



Office of City Administrator

April 16, 2012

To Mayor Hieftje and Members of City Council:

As the country continues to recover from the Great Recession, the City of Ann Arbor is starting to see economic improvements take traction in its local economy. The local area unemployment rate has declined to 5.4% as of February 2012, receipts from sales taxes are increasing modestly, and residential property values are increasing in some neighborhoods. In addition, the City has settled all of its labor contracts and is achieving significant reductions in the cost to provide services to the community. Retiree health care costs are substantially lower than previously planned, employees are contributing more towards their benefits, and wage levels, excluding step increases, have remained flat over the past several years. Despite these beneficial factors, the funding mechanisms in place to support local governments have not been addressed at the State level. As the City looks ahead, its costs are projected to increase at a modest 2%-3% per year but revenues are only projected to increase 1% per year. Until the system for funding local governments is fixed or the City experiences a more substantial economic rebound, the near-term budget stability remains uncertain. It is within this context the second year of this two-year fiscal plan was developed.

This recommended budget seeks to respond to community concerns and link to City Council priorities. Fundamental to a fiscally responsible budget is balancing the amount of recurring revenues with recurring expenditures. This budget continues to meet this standard with a combination of reductions in recurring expenditures and the recognition of increased recurring revenues. FY2013 recurring expenses are projected to decrease by \$500k while recurring revenues are projected to increase \$1.2 mil. With a modest surplus expected in the short-term, this budget eliminated the proposed reductions in police and fire staffing and adds a police recruit program to supplement and address public safety questions in the downtown area. It also increases the frequency of maintenance in the parks system. In addition this budget includes a record amount of spending on the street maintenance program. These significant investments in city infrastructure and the organization are being done without compromising the City's financial policies. City Council provided the discipline to manage through a very difficult economic environment. The same fiscal discipline and will serve the community well in FY2013.

FINANCIAL CONDITIONS

The City's General Fund relies heavily on property taxes to pay for services like Police, Fire, Courts and Parks & Recreation. Property tax receipts are expected to increase approximately 0.8% in FY2013. State law in Michigan limits the amount of property tax revenues which can be collected. Whenever the real estate market improves, State law limits the increase in property taxes a community can receive. As revenues fall communities need to make permanent reductions in how they spend their monies. As revenues increase, communities are limited to the lower of 5% or the rate of inflation.

The other major source of revenue in the City's General Fund is State shared revenues, which are based on the State's collection of sales taxes. The City's receipts of these revenues are expected to be same in FY2013 as they were in FY2011. The State changed the method of allocation of these funds by creating an Economic Vitality Incentive Program (EVIP). This program requires the city to perform three groups of actions in order to obtain the previously available funds. The three areas include transparency, collaboration, and employee benefits. The FY2013 Budget assumes the City will qualify for all three components of EVIP.

The City's costs for retiree health care are projected to decline significantly reflecting extraordinary investment returns in the VEBA, lower healthcare claims, and increased employee healthcare contributions for future retirees. The VEBA is only 34% funded and has a \$9-\$12 million liability related to the city's settlement with the IRS which is increasing at 7% per year. This budget recommends to actually start paying down the liability instead of just paying the interest on it. Paying down this liability will reduce future cost increases and may provide stability in the FY2014 & FY2015 budget.

Over the past decade every service area of the City has been restructured and re-organized. The goals of restructuring were to reduce costs and maintain services. Staffing levels (one of the largest expense items necessary for the City to deliver services) have been reduced from 1,005 in FY2001 to a proposed 685 FTEs in FY 2013. Employee wages and benefits were adjusted to help balance the budget. Core services were maintained.

The magnitude of the organizational restructuring changes leaves limited opportunities for future expense reductions without impacting services should another economic downturn arise. Consequently, non-recurring surpluses are recommended to increase in the General Fund. Increasing unassigned reserves to the 15-20% of expenditures range is recommended to give the organization and community some buffer if the economy weakens again.

