

**MINUTES
CITY OF FARMINGTON HILLS
FARMINGTON HILLS CITY COUNCIL
STUDY SESSION
CITY HALL – COMMUNITY ROOM
SEPTEMBER 22, 2025 – 3:00PM**

The study session meeting of the Farmington Hills City Council was called to order by Mayor Rich at 3:04pm.

Councilmembers Present: Aldred, Boleware, Bruce, Dwyer, Knol and Rich

Councilmembers Absent: Bridges

Others Present: City Manager Mekjian, Assistant City Manager Mondora, City Clerk Lindahl, Directors Skrobola, Brown and Sullen-Winn, and City Attorney Joppich

PRESENTATION OF THE SPECIAL SERVICES FINANCIAL SUSTAINABILITY STRATEGIC ACTION PLAN BY THE SPORTS FACILITIES COMPANIES

Mayor Rich opened discussion on this agenda item, noting that the intent of the meeting was to allow Councilmembers to learn about the Special Services Financial Sustainability Strategic Action Plan and to discuss it, and no decisions or actions would be taken at this session.

City Manager Mekjian introduced Evan Eleff from Sports Facilities Companies (SFC), who would walk Council through each major area of service and their revenue/expense profiles, past and projected financial performance, potential strategies for addressing the structural deficit, and next steps toward long-term fiscal sustainability.

Mr. Eleff explained that his prior presentation had focused narrowly on the Costick Center and new Activity Center, while this presentation would cover the entire Special Services Department. The presentation listed each strategy in detail, including projected economic results and next steps, per strategy.

Goals to Balance

There is a need to balance two sometimes conflicting goals:

1. Financial Sustainability: Reduce the Special Services Department's structural gap to levels comparable to its pre-HAWK operating period, before the HAWK Community Center's opening and related debt obligations. This will entail combining revenue growth, expense control, and partnerships.
2. Preservation of Access: Maintain the City's high-impact, community-oriented programs, including 50 & Better services, health and wellness, sports and recreation, and cultural arts offerings.

Historic Financial Performance

- Pre-HAWK (pre-2021): annual net operating loss approximately \$2.6 million.
- Post-HAWK: net deficit rose to \$6.1M, \$6.3M, and \$6.6M in successive years.

The current year shows improving revenues, indicating a positive trend, though the gap remains substantial.

Benchmarking Against Peer Agencies

Compared to national Parks and Recreation agencies (pop. 50k–100k), FH Parks operations account for 15% of Special Services budget vs 38% national average. FH Special Services provides broader functions, resulting in higher expenditures.

The City's administration costs account for roughly 25–27%, a figure within expected ranges given the department's broader scope. Farmington Hills' model is recreation-heavy, owing to its larger physical assets such as the HAWK, the golf course, and the ice arena. This structure naturally elevates expenditures relative to traditional parks departments.

Revenues

Despite higher costs, the City correspondingly generates greater revenue:

- Per capita revenue: \$125.19 versus a national median of \$45.20.
- Top-quartile peer median: \$95 per capita; Farmington Hills exceeds this figure.

Expenses

- Operational expenditure per capita: Positioned between the U.S. median and upper quartile (approximately 70–75th percentile).
- Cost recovery rate: 69.5% compared to 33% nationally and approximately 51% among top-performing agencies.

This level of performance signifies a high-functioning, revenue-productive department, not one that is underperforming. The issue lies in the scale of operations and capital obligations, not in inefficiency.

Deferred maintenance and capital needs

Deferred maintenance is one of the City's most pressing challenges. Typical agencies of comparable size carry less than \$1 million in deferred maintenance; high-end cases reach \$10 million. Farmington Hills, by contrast, carries over \$20 million in deferred maintenance obligations. This estimate includes approximately \$14–\$16 million identified during the Costick Center loan accrual study, plus additional facility needs at the HAWK, the golf course, and the ice arena. These figures must inform all long-term financial planning, as addressing deferred maintenance through strategic capital investments could simultaneously modernize assets, reduce operating costs, and increase service capacity.

SFC incorporated these realities into a comprehensive capital budget framework, recommending future capital expenditures of ~\$30 million that would not only eliminate deferred maintenance but also improve the department's fiscal efficiency and sustainability.

Departmental Vertical Analysis

Mr. Eleff outlined how Special Services organizes its budget across several verticals: Golf, Ice, Recreation, Cultural Arts, Seniors (50 & Better), Administration, and Parks Maintenance.

