th>Forecast</th>
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<td>F.Y. 2009</td>
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APPENDIX B - CITIZEN BUDGET ADVISORS RECOMMENDATIONS
(CITY OF GRAND RAPIDS, 2006C)

Recommendations

Goal 1: Redesign the City’s Organizational Structure

Strategy A: Reorganize the City’s Structure

Considerations:
- Reorganize the City’s operational structure, define core competencies and priorities, and define mandated services versus discretionary services.
- Compare the City’s management structure and staffing levels with comparable cities.
- Examine the reasons for silos in City services, e.g., culture, territory, union environment.
- Consider private fundraising to retain recognized outside experts for an independent review of the City’s organization and to implement recommendations for change.
- Review the Police and Fire Departments’ budgets, as they represent 55% of the General Operating Fund.

Strategy B: Continue to Use Lean Process

Considerations:
- Continue using the Lean process to eliminate redundancies and create efficiencies across all departments. The Lean process is a business model.
- Require active participation in the Lean process by rank and file, as well as, command-level officers in the Police and Fire Departments.
- Review legacy contract language for issues, e.g., seniority call out and overtime provisions, that impedes Lean outcomes and increases grievance costs.

Strategy C: Reduce or Eliminate City Departments

Considerations:
- Reduce or eliminate the Office of Children, Youth, and Families.
- Eliminate the Community-Oriented Government office by integrating the concept across the organization.
- Consolidate the City’s legislative functions, either re-bid the City’s contract for a lobbyist or eliminate the Legislative Liaison.

Strategy D: Consolidate City Departments

Considerations:
- Consolidate job duties cross-functionally and cross-departmentally.
- Consolidate departments with the goal of reducing the number of managers.
- Consolidate City financial operations and departments.
- If not privatized, consolidate the Economic Development and Community Development Departments or shrink the Economic Development Department to a few staff.
- Consolidate or coordinate the Public Works, Environmental Protection, and Water Departments, to gain efficiencies in work.
Canfield/Toward Fiscal Sustainability in the New Economy: A Case Study of Grand Rapids, Michigan

- Consolidate CATV, GIS, and wireless broadband functions into one department.
- Combine Traffic Safety with the Planning and Engineering Departments.

**Strategy E: Partner with Other Governmental Agencies**

**Considerations:**
- Consider transferring services to the most appropriate level of government, forming service delivery partnerships with other governmental units, or creating a joint authority to provide services for multiple jurisdictions, to assure appropriate scale, efficiency, effectiveness, and cost containment.
- Consider a transition to a regional water and sewer authority.

**Strategy F: Privatize City Services**

**Considerations:**
- Consider privatizing departments that offer services that are redundantly available in the private sector, e.g., engineering, but do not lose accountability.
- Consider privatizing the Economic Development Department.
- Consider privatizing the City's cemeteries.
- Privatize the vehicle impound operations.
- Privatize the real estate function.

**Strategy G: Review Staffing**

**Considerations:**
- Reduce the number of management and supervisory positions by consolidating responsibilities. Review supervisory ratios to ensure adequate, but not excessive supervision. Reduce middle management.
- Reduce Police and Fire command officers to increase the span of control.
- Consider opportunities for job sharing and cross-functional assignments.
- Consider early retirement packages, but do not fill vacated positions of early retirees by contracting with early retirees.

**Strategy H: Consider Other Service Issues**

**Considerations:**
- Consider more efficient use of large fire trucks, by considering smaller fire trucks or having police provide some non-emergency services, i.e., helping someone into bed.
- Consider other duties for which firefighters could be cross-trained, while ensuring their availability for fire fighting.
- Eliminate or reduce use of consultant services.
- Consider evolving into a contract management mode rather than continuing the direct provision of services in cases where the customer relationship is retained by the City.
- Consider not paying citizens on City boards and commissions, except where not practical.
- Consider providing incentives to encourage high performing neighborhood associations receiving CDBG funding.
Goal 2: Align Employee Compensation Levels

Strategy A: Research and Benchmark Wage and Benefit Levels
Considerations:
- Benchmark the total cost of employee compensation, i.e., wages and benefits, to create a target based on private and public sector organizations in similar financial stress. Create a timeline to implement change and measure progress toward the benchmark.

