



City of Hamtramck

City Council Budget Work Session #1

Budget Process Overview

February 1, 2022

6:00 PM - 7:30 PM

SECTION 1: History and Context

A Tale of One City

The worst of times and the worst of times

HAMTRAMCK BUDGET A RETROSPECTIVE 2003-2020

GENERAL FUND REVENUES FY 2003: \$16,832,493

State Revenue Sharing: \$4,575,731

General Fund Revenues FY 2020: \$16,423,345

State Revenue Sharing: \$3,282,081

Source: [treas-secure.state.me.us./LAFDocSearch/](https://treas-secure.state.me.us/LAFDocSearch/)

INFLATION AND THE EROSION OF TIME

In inflation-adjusted dollars, 2003's \$16,832,493 was worth \$25,423,345 in FY 2020.

Conclusion: in real terms, we operated in FY 2020 with \$9,081,722 less than we operated in FY 2003. Stated differently, in the last fiscal year we operated with 64.3% of the general fund revenue available to us 18 years earlier.

In inflation-adjusted dollars, 2003's \$4,575,731 state revenue sharing was worth \$6,933,276 in FY, a \$3,651,195 or 53% cut.

Source: usinflationcalculator.com

HOW DID WE GET THERE: PART 1 FEDERAL FISCAL POLICY THE PERFECT STORM: THE INTERSECTION OF TAX AND FOREIGN POLICY

- ▶ 1944, highest tax bracket 94% on income over \$200,000 (approx. 3.16 million in today's dollars).
- ▶ Between 1950's (Truman)-1981 (Reagan) highest tax bracket hovered between 70% and 90%.
- ▶ 1981 Economic Recovery Tax Act: Highest tax bracket set at 50%. Subsequent "reforms" lowered the rate to between 30% and 40%.
- ▶ Military spending in 1981 \$176.5 billion dollars.
- ▶ Military spending in 2019 \$731.7 billion dollars.
- ▶ Compared to 1981, the year Reagan took office, military spending outpaced inflation by \$235 billion dollars in 2019.

HOW DID WE GET THERE PART 2: STATE FISCAL POLICY ROBINHOOD IN REVERSE

1970's-1980's West Michigan vs. Detroit and Property Tax Reform

Headlee, Prop A, and the invention of “relative tax effort” over per capita distributions.

1990's West Michigan gains the upper hand: The Engler Revolution.

Steady erosion of state sources of revenue continues into new millennium

Repeal of revenue sharing formulas and removal of SBT from revenue sharing
(Act 342 of 1996)

Elimination of SBT

Elimination of Personal Property Tax

Michigan Constitution Requires Balanced Budget

SOLUTION: BALANCE IT OFF THE BACKS OF LOCAL GOVERNMENT AND SCHOOLS

THE result: a 20 year 10.4 Billion dollar heist

THE MYTH OF OVERTAXATION AT HOME

Part 1: Property Tax

- ▶ Property tax revenue 2003: \$7,183,814
- ▶ Property tax revenue 2020: \$6,801,828
- ▶ 2003 property tax revenue adjusted for inflation in 2020 dollars: \$10,104,620
- ▶ Effective tax cut: \$3,302,792 or 32.7%.

THE MYTH OF OVERTAXATION AT HOME

PART II: INCOME TAX

- ▶ Income tax revenue 2003: \$2,752,048
- ▶ Income tax revenue 2020: \$2,694,633
- ▶ 2003 income tax revenue adjusted for inflation in 2020 dollars: \$3,870,979.
- ▶ Effective tax cut: \$1,176,346 or 30.4%.

SECTION 2: Basic Legal Structure of Municipal Finance

A system of checks and imbalances

Michigan Constitution or What Can We Do?

- ▶ Michigan Constitution Limits Governmental Authority to Raise Local Revenue
 - ▶ Headlee Amendment 1978 limits local government's ability to increase real property taxes and impose certain user fees in lieu of taxes;
 - ▶ Prevents state legislature from adopting progressive tax rate on personal income;
 - ▶ Mandates that only 15% of first 4% of state sales tax go toward local revenue sharing;
 - ▶ Mandates that State of Michigan pass a balanced budget each year.