A comparative performance review showed the following:

- Golf and Ice divisions: Operating in the black (self-sustaining).
- Recreation: Slight deficit.
- Cultural Arts: Approximately \$600,000 annual subsidy.
- Seniors/Costick operations: Around \$1.1 million annual deficit, including facility costs.

The City's near-term focus should be on the deficit divisions—Cultural Arts and Seniors—since those represent the largest areas for improvement or structural adjustment. While the profitable divisions could still improve, the priority areas for fiscal balance are the mid-range and deficit divisions.

Mr. Eleff reiterated that Farmington Hills' Special Services Department is not low performing despite the magnitude of its structural deficit. On the contrary, its revenue generation and cost recovery place it among the top-performing agencies nationally. Financial sustainability should be viewed as a matter of proportional balance, not performance deficiency. The department simply operates a wider scope of services than most, creating a larger base of fixed costs and capital obligations. The department needs to improve net income by ~\$2.5 million to reach its sustainability target.

Four elements must be addressed in tandem for long-term sustainability: revenue generation, expense control, partnership development, and capital expenditure (CapEx) strategy.

Revenue Strategies

Fair Market Fee Alignment: Adjust pricing to align with comparable market rates while maintaining resident affordability.

- The HAWK facility's pricing is competitive and significantly below regional peers such as the YMCA.
- SFC recommends a two-phase 10% fee increase (5% each year for two years), resulting in \$320,000 (low-end) – \$420,000 (high end) in additional annual income over three years.

Dedicated Marketing Investment: Establish a defined marketing budget within Special Services to increase awareness and participation.

- Establishing a \$120,000 annual marketing budget can generate \$240,000–\$360,000 in net revenue by increasing participation and membership. This recommendation would not necessarily add new costs, as the City already has unused marketing funds within the existing budget, potentially exceeding the suggested amount.
 - Three options include:
 1. Contract with an external agency to develop a comprehensive marketing plan, with implementation via existing staff or a new marketing position.
 2. Contract with an external agency with full responsibility for implementation.
 3. Incorporate marketing as a requirement in third-party operational contracts where appropriate.

Food and Beverage Operations: Modernize offerings, pricing, and efficiency across facilities such as the HAWK, Ice Arena, and Founders Park.

- Improved food and beverage operations could generate an additional \$560,000 annually, with net impact of \$255,000. Current F&B revenue is below benchmarking averages; F&B should be 10% to 12% of total revenue at ice and sports facilities, and 8% to 10% of total revenue at recreational facilities.
- Potentially outsource operations to professional vendors.

Cost Containment Strategies

High-Cost Service Review: Evaluate and potentially consolidate or outsource high-cost program areas, particularly Cultural Arts. Currently salaries and wages are over \$1 million annually, with projected revenue of \$1.3 million.

- Complete a thorough program-by-program evaluation to identify opportunities for consolidation, restructuring, or reallocation of staff resources.

- Explore third-party management or outsourced operations for certain programs or facilities where appropriate.
- Utilize a new facility to achieve operational cost savings through improved design and systems. Currently the Costick Center runs at a \$1.1 million annual deficit. Projected improvement from the construction of a new activities center including modern, energy-efficient systems that reduce operational costs, optimize space utilization, and additional off-peak rental revenue from non-senior users of the pool and gym courts, all of which can reduce the deficit to under \$700,000 annually. Importantly, no reductions are proposed to senior programs, services, or operating hours. The new facility model assumes full preservation of all current senior offerings.

Partnership development

Continue to develop partnerships, notably with Oakland County and local business entities.

- SFC identified sponsorships and naming rights as a major untapped opportunity for the City's facilities. Recent examples of naming rights partnerships at other venues included agreements with Sheels, Wintrust, CityNet Center, and Advent Health. Naming rights are not the only revenue avenue—signage, onsite activation events, and corporate sponsorships can also contribute substantial financial benefits.
- The process of establishing sponsorships involves identifying marketable assets, valuing them based on visibility and attendance, and engaging potential sponsors. Mr. Eleff estimated that naming rights for the HAWK facility could be valued conservatively between \$150,000 and \$200,000 annually.

The City will ultimately determine whether to pursue such opportunities as part of its overall strategy.