FY2013

The FY2013 budget seeks to balance the budget through selected cost reductions and revenue increases. As the second year of the two-year plan, this budget includes the changes versus what was planned for the General Fund:

Community Services

- Restore funding to non-profits that provide Human Services (-\$39k)
- Increase funding to county for Human Services (-\$10k)
- Reduce staff expense for work now supported by Washtenaw Urban County (+\$18k)
- Reduce 1.0 FTE in Community Development (+\$86k)
- Revenue increases due to increased efficiency in rental housing inspections (+\$50k)

Public Services

- Increased street lighting expense - rate increases and DTE streetlight audit (-\$335k)

Financial Services

- Revise tax revenue estimates (+\$557k)
- Revise State-shared revenue projection (+\$733k)
- Decrease bond user fee projections (-\$155k)

Safety Services

- Avoid planned reduction of 9 Police officers plus add 1 new officer (-\$1,038,167)
- Establish Police recruit program to supplement patrol (-\$150k)
- Contract with County for dispatch services – 911 revenue reduction (-\$612k)
- Contract with County for dispatch services – expenditure savings due to elimination of 19.0 dispatch FTEs (+\$1,238,297)
- AAPOA/COAM labor contract settlement savings (+\$477k)
- Avoid planned reduction of 5 firefighter FTEs (-\$584k)
- Increase Fire revenues (primarily inspections) to fund 5 FTEs and administrative assistant temp (+\$657)
- IAFF (Fire) contract settlement cost (-\$229k)
- Increase Fire excess comp time budget to reflect actual expenses (-\$66k)

City Attorney

- Increase revenue from the Water Fund recognizing cost of legal services (+\$32k)
- Miscellaneous expense adjustments (-\$32k)

District Court

- Reduce 1.0 FTE (transfer authorization but not funding to IT) (+\$66k)
- Additional temp costs and personnel adjustments (-\$66k)

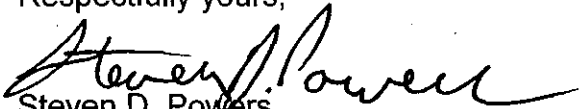
A numeric summary of the Budget is on the following page:

<u>General Fund Expenditures</u>	<u>2013</u>
<i>Recurring Items:</i>	
Mayor & Council	\$ 375,710
City Attorney	1,884,968
City Administration - Administrator, Clerk, Human Resources	2,850,801
Planning & Development	2,282,293
Community Development	1,785,341
Parks & Recreation	3,637,332
Finance	3,353,179
Public Services: Parks Forestry & Operations	2,256,299
Public Services: Public Services All Other	4,302,228
Fire	13,913,103
Police	24,401,485
Fifteenth District Court	3,992,372
AATA	9,317,684
Debt Service/Transfers/Other	<u>3,467,954</u>
<i>Subtotal Recurring Expenditures</i>	\$ 77,820,749
<i>Non-recurring Expenditures:</i>	
Golf Operations Subsidy	\$ 272,220
Building Settlement Funding	100,000
Housing Commission Subsidy	154,000
Court Facilities Fund Transfer	65,000
Police Recruit Program	150,000
High Speed intercity Rail Grant Match	<u>307,781</u>
<i>Subtotal Non-Recurring Expenditures</i>	\$ <u>1,049,001</u>
 Total General Fund Expenditures	 \$ 78,869,750
<u>General Fund Revenues</u>	
Taxes	\$ 49,431,784
State-shared Revenue	9,265,416
Charges for Services	5,722,493
Fines & Forfeitures	4,501,601
Other	<u>10,271,818</u>
 Total General Fund Revenues	 \$ 79,193,112
 Memo: Unassigned Fund Balance as of 06/30/2011	 \$ 10,525,445

The extraordinary work of City employees, the management leadership team, and City Council over the past decade has built a solid financial foundation. This foundation has been essential to the City providing the services expected by Ann Arbor's residents, education & non-profit organizations, and businesses. Ann Arbor has continued to be an award-winning organization and community during a weak and volatile economy. While Ann Arbor's financial foundation is solid, economic and legislative conditions may worsen in FY2014 and FY2015. Continued spending restraint and prudent use of reserves is recommended in FY2013.