Uniform Budgeting And Accounting Act

MCL 141.421 et. seq./ PA 2 of 1968

- ▶ Public Act 2 of 1968, includes accounting, budgeting and auditing requirements for Michigan local units
- ▶ The purpose of the Budget Act is to require that all local units of government in Michigan adopt balanced budgets, to establish responsibilities and define the procedures for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process.
- ▶ The Michigan Department of Treasury provides a Uniform Budgeting Manual which has been implemented by Hamtramck City Administration.
- ▶ Chief executive of city (City Manager) proposes and legislative branch (Mayor and Council) reviews and approves budget after mandatory public hearings.
- ▶ Sets deadlines for budget so it is in place for start of fiscal year.
- ▶ Requires amendments and specifies process for adopting them.
- ▶ Requires annual independent audit published with MDOT for public.

Glenn Steil State Revenue Sharing Act

MCL 141.901/PA

- ▶ What is Revenue Sharing?
 - ▶ Funds, now primarily from a portion of the state sales tax, that the state collects and then redistributes throughout the state.
 - ▶ Per capita vs. Relative Tax Effort (“RTE”).
 - ▶ State as “collector” vs. state as “patron”.
 - ▶ State control over local finance dating to the 1920’s.
 - ▶ Revenue sharing is generally unrestricted and supports the general fund.
 - ▶ Constitutional: 15% of the first 4% of the state sales tax (fixed percentage)
 - ▶ Statutory: annual appropriation set by state legislature and approved by governor as part of the state budget process. Various formulas have been adopted over the years, but when the going gets tough and the state needs to balance its budget, it merely shorts local units of government and school districts now to the tune of about 10.4 billion dollars since 2001 when it abandoned the set of already reduced formulas it had enacted only three years earlier. (variable percentage)

Historical look at State Share Revenue

County: Wayne, Local Unit of Government: Hamtramck

Amount of Revenue Sharing Lost Since 2002: \$24,893,458

[Search Again>](#)

Year	Const. Payments	Statutory Payments	Total Payments	Full Statutory Payments	Statutory Reduction	Full Funding	Cummulative Difference
2003	\$1,506,984	\$2,881,322	\$4,388,306	\$3,393,755	\$168,828	\$4,900,739	\$512,433
2004	\$1,490,615	\$2,453,387	\$3,944,002	\$3,356,892	\$903,505	\$4,847,507	\$1,415,938
2005	\$1,526,188	\$2,374,824	\$3,901,012	\$3,437,003	\$1,062,179	\$4,963,191	\$2,478,117
2006	\$1,552,170	\$2,305,437	\$3,857,607	\$3,495,515	\$1,190,078	\$5,047,685	\$3,668,195
2007	\$1,519,919	\$2,222,808	\$3,742,727	\$3,422,885	\$1,200,077	\$4,942,804	\$4,868,272
2008	\$1,570,663	\$2,172,064	\$3,742,727	\$3,537,161	\$1,365,097	\$5,107,824	\$6,233,369
2009	\$1,481,325	\$2,172,064	\$3,653,389	\$3,335,971	\$1,163,907	\$4,817,296	\$7,397,276

Historical Look at State Revenue Sharing (continued)

2010	\$1,435,946	\$1,813,378	\$3,249,324	\$3,233,776	\$1,420,398	\$4,669,722	\$8,817,674
2011	\$1,498,533	\$1,750,791	\$3,249,324	\$3,374,723	\$1,623,932	\$4,873,256	\$10,441,606
2012	\$1,595,031	\$1,230,147	\$2,825,178	\$3,592,039	\$2,361,892	\$5,187,070	\$12,803,498
2013	\$1,627,979	\$1,318,014	\$2,945,993	\$3,666,238	\$2,348,224	\$5,294,217	\$15,151,722
2014	\$1,665,782	\$1,381,515	\$3,047,297	\$3,751,371	\$2,369,856	\$5,417,153	\$17,521,578
2015	\$1,691,946	\$1,423,691	\$3,115,637	\$3,810,293	\$2,386,602	\$5,502,239	\$19,908,180
2016	\$1,690,320	\$1,423,691	\$3,114,011	\$3,806,631	\$2,382,940	\$5,496,951	\$22,291,120
2017	\$1,787,743	\$1,423,691	\$3,211,434	\$4,026,029	\$2,602,338	\$5,813,772	\$24,893,458

Assumes that statutory revenue sharing continued on the same gain or loss pattern as was the case with constitutional revenue sharing.