Capital Expenditure Strategy

- One time revenue sources
- Fund Balance
- Millage

Mr. Eleff outlined the capital expenditure requirements associated with the Special Services Department's sustainability goals, currently projected at approximately \$30 million. This estimate includes the development of a new activity center, completion of remaining work at the Hawk, and smaller capital needs for the Ice Arena and Golf Course. Capital funding should first focus on one-time revenue sources, including the Oakland County partnership, which may yield a one-time payout estimated around \$4 million, and potential sale of the Costick Center property valued between \$2 million and \$3 million net after demolition and preparation costs. Additional funding sources could include upfront contributions from donors or sponsors in exchange for naming rights, use of fund balance reserves, or revenue from a future millage expansion. Failure to incorporate these capital funding measures could undermine the department's long-term financial sustainability by increasing recurring expenses.

The annual cumulative total of all implemented strategies would be between \$1.9 million (low end) and \$2.7 million (high end) on net income, with an estimated \$1.1 million in deficit reduction for Senior Services.

Next steps:

Mr. Eleff outlined three key steps for Council and staff consideration:

1. Review, approve, and decide which recommended strategies and execution paths to pursue.
2. Develop a formal action plan with an implementation timeline and prioritization of projects and initiatives (e.g., priority one, priority two, phase one, phase two).

3. Execute the approved plan using a disciplined, transparent management system.

The Sports Facilities Companies will continue to serve as an advisor and implementation partner to the Special Services Department.

COUNCIL DISCUSSION

Clarifications – Deferred Maintenance

Mayor Pro Tem Dwyer asked for clarification regarding the \$20 million deferred maintenance total, including whether it represented an annual or multi-year projection. Mr. Eleff clarified that the \$20 million reflected the total identified capital replacement and maintenance needs across multiple facilities, including immediate, three-year, and five- to seven-year projections as outlined in the City's most recent facilities study. This figure was cumulative rather than annual. If no immediate repairs were made, the costs could escalate in subsequent years.

Mayor Pro Tem Dwyer asked whether most of the \$20 million applies to the Hawk and Costick Center. Mr. Eleff confirmed that approximately \$18–\$19 million of the deferred maintenance total related to those two facilities, with the Costick Center alone accounted for \$14–\$16 million of the estimate, largely due to pool system deterioration, corroded piping, and mechanical and electrical issues.

Mayor Pro Tem Dwyer was concerned about the advisability of investing additional millions into aging infrastructure, particularly the 55-year-old Hawk facility. Mr. Eleff responded that the \$20 million figure did not represent new discretionary investments, but rather critical repairs required to preserve the existing \$29 million capital investment made during the Hawk's retrofit approximately five years ago. He noted that previous renovation funds focused primarily on the first and second floors, while several deferred items—including HVAC and mechanical work—remained outstanding.

Mayor Rich noted that the facilities study referenced in the discussion predated her term as Mayor, as well as predated Mayor Pro Tem Dwyer's and Councilmember Aldred's service on Council. Mr. Eleff agreed that the current fiscal challenges originated prior to the involvement of the present Council. Since SFC began its partnership with the City in 2022, efforts have been focused on restoring financial stability, maintaining community services, and developing long-term sustainability measures.

Cultural Arts Funding and Millage Allocation

Councilmember Bruce asked about the allocation of millage funds to cultural arts programs. Was any portion of the City's special services millage directly allocated to cultural arts operations or was it simply carried forward through the general fund?

Finance Director Skrobola responded that millage funds were historically allocated to the general fund. However, while the distribution had traditionally been based on prior formulas dating back to the late 1990s, those allocations were not binding in terms of how the general fund was used. While certain divisions such as Parks and Recreation benefited from these funds, the general fund routinely expended more than the millage allocations on those services each year.

Mr. Eleff added that the allocations were broadly aligned by division but not specifically tied to cultural arts programs. The \$600,000 deficit reported for cultural arts reflected actual operational shortfalls.

Mr. Eleff provided additional explanation regarding how certain expenses were distributed within the City's accounting framework. Some operational divisions, such as golf and ice operations, included

utilities and supply costs directly in their profit and loss statements, while divisions such as cultural arts and recreation did not. These expenses were instead rolled up under administrative overhead. To more accurately represent the financial condition of each area, SFC reallocated administrative costs proportionally based on facility square footage and usage. As a result, the adjusted reports reflected a \$213,000 administrative expense allocation for cultural arts, representing its proportional share of facility costs at the Hawk. This accounting reallocation did not eliminate the deficit but clarified the source of certain costs, allowing the City to better understand the true financial performance of the cultural arts program area, which were not projected to reach break-even status under the current structure.

