



BUDGET ODYSSEY: A JOURNEY OF COST SAVINGS

INTRODUCTION

In today's environment, finding efficiencies is as important as ever for local governments. Because Michigan's communities are limited in their ability to increase revenue to provide services, they are always searching for ways to deliver high-quality services at a low cost.

This is especially the case when cities face significant potential reductions in revenue, such as an expiring millage. Ferndale—facing the 2025 expiration of its Headlee Override millage—assembled a resident-led committee to review the City's finances and study its options. Members worked to understand municipal finance and develop recommendations for the City Council. One of these recommendations was for the City to reduce its existing spending.

Ferndale has a history of seeking to reduce spending. Unfortunately, in the past, savings usually resulted from either personnel cuts or decreasing service levels. This was certainly the case during the early part of the 2010s when municipal governments across Michigan were forced to find ways to limit expenditures in a time of rapidly declining revenues. For example, in 2008 the City of Ferndale had 172 full-time employees. By 2014, City staff had been reduced to 136 full-time employees—a drop of 21% in the City's workforce.

While necessary to be able to meet budgetary demands of the time, the cuts that Ferndale made during the 2010s resulted in various decreases in service levels. It is the rare occurrence when efficiencies can be found that provide either a static or increased level of service.

It is the intention of this report to present two short case studies to celebrate budget efficiencies with savings that do not impact service levels. This report will highlight both past actions as well as future proposals.

CASE STUDY 1

TWO FOR THE PRICE OF ONE: FERNDALE FIRE DEPARTMENT'S COST-SAVINGS DOUBLE PLAY

Fire departments require the largest—and most expensive—specialized equipment in the municipal sector. Fire operations require both front-line and reserve fire trucks with a combination of two fire engines and one ladder truck to perform their essential duties. The cost of a new fire engine (also called a pumper) has risen from approximately \$700,000 in 2019 to a current cost of over \$1.03 million. The cost of replacing an aerial truck (also known as a ladder truck) has also risen approximately 35% in that time to a cost of over \$2M. This trend is likely to continue.

Year	Apparatus	Assignment	Life Expectancy
2017	Fire Engine	Frontline	25 years (due for replacement in 2042)
2009	Fire Engine	Front Line	25 years (due for replacement in 2034)
2002	Fire Engine	Reserve	25 years (due to for replacement in 2027)
1996	Fire Engine	Reserve	25 years – Replacement on order to be delivered in 2024
2011	Aerial Truck	Platform	25 years (due for replacement in 2036)

Table 1: Ferndale Fire Department Fleet

When new fire vehicles are purchased, the oldest front-line vehicle is assigned as a reserve vehicle and the oldest vehicle still in service is typically sold at auction. However, due to cost and space considerations, aerial trucks are not typically kept on as reserve vehicles after they have been replaced.

Due to the long production time for fire trucks, in the early part of 2024, Ferndale's Fire Department began planning for the replacement of their 2002 fire engine (scheduled for 2027). Chief Teresa Robinson reviewed department staffing, operations, vehicle utilization, and costs to identify the future needs of the Department. Chief Robinson also reviewed the vehicle fleets from surrounding and mutual aid communities.

With the current staffing levels in the Fire Department, the City's 105-foot aerial truck is not typically used on every call and does not have firefighters staffed to it daily. When this truck is needed for emergency response, firefighters must remove their equipment from the fire engine to utilize the aerial. This produces a slower response than if the aerial was able to be staffed daily.

Another operational issue to consider is space. The current aerial truck is extremely large and takes up a great deal of space in the station; it's also difficult to service as it does not fit on the Department's concrete approach. This causes it to block traffic on Livernois Ave. when it is pulled out of the station. It is also too large to be refueled at the City's fuel pumps, requiring the Department to have a diesel fuel tank inside the Fire Station.

Chief Robinson is proposing replacing the scheduled fire engine with a different type of fire truck: a quintuple combination pumper, known as a "quint." These trucks offer the services of both an engine and an aerial at a lower cost and in a smaller package. While the cost of a typical aerial is over \$2 million, the cost for a quint is approximately \$1.23M. Further savings are realized when these trucks are also used to replace current engines.

While the quint model would have a shorter ladder of 75 feet (compared to 105 feet of the current aerial), this level of service would meet the needs of Ferndale. The City's code limits the height of most buildings to 70 feet; within the city, the quint will be able to reach all buildings. The smaller vehicle size also improves maneuverability onto and through narrow streets and alleys, especially those with on-street parking, which make it difficult or sometimes impossible to make a turn with the current ladder truck.