Strategy B: Share Health Care Benefit Costs
Considerations:
During the next round of contract negotiations with the City’s labor unions, seek to:
- Contain the growth in employee benefit costs for health care for active employees and retirees by requiring all City employees to participate in payment of health care premiums, e.g., 80% employer / 20% employee or 70% employer / 30% employee, as done in the private sector.
- Increase co-pays and deductibles in health care packages for all employees.

Strategy C: Control Health Care Benefit Costs
Considerations:
During the next round of contract negotiations with the City’s labor unions, seek to:
- Educate employees on cost containment for health care services, and implement a cost-deterrent system to promote or require the use of generics over name brand prescriptions.
- Provide financial incentives for healthy lifestyles.
- Explore the feasibility of health care savings accounts for active and past employees.

Strategy D: Control Pension Benefit Costs
Considerations:
- Analyze the City’s current defined benefit pension plan to maximize cost savings.
- Consider moving all non-bargaining unit employees to a defined-contribution pension plan as soon as possible, if cost effective.
- Evaluate the City’s pension fund manager, and promote asset allocation strategies that moderate return expectations with the equitable management of risk among plans.
- Review the permissive retirement age of City employees in City labor contracts.

Strategy E: Review Other Employee Benefits
Considerations:
- Consider eliminating the 13th check payment to preserve the principal balance of the General and Police/Fire Retirement Systems.
- Consider eliminating retirement benefits for City Commissioners.
- Consider not funding the entire amount of retiree health care prefunding costs in the current fiscal year, by beginning prefunding at some reduced level.
Goal 3: Explore Revenue Issues

Strategy A: Review Property Tax to Increase Revenues

Considerations:
- Consider reducing DDA tax increment capture proportionately as long-term debt is paid-off so tax increment financing revenues can revert to the General Operating Fund and other taxing units.
- Tie the amount of property tax relief granted through tax abatements to require a minimum number of new hires through development agreements.
- Review the property tax system to reduce the negative incentives that may inhibit property owners from making property improvements, as permitted by State law.

Strategy B: Review User Fees

Considerations:
- Examine the equity of services received from Kent County and fees paid by the City to Kent County: i.e. jail service fees, Sheriff Department services.
- Review all user fees for fairness and adequacy.
- Consider the feasibility of user fees for non-fire related calls.

Strategy C: Consider Other Revenue Thoughts

Considerations:
- Continue selling excess City property, but not including parks.
- Link revenues to services and services to outcomes in all cases.
- Benchmark the City’s relative tax effort and Price of Government (POG) in relationship to statewide and national comparables to determine and communicate competitiveness.
- Do not consider a tax increase ballot question until progress is shown toward employee compensation benchmarks and other cost control measures recommended by the Citizen Budget Advisors, and until both have been communicated to and understood by the public. Any tax question should measurably improve quality of life, include a sunset or other accountability provision, be dedicated to a specific performance, purpose, or service, and make the dedicated purpose sustainable.
### APPENDIX C - FINANCIAL CALCULATIONS