I thank all the members of the staff and City Council for their hard work in preparation and consideration of this budget.

Respectfully yours,


Steven D. Powers
City Administrator



MEMORANDUM

TO: Mayor and Council
FROM: Steve Powers, City Administrator
DATE: May 21, 2012
SUBJECT: Resolution to Adopt Ann Arbor City Budget and Related Property Tax Millage Rates for fiscal year 2013

Attached for your review and action is the proposed fiscal year FY 2013 City Budget that totals \$405 million and is in compliance with the City Charter. This budget resolution reflects the recommended budget delivered to you on April 9, 2012.

General Fund Activities

This budget proposal holds expenditure levels in line with the projected revenue levels.

	<u>FY 2013</u>
Recurring Revenues	\$ 79,193,112
Recurring Expenditures	\$ 77,820,749
Non-recurring Expenditures	<u>1,049,001</u>
Total Expenditures	\$ 78,869,750

General Fund recurring expenditures decreased by \$(500,266) (-0.64%) compared to FY 2012, and recurring revenues increase by \$1,205,255 (+1.5%). Below is a summary of non-recurring expenditures:

<u>General Fund Non-recurring Expenditures</u>	<u>FY 2013</u>
Golf Operations Subsidy	\$ 272,220
Building Settlement Funding	100,000
Housing Commission Subsidy	154,000
Court Facilities Fund transfer	65,000
Police Recruit Program	150,000
High Speed Intercity Rail Grant Match	<u>307,781</u>
Total General Fund Non-recurring Expenditures	\$ 1,049,001

FTEs

The City's FTEs are proposed to decrease from 706 to 685 in FY 2013:

- 18 FTE decrease in Police Services
- No FTE change in Fire Services
- 1 FTE decrease in Public Services
- 2 FTE decrease in Community Services
- 3 FTE decrease in Fifteenth District Court
- 0.5 FTE decrease in Attorney
- 1 FTE increase in City Administrator
- 3 FTE increase in Financial and Administrative Services

Millage Rates

The following millages are the maximum allowable levy after the Headlee rollback multiplier is applied (for FY 2013 the Headlee rollback multiplier is anticipated to be 1.00):

	PROPOSED	ACTUAL	
	FY 2013	FY 2012	DIFFERENCE
GENERAL OPERATING	6.1682	6.1682	0.0000
EMPLOYEE BENEFITS	2.0560	2.0560	0.0000
REFUSE COLLECTION	2.4670	2.4670	0.0000
AATA	2.0560	2.0560	0.0000
STREET RECONSTRUCTION	2.1250	1.9944	0.1306
PARK MAINTENANCE & CAPITAL IMPROVEMENTS	1.0969	1.0969	0.0000
OPEN SPACE & PARKLAND PRESERVATION	0.4779	0.4779	0.0000
DEBT SERVICE	<u>0.1250</u>	<u>0.1496</u>	<u>(0.0246)</u>
TOTAL	16.5720	16.4660	0.1060

Prepared by: Tom Crawford, Chief Financial Officer

Approved by: Steve Powers, City Administrator

RESOLUTION TO ADOPT ANN ARBOR CITY BUDGET
AND RELATED PROPERTY TAX MILLAGE RATES
FOR FISCAL YEAR 2013

Whereas, City Council has reviewed the City Administrator's proposed budget for FY 2013 for the City of Ann Arbor; and

Whereas, A public hearing and various public meetings have been held to obtain citizen input on the proposed budget; and