Using the need to replace a fire engine to scale down the total number of vehicles in the fleet will be a cost savings. Replacing the current fleet would require replacing four engines and a ladder (five vehicles) versus this proposal, which requires replacing only four vehicles. While the upfront cost of a quint is slightly higher than a traditional engine (\$1.3 million versus \$1.03 million), it will save the cost of replacing an aerial for \$2 million in approximately nine years.

This proposal will not only have overall cost savings but will also improve operations. According to Chief Robinson, replacing an engine with the quint will allow for faster response times to incidents when an aerial response is necessary. This vehicle will be the front-line piece of equipment for Ferndale's main fire station. This will allow it to be staffed and ready to respond to all calls.

An additional benefit is the impact on the potential resale value of the current aerial truck. By replacing this vehicle before the end of its estimated service life, the resale value will be higher and will help defray the additional cost of the quint.

CASE STUDY 2

RETIRING LEGACY COSTS WITH MEDICARE ADVANTAGE

As a benefit of employment, many Michigan employers (especially those in southeast Michigan) offered generous benefits packages, including pension systems and paid retiree healthcare. This was true both in the private and public sectors. The City of Ferndale was no exception. Upon retirement, employees were able to continue to enjoy the benefits of the City's self-funded health insurance.

As cities have aged, the number of retirees receiving these benefits has grown and costs have increased. This has been compounded by the overall growth in healthcare costs over the past few decades. Since 1999, the cost of healthcare has risen by more than 6.5% annually, and as high as 13.3% in 2003. While the rate of healthcare costs has increased, the revenue growth for local governments in Michigan has not kept up the same pace. In fact, during the great recession of 2008-2010, local government revenue shrunk significantly.

These factors forced local governments to make significant changes in OPEB (other post-employment benefits) offerings. In Ferndale, beginning in 2006, concessions on OPEB offerings through collective bargaining were a key point in personnel policy changes. By the beginning of 2011, all collective bargaining units in Ferndale had agreed to concessions that included the elimination of retiree healthcare. Employees hired after this point would no longer be given retiree healthcare.

While this approach certainly was necessary at the time and helped the City's budgetary issues, a looming crisis was not far off. The 2010s became the 2020s and healthcare costs continued to rise. In 2021, the City was spending approximately \$1.79 million on the roughly 150 retiree healthcare plans—approximately 8% of the City's General Fund. By the end of Fiscal Year 2022, this number was \$1.95 million. Of these retirees, 100 were over the age of 65 and therefore eligible to receive Medicare.

In Fiscal Year 2022, the City's Human Resources Department crafted a plan that would convert retirees who were Medicare-eligible from the City's self-funded insurance plan and onto a Medicare Advantage plan. This would drastically lower the costs of retiree healthcare administration by converting 18 traditional plans into six different Medicare Advantage plans. This proposed change would have monumental effects on the City's expenditures and, if handled properly, would provide similar services for retirees, as required by union contract.

The proposal was put into place beginning in Fiscal Year 2023. Operationally, the change required a significant amount of outreach and support for retirees. The City's HR Pension Specialist had already been establishing relationships with retirees, and during the conversion used a variety of methods of outreach, including informational mailers, group meeting sessions, and one-on-one conversations.

Thanks to these efforts, within the first year alone, 155 retirees and beneficiaries converted to the Medicare Advantage plan. At FYE 2024, the full savings benefit was finally realized. Between FYE 2022 and FYE 2024, the costs of providing retiree healthcare dropped from \$1.95 million to \$1.18 million. In FYE 2022, the City spent \$2.26 million on retiree healthcare costs; in FYE 2024 these costs dropped to \$891,345.

As more employees become eligible and are converted to Medicare Advantage plans, these costs will continue to decrease at a rate slower than the increase in Medicare Advantage Plan premiums.

CONCLUSION

Every year, the City's talented staff work to identify ways to improve services and decrease the costs associated with service delivery. While the case studies above represent two of the more impactful proposals and changes, it should be noted that many other examples exist. These include future parking lot lighting improvements and contract changes in the Community and Economic Development Department that decreased hourly inspection costs.

The City will continue to look for ways to decrease costs while maintaining or improving service delivery, even in the difficult fiscal climate that local Michigan governments face.