Section 3: The Budget Process

- ▶ The City of Hamtramck follows the recommendations of the State of Michigan Uniform Budgeting And Accounting Act
- ▶ MCL 141.421 et. seq./ PA 2 of 1968

Uniform Budget Manual

Recommendations for Compliance with the Budget Act

- ▶ The Michigan Department of Treasury recommends that the local unit use the activity form of budgeting. The adopted budget must be at the revenue by source and expenditures by activity level.
- ▶ Revenues - The budget should contain only those revenues that are reasonable assured. If revenue that is reasonable assured, but there may be some doubt as to its realization is included in the budget there should be a plan for reduction in expenditures if it becomes apparent that the revenue will not be received.

Uniform Budget Manual

Recommended Procedures

- ▶ City Manager provides preliminary budget preparation information to Department Directors
- ▶ Department Directors prepare and submit budget estimates to Finance
- ▶ Finance consolidates budget estimates received from Department Directors
- ▶ City Manager reviews budgets and finalizes the budget recommendation for subsequent presentation to the legislative body
- ▶ City Council reviews the City Manager's recommended budget and proposed general appropriations act. This review should also encompass a formal public hearing.
- ▶ City Council passes a general appropriations act
- ▶ City Council amends budget as necessary during the fiscal year

BUDGET WORK SESSIONS

- ▶ At each budget work session you will hear from the City Manager and Department Director the goals for the budget being requested.
- ▶ You will also receive a recommended budget for the department.
- ▶ Sample of requested budget:

03/26/2021

BUDGET REPORT FOR CITY OF HAMTRAMCK
Calculations as of 02/26/2021

GL NUMBER	DESCRIPTION	2019-20 ACTIVITY	2020-21 AMENDED BUDGET	2021-22 REQUESTED BUDGET
APPROPRIATIONS				
Dept 101 - MAYOR & CITY COUNCIL				
101-101-702.000	SALARIES	26,847.09	27,081.00	27,081.00
101-101-715.000	SOCIAL SECURITY (FICA)	2,071.69	2,071.70	2,072.00
101-101-728.000	OFFICE SUPPLIES	863.68	100.00	100.00
101-101-864.000	CONFERENCE - WORKSHOP	4,455.92	15,000.00	4,500.00
101-101-958.000	MEMBERSHIP DUES	12,234.00	12,280.00	12,600.00
101-101-970.000	CAPITAL OUTLAYS > \$5,000	527.02		
Totals for dept 101 - MAYOR & CITY COUNCIL		46,999.40	56,532.70	48,353.00

Appropriations Ordinance

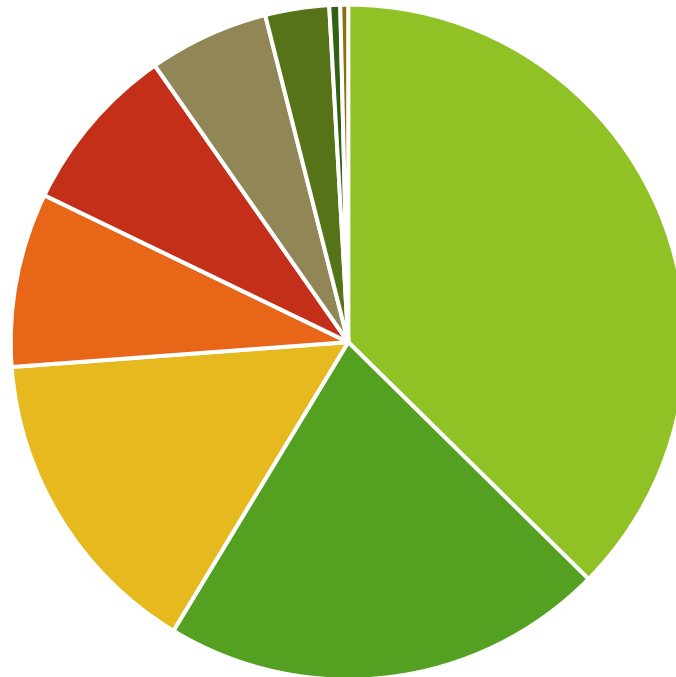
- ▶ The result of our budget work sessions is the Appropriations Ordinance. The appropriations ordinance is approved at departmental level, as recommended in the Uniform Budgeting manual