Whereas, City Council, with the adoption of the FY2009 budget, Council directed staff to implement a five-year plan that provides supplemental funding from the General Fund fund balance to subsidize the golf courses in Fund 0047 while significant operational and capital investments are made to improve operations;

Whereas, Housing Commission has requested additional funding for FY 2012 and 2013 in the amount of \$154,000 for hiring additional staff to develop and implement a property maintenance program;

Whereas, The High Speed Intercity Rail project (in funds 00CP and 00MG) anticipates receipt of up to \$307,781 by June 30, 2012 but may conclude the fiscal year with a fund deficit if the funds are not received, and the City has included sufficient funding in the FY2013 budget to remedy the deficit should it materialize;

RESOLVED, That if the High Speed Intercity Rail project ends fiscal year 2012 with a deficit, the City's approved deficit elimination plan (under MCL 141.921) would be the transfer of up to \$307,781 from the General Fund as provided for in the FY2013 budget;

RESOLVED, That Council adopts the General Fund Allocations as listed in the FY 2013 Consolidated Plan, to be funded out of the Community Development Budget;

RESOLVED, That the unexpended grant entitlement for the Community Development Block Grant and the HOME Funds be re-appropriated at the end of the fiscal year until such time as all grant funds have been expended;

RESOLVED, That any Community Development Program Income be appropriated upon receipt of the funds for the purpose of Community Development Project Activities;

RESOLVED, That any contributions to the Special Assistance Fund and the Housing Trust fund in excess of the budgeted amount, shall be appropriated at the time of receipt and for the purpose of the Ann Arbor Assistance Fund and the Housing Trust Fund, respectively;

RESOLVED, That the proposed list of Capital Improvement projects in the amount of \$347,033,962 are approved; and that \$103,797,909 be appropriated in FY 2013 for these or similar projects, within the respective funds, as determined by the Service Area, and may be carried forward without regard to fiscal year;

RESOLVED, That Art in Public Places Fund budget be appropriated without regard to fiscal year;

RESOLVED, That the Technology Improvement projects in the amount of \$870,000 be appropriated without regard to fiscal year;

RESOLVED, That a total 685 full-time equivalent positions be adopted in the FY 2013 budget;

RESOLVED, That the City Administrator be authorized to transfer funds between service units within the designated service areas within the same fund;

RESOLVED, That any funds contributed to the Parks Memorials and Contributions fund in excess of the budgeted amount shall be appropriated at the time of receipt for the purpose of that fund without regard to fiscal year;

RESOLVED, That the City Council approve the proposed FY 2013 Ann Arbor-Ypsilanti SmartZone LDFA budget, as a component unit of the City of Ann Arbor in Fiscal Year 2013 in a dedicated Fund containing \$1,658,749 in revenues and \$1,658,749 in expenditures;

RESOLVED, That the City Council continue one more year of providing a General fund subsidy to the Golf Courses in FY2013 to fulfill the original five year commitment discussed in 2009;

RESOLVED, That the City Council include the additional Housing Commission funding in the amount of \$154,000 for FY2013 with the expectation that the Housing Commission will procure separate funding by FY2014;

RESOLVED, That the following appropriations constitute the General Fund budget for FY 2013;

REVENUES

CITY ATTORNEY	\$ 150,000
CITY ADMINISTRATOR	
Clerk Services	176,900
COMMUNITY SERVICES	
Planning & Development Services	1,125,950
Planning	198,250
Office of Community Development	220,471
Parks and Recreation Services	2,471,912
FINANCIAL SERVICES	
Financial and Budget Planning	14,639,918
Treasury	40,448,611
PUBLIC SERVICES	
Field Operations	388,449
Customer Service	60,000
Water Treatment	325,000
SAFETY SERVICES	
Police	3,542,776
Fire	743,976
DISTRICT COURT	2,218,978
NON-DEPARTMENTAL	12,481,921
TOTAL GENERAL FUND REVENUES	\$79,193,112