Membership Pricing and Resident vs. Non-Resident Considerations

Utility cost methodology

Councilmember Knol raised questions regarding potential membership pricing adjustments at the Hawk facility. Specifically, she asked whether membership pricing could be further differentiated between residents and non-residents, noting that Farmington Hills taxpayers should be prioritized in affordability while still welcoming participants from neighboring communities.

Mr. Eleff agreed that differential pricing was a reasonable consideration, and that protecting resident affordability was a central goal of the sustainability strategy. His team would evaluate membership data to determine the proportion of non-resident members and assess whether additional pricing tiers could be implemented. He also noted that non-resident pricing could be aligned with YMCA benchmarks while maintaining lower rates for residents.

Councilmember Knol requested clarification on the total utility costs attributed to the theater and asked whether ticket prices for the Cultural Arts programs, particularly at the Hawk, had been compared to nearby facilities such as the Berman Theater or similar regional venues. She also asked about the financial performance of the extremely popular Youth Theater program.

Mr. Eleff responded that all utility data is available and can be provided. He also confirmed that pricing comparisons were conducted across multiple program types, including ticketing. He noted that ticket pricing is difficult to benchmark because of variable program value and guest performers. He emphasized that the current analysis does not recommend wholesale pricing changes but instead proposes deeper evaluation by program type. He suggested a more detailed assessment of vertical program performance, such as the Youth Theater, to determine areas that may warrant further investment or restructuring.

Need for local benchmarking and cautions against outsourcing

Councilmember Boleware reflected on prior presentations from The Sports Facilities Companies, recalling that earlier findings presented in 2020–2022 raised several questions from Council that were not fully revisited in subsequent sessions. She sought clarification on the benchmarking methodology, specifically whether the comparison data derived from Michigan or from other regions across the U.S., noting that cost-of-living differences could affect the validity of financial benchmarks.

Mr. Eleff explained that the current presentation relies primarily on national benchmark data from the National Recreation and Parks Association, though the second phase of the study also included comparisons with local peer communities, evaluating factors such as millage, staffing, and full-time employment ratios.

Councilmember Boleware expressed concern about outsourcing recommendations contained within the proposal, particularly regarding the cultural arts programs. She cited the City's long-standing commitment to cultural arts, referencing Farmington Hills' 25-year celebration of its cultural arts department and recent recognition from the Architectural Digest as one of the top 25 cities to move to, due in part to its artistic vibrancy and community engagement. Councilmember Boleware stressed the importance of preserving the City's artistic identity, diversity, and safety as core community values. She emphasized that public art initiatives, including displays and mixed-use community spaces for artists and teachers, should remain a civic priority.

Councilmember Boleware advocated for maintaining strong internal staffing within the cultural arts and special services departments, noting staff's contributions to community life and resident satisfaction. She cautioned against moving too quickly toward outsourcing before assessing whether additional staff support or resources could strengthen existing programs. She needed more time to review the presented data, validate financial projections, and consult with communications and administrative staff before determining a final path forward.

Mr. Eleff clarified that the national benchmark data referenced in tonight's presentation was not the basis for any recommendations. Those figures were intended solely to illustrate how Farmington Hills' Special Services Department differs from a typical Parks and Recreation Department.

The department's deficit goal to reduce the \$6.2 million deficit to a sustainable \$2.5 million was informed by Farmington Hills' actual fiscal data rather than national averages. Also, the presented plan does not constitute a mandate to outsource, restructure, or eliminate staff. Instead, it offers a range of strategic options to help the City reduce its fiscal gap without diminishing community services.

Council Member Boleware questioned whether the national average comparisons influenced the consultant's recommendations, noting that such metrics could misrepresent local realities due to cost-of-living differences among states. Mr. Eleff reiterated that the national benchmarks were for context only, not determinants.

Fiscal responsibility including marketing opportunities

Council Member Aldred commended the City's excellent services and echoed prior remarks that, while cost recovery rates were competitive, the deficits required responsible decisions regarding spending and revenue priorities. He supported exploring fee adjustments for nonresidents to ensure fairness and financial sustainability. He also inquired about the marketing strategy referenced in the presentation—specifically whether SFC identified underutilized programs that could be strengthened through targeted marketing efforts.

Mr. Eleff responded that membership and passholder programs at the Hawk facility were one such opportunity. Better understanding usage patterns, capacity, and participation timing could help the City market more effectively and increase revenue. Founders Sports Park may also benefit from improved programming and utilization coordination.