**What savings might result from implementing the Citizen Budget Advisors’ recommendations?**

<table>
<thead>
<tr>
<th>Action</th>
<th>Annual savings*</th>
<th>4-year savings*</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eliminate Office of Children Youth and Families</td>
<td>$350,000</td>
<td>$1,400,000</td>
<td>(City of Grand Rapids, 2006B, p.144)</td>
</tr>
<tr>
<td>Consolidate Depts. to reduce mgr. positions</td>
<td>$500,000</td>
<td>$2,000,000</td>
<td>(assume 5 positions @ $100k)</td>
</tr>
<tr>
<td>Privatize Economic Development Dept.</td>
<td>$250,000</td>
<td>$1,000,000</td>
<td>(City of Grand Rapids, 2006B, p.40)</td>
</tr>
<tr>
<td>Privatize city cemeteries</td>
<td>$600,000</td>
<td>$2,400,000</td>
<td>(City of Grand Rapids, 2006B, p.40)</td>
</tr>
<tr>
<td>Continue application of Admin. Lean Process</td>
<td>$700,000</td>
<td>$2,800,000</td>
<td>(City of Grand Rapids, 2006D, p.2)</td>
</tr>
<tr>
<td>10% health care premium share</td>
<td></td>
<td>$4,700,000</td>
<td>(from below)</td>
</tr>
<tr>
<td>Slow compensation growth by 1/3</td>
<td></td>
<td>$6,200,000</td>
<td>(Buhrer, 2004, p.11)</td>
</tr>
</tbody>
</table>

Approximate total savings: $20,500,000

*Some savings may appear smaller than expected since the General Fund provides only part of the total funding.

**Employee medical cost per month**

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly cost x employees</th>
<th>Annual cost x employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$981 884</td>
<td>$867,204 $10,406,448</td>
</tr>
<tr>
<td>2009</td>
<td>$1,074 884</td>
<td>$949,416 $11,392,992</td>
</tr>
<tr>
<td>2010</td>
<td>$1,165 884</td>
<td>$1,029,860 $12,358,320</td>
</tr>
<tr>
<td>2011</td>
<td>$1,253 884</td>
<td>$1,107,652 $13,291,824</td>
</tr>
</tbody>
</table>

4-year total medical cost: $47,449,584

10% cost share: $4,744,958.40

**What property tax millage levy would raise enough revenues to fund the Parks & Recreation Department and Cemeteries?**

<table>
<thead>
<tr>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 General Fund Parks &amp; Recreation and Cemetery expenditures:</td>
</tr>
<tr>
<td>Based upon the 2006 General Fund operating millage rate and budgeted General Fund property tax revenues, 1 mil raised approximately this amount per year:</td>
</tr>
<tr>
<td>Thus, 1.75 mils would raise approximately this amount per year:</td>
</tr>
<tr>
<td>Over 4 years, a 1.75 mil levy would raise approximately:</td>
</tr>
</tbody>
</table>

Based upon these calculations, a property tax levy of 1.75 mils would raise approximately enough revenue ($30 million over 4 years).

**What would a 1.75 mil levy cost the average homeowner?**

<table>
<thead>
<tr>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median value of owner-occupied housing, 2000</td>
</tr>
<tr>
<td>Assume 5% annual appreciation since 2000</td>
</tr>
<tr>
<td>Taxable value is 50% of market value or less</td>
</tr>
<tr>
<td>Multiply by .00175 (a mil is 1/1,000th)</td>
</tr>
</tbody>
</table>

Based upon these calculations, a property tax levy of 1.75 mils would cost the typical homeowner approximately $113 per year, or $0.30 per day.
How much revenue would be raised by an income tax increase of 0.3% for residents and 0.15% for non-residents?

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated income tax revenue at existing rate</th>
<th>Estimated income tax revenue at proposed rate</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>56,685,611</td>
<td>65,406,474</td>
<td>(City of Grand Rapids, 2005, pp. 84)</td>
</tr>
<tr>
<td>2009</td>
<td>58,386,179</td>
<td>67,368,668</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>60,137,764</td>
<td>69,389,728</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>61,941,897</td>
<td>71,471,420</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>237,151,451</td>
<td>273,636,290</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>36,484,839</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based upon these calculations, an income tax increase of 0.2% for residents and 0.1% for non-residents would raise an additional $35 million in revenue from 2008 to 2011.

What would an income tax increase of 0.2% cost the average resident household?

<table>
<thead>
<tr>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median household income, 1999</td>
</tr>
<tr>
<td>Assume no change</td>
</tr>
<tr>
<td>Multiplied by 0.00</td>
</tr>
</tbody>
</table>

Based upon these calculations, an income tax increase of 0.3% would cost the typical household approximately $75 per year, or $0.20 per day.