EXPENDITURES

MAYOR AND CITY COUNCIL	\$375,710
CITY ATTORNEY	1,884,968
CITY ADMINISTRATOR	
City Administrator	477,240
Human Resources	1,345,748
Clerk Services	1,027,813
COMMUNITY SERVICES	
Planning & Development Services	1,433,737
Planning	948,556
Office of Community Development	1,785,341
Parks and Recreation	3,637,332
FINANCIAL SERVICES	
Accounting	770,270
Assessor	975,512
Financial and Budget Planning	869,924
Procurement	122,954
Treasury	614,519
PUBLIC SERVICES	
Customer Services	249,305
Field Operations	4,190,801
Fleet & Facilities	1,728,846
Public Services Administration	104,490
Systems Planning	105,773
Water Treatment Services	179,312
SAFETY SERVICES	
Police	24,551,485
Fire	13,913,103
DISTRICT COURT	3,992,372
NON-DEPARTMENTAL	13,584,639
TOTAL GENERAL FUND EXPENDITURES	\$78,869,750

RESOLVED, That the following other funds revenue and expenditure appropriations are adopted for FY 2013 budget; and

REVENUES

Fund #	Fund Name	Amount
0001	DDA/HOUSING FUND	802,000
0002	ENERGY PROJECTS	202,286
0003	DOWNTOWN DEVELOPMENT AUTHORITY SMART ZONE LOCAL DEVELOPMENT FINANCING	4,614,727
0009	AUTHORITY	1,658,749
0010	GENERAL	79,193,112
0011	CENTRAL STORES	1,572,902
0012	FLEET SERVICES	7,244,905
0014	INFORMATION TECHNOLOGY	6,597,508
0016	COMMUNITY TELEVISION NETWORK	1,805,068
0021	MAJOR STREET	6,801,850
0022	LOCAL STREET	1,726,877
0023	COURT FACILITIES	225,000
0024	OPEN SPACE & PARKLAND PRESERVATION	2,305,023
0025	BANDEMER PROPERTY	4,258
0026	CONSTRUCTION CODE FUND	2,512,228
0027	DRUG ENFORCEMENT	146,000
0028	FEDERAL EQUITABLE SHARING	151,000
0033	DDA PARKING MAINTENANCE	2,026,350
0034	PARKS MEMORIALS & CONTRIBUTIONS	39,776
0035	GENERAL DEBT SERVICE	9,027,018
0036	METRO EXPANSION	347,993
0038	ANN ARBOR ASSISTANCE	8,000
0042	WATER SUPPLY SYSTEM	23,892,574
0043	SEWAGE DISPOSAL SYSTEM	22,769,671
0046	MARKET	179,035
0047	GOLF ENTERPRISE	1,590,714
0048	AIRPORT	849,595
0049	PROJECT MANAGEMENT	4,247,060
0052	VEBA TRUST	2,110,818
0053	POLICE AND FIRE RELIEF	10,000
0054	CEMETERY PERPETUAL CARE	1,200
0055	ELIZABETH R DEAN TRUST	79,817
0056	ART IN PUBLIC PLACES	333,549
0057	RISK FUND	27,819,736
0058	WHEELER CENTER	515,391
0059	EMPLOYEES RETIREMENT SYSTEM	44,432,212
0060	GENERAL DEBT /SPECIAL ASSESSMENTS	182,893
0061	ALTERNATIVE TRANSPORTATION	448,265

0062	STREET RECONSTRUCTION MILLAGE	16,298,302
0063	DDA PARKING SYSTEM	18,108,214
0064	MICHIGAN JUSTICE TRAINING	71,000
0069	STORMWATER SEWER SYSTEM	5,999,435
0070	AFFORDABLE HOUSING	46,641
0071	PARK MAINTENANCE & CAPITAL IMPROVEMENTS	5,482,430
0072	SOLID WASTE FUND	13,909,549
0073	LOCAL FORFEITURE	300
0082	STORMWATER BOND	3,345,000
0083	SENIOR CENTER ENDOWMENT	37,500
0088	SEWER BOND	75,645,000
0089	WATER BOND	7,174,000
00CP	GENERAL CAPITAL FUND	264,472
00MG	MAJOR GRANT PROGRAMS FUND	43,309
		<u><u>\$404,900,312</u></u>