Council Member Aldred asked whether the "high-cost services" referenced in the SFC report reflected expense reductions alone or also revenue opportunities.

Mr. Eleff clarified that the figures represented net results, incorporating both expenditure reductions and revenue gains. The analysis prioritizes turning reinvestment into successful, self-sustaining

programs—such as the youth theater—while reconsidering or reducing offerings that consistently operate at a loss.

He further indicated that 50-and-better programs were among the most resource-intensive services, with facility costs at the Costick Center contributing heavily. The prior recommendations for a new, right-sized activity center were developed to address those facility-related inefficiencies.

Councilmember Aldred supported potential marketing initiatives and facility optimization strategies as avenues to address cultural arts and other service costs more sustainably.

Current budget improvements

Councilmember Knol pointed out that the current presentation did not reflect the 2025–2026 adopted budget, which already includes significant corrective actions to reduce the Special Services deficit. Council and Special Services Department have implemented numerous adjustments since the prior fiscal year, driving the deficit down from approximately \$6.1 million to roughly \$4.4 million. Including the approved 2025–2026 budget in the presentation would provide a more accurate representation of the City’s progress and efforts to date. While more work remains to reach sustainability, several operational efficiencies and revenue adjustments are already in place and should be recognized.

Finance Director Skrobola confirmed that the \$900,000 Oakland County Parks contribution had already been incorporated into the fiscal projections. He outlined additional expected improvements—approximately \$100,000 to \$200,000 in annual revenue increases across various program areas such as fitness, recreation, and cultural arts. These adjustments represent ongoing progress and are expected to produce measurable gains in the coming fiscal periods. The actual outcome could exceed projections.

Mr. Eleff agreed that several current initiatives already align with the financial improvement strategies being discussed. These include revenue-generating programs and operational efficiencies already underway in the 2024–2025 cycle. He recognized Council’s efforts to advance sustainability and noted that the presentation was meant to build upon, not overlook, those accomplishments.

Policy perspective and Long-Term Planning

Mayor Rich stressed that government is not a business and must balance fiscal responsibility with the continued provision of essential community services. Community values—diversity, safety, and the arts—are defining characteristics of Farmington Hills. She emphasized that the City’s commitment to its cultural and recreational identity should remain central as fiscal strategies are developed.

Mayor Rich made the following points:

- The Costick Center will remain open until the new Activity Center is operational.
- The new facility will continue to provide Meals on Wheels, congregate dining, a pool suitable for aquatic exercise, and accessible parking.
- Funding and sustainability remain the next major challenge, with projected costs between \$25 million and \$30 million.
- Cultural arts programming will remain robust, and recent recognition from Architectural Digest underscored the City’s reputation for cultural excellence.
- She opposed outsourcing cultural or recreational services to for-profit entities, stating that taxpayer funds should not be used to pay for-profit entities.
- She cautioned against internal budgeting allocations that assign costs beyond departmental control and stressed the importance of evaluating efficiencies within the scope of management authority.

- Fee structures require review to ensure non-resident participants are not subsidized by City taxpayers. She recommended a differential pricing structure once the new computer system is implemented.
- Potential land sales at the Costick site should account for both immediate revenue and the long-term fiscal benefit of converting public land to taxable private property.
- Food and beverage services at City facilities, particularly the Hawk and Longacre House, represent opportunities for improvement and should be included in sustainability considerations.
- She emphasized that programming for 50 & Better residents must continue, including offerings after 5:00 p.m.

Mayor Rich concluded by noting that the presentation provided a range of options, and City Council would proceed cautiously, prioritizing public services and long-term stability over outsourcing or privatization. She proposed that Council Members submit further questions through the City Manager for follow-up discussion at a future study session.

Concluding Remarks

City Manager Mekjian addressed next steps. To support progress on the Special Services Financial Sustainability Strategic Action Plan, clear direction from Council was needed concerning the next phases, including timeline expectations and identification of any procedural gaps or additional requirements. He and Mayor Rich had discussed the importance of establishing measured expectations and he would communicate forthcoming next steps to Council through his weekly updates.

Mayor Rich encouraged Council Members to continue submitting additional questions, comments, and concerns to City Manager Mekjian. She thanked residents who have shared feedback.

Mayor Rich announced that any residents present who wished to make public comment could do so during the Regular City Council Meeting immediately following this meeting.

ADJOURNMENT

The Study Session meeting was adjourned at 4:52pm.

Respectfully submitted,

Carly Lindahl, City Clerk