03/26/2021 BUDGET REPORT FOR CITY OF HAMTRAMCK
Calculations as of 02/28/2021

DEPARTMENT	DESCRIPTION	2019-20 ACTIVITY	2020-21 AMENDED BUDGET	2021-22 REQUESTED BUDGET
ESTIMATED REVENUES				
000	GENERAL	16,423,346.13	14,293,059.00	15,849,420.00
TOTAL ESTIMATED REVENUES		16,423,346.13	14,293,059.00	15,849,420.00
APPROPRIATIONS				
101	MAYOR & CITY COUNCIL	46,999.40	56,532.70	46,353.00
136	31ST DISTRICT COURT	740,052.32	926,950.00	840,555.00
172	CITY MANAGER	216,650.61	210,213.00	225,250.00
202	INCOME TAX	255,170.72	298,885.00	306,525.00
215	CITY CLERK	144,817.30	146,616.00	179,577.00
223	CONTROLLER	236,577.53	230,800.00	256,390.00
253	TREASURER	142,612.91	154,095.00	179,865.00
257	ASSESSOR	166,698.62	194,630.00	189,019.00
262	ELECTIONS	61,688.76	105,464.00	92,215.00
264	GENERAL ADMINISTRATION	1,024,819.58	1,071,310.00	871,440.00
265	BUILDING & GROUNDS	916,525.45	1,247,950.00	863,735.00
266	LEGAL	577,953.54	605,400.00	715,400.00
270	HUMAN RESOURCES	116,122.07	73,810.00	75,610.00
274	RETIREE COSTS	2,610,702.29	2,765,475.00	5,493,000.00
301	POLICE DEPARTMENT	4,441,306.54	4,589,550.00	3,614,775.00
336	FIRE DEPARTMENT	3,796,938.38	3,759,768.00	2,848,776.00
371	BUILDING INSPECTION	409,702.36	341,250.00	356,000.00
528	SANITATION SERVICES	725,400.00	740,000.00	756,000.00
721	COMMUNITY & ECONOMIC DEVELOPMENT	84,648.80	104,290.00	152,803.00
822	CODE ENFORCEMENT	93,927.36	74,795.00	141,210.00
999	OPERATING TRANSFERS OUT	184,527.00	104,225.00	50,000.00
TOTAL APPROPRIATIONS		16,993,841.54	17,802,008.70	18,248,498.00
NET OF REVENUES/APPROPRIATIONS - FUND 101		(570,495.41)	(5,508,949.70)	(2,399,078.00)
BEGINNING FUND BALANCE		6,801,353.27	6,230,855.86	2,721,906.16
ENDING FUND BALANCE		6,230,855.86	2,721,906.16	322,828.16

Sources of General Fund Revenue Year Ended June 30, 2021

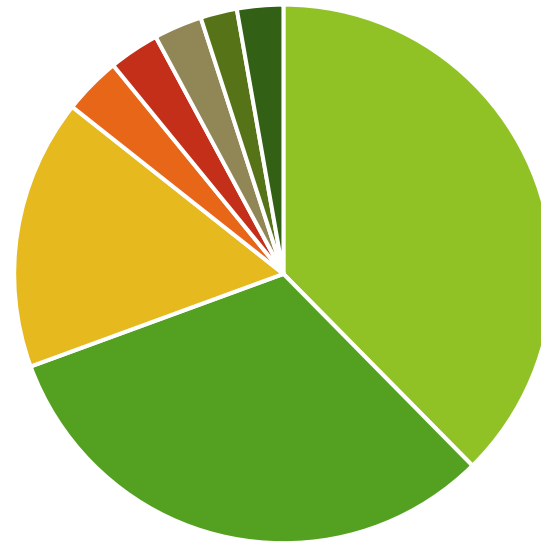
Amount



- Property taxes
- State-shared Revenue
- Income taxes
- Fines and forfeitures
- Licenses and permits
- Federal grants
- Other revenue
- State sources
- Charges for services

How General Fund Dollars Were Spent Year Ended June 30, 2021

AMOUNT



- PAYROLL & RELATED
- RETIREMENT
- CONTRACT/PROFESSIONAL SERVICES
- CAPITAL
- LAWSUIT SETTLEMENTS/LEGAL NOTICES
- UTILITIES
- DEBT PAYMENTS
- OTHER

Mayor and Council Priority

- ▶ QUESTIONS/COMMENTS/DISCUSSION
- ▶ What is the Council priority for the City?
- ▶ How will Council fund their priority?
- ▶ What's Next?

**Next Budget
Work Session
March 1, 2022
6:00 PM - 7:30 PM**