EXPENDITURES

Fund #	Fund Name	Amount
0001	DDA/HOUSING FUND	802,000
0002	ENERGY PROJECTS	202,286
0003	DOWNTOWN DEVELOPMENT AUTHORITY SMART ZONE LOCAL DEVELOPMENT FINANCING	4,614,727
0009	AUTHORITY	1,658,749
0010	GENERAL	78,869,750
0011	CENTRAL STORES	1,572,902
0012	FLEET SERVICES	7,244,905
0014	INFORMATION TECHNOLOGY	6,597,508
0016	COMMUNITY TELEVISION NETWORK	1,805,068
0021	MAJOR STREET	6,801,850
0022	LOCAL STREET	1,726,877
0023	COURT FACILITIES	225,000
0024	OPEN SPACE & PARKLAND PRESERVATION	2,305,023
0025	BANDEMER PROPERTY	4,258
0026	CONSTRUCTION CODE FUND	2,371,572
0027	DRUG ENFORCEMENT	146,000
0028	FEDERAL EQUITABLE SHARING	151,000
0033	DDA PARKING MAINTENANCE	2,026,350
0034	PARKS MEMORIALS & CONTRIBUTIONS	34,298
0035	GENERAL DEBT SERVICE	9,027,018
0036	METRO EXPANSION	347,993
0038	ANN ARBOR ASSISTANCE	8,000
0042	WATER SUPPLY SYSTEM	20,031,646
0043	SEWAGE DISPOSAL SYSTEM	19,423,975
0046	MARKET	179,035
0047	GOLF ENTERPRISE	1,590,714
0048	AIRPORT	795,594
0049	PROJECT MANAGEMENT	4,247,060
0052	VEBA TRUST	423,158
0055	ELIZABETH R DEAN TRUST	79,817
0056	ART IN PUBLIC PLACES	320,837
0057	RISK FUND	27,819,736
0058	WHEELER CENTER	515,391
0059	EMPLOYEES RETIREMENT SYSTEM	32,758,275
0060	GENERAL DEBT/SPECIAL ASSESSMENTS	182,893
0061	ALTERNATIVE TRANSPORTATION	448,265
0062	STREET RECONSTRUCTION MILLAGE	16,298,302
0063	DDA PARKING SYSTEM	17,158,615
0064	MICHIGAN JUSTICE TRAINING	70,000
0069	STORMWATER SEWER SYSTEM	5,940,877
0070	AFFORDABLE HOUSING	46,641
0071	PARK MAINTENANCE & CAPITAL IMPROVEMENTS	5,461,220

0072	SOLID WASTE FUND	13,592,309
0073	LOCAL FORFEITURE	300
0082	STORMWATER BOND	3,345,000
0083	SENIOR CENTER ENDOWMENT	37,500
0088	SEWER BOND	75,645,000
0089	WATER BOND	7,174,000
00MG	MAJOR GRANT PROGRAMS FUND	43,309
		<u>\$382,172,603</u>

RESOLVED, That the following millages shall be levied for the City of Ann Arbor for FY 2013:

	PROPOSED
GENERAL OPERATING	6.1682
EMPLOYEE BENEFITS	2.0560
REFUSE COLLECTION	2.4670
AATA	2.0560
STREET RECONSTRUCTION	2.1250
PARKS MAINTENANCE & CAPITAL IMPROVEMENTS	1.0969
OPEN SPACE & PARKLAND PRESERVATION	0.4779
DEBT SERVICE	0.1250
TOTAL	<u>16.5720</u>