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Sent: Tuesday, December 02, 2008 3:50 PM
To: *All Employees
Subject: Your Ideas Are Needed

City of Ann Arbor

FY 2010 & 2011 FISCAL PLAN

Introduction

The City has had a good year in FY 2009 thus far. Very few budget cuts were needed due to the actions taken in FY 2008. Now is the time for us to begin our planning for the next two year budget and we need your help. Once again, we need to come up with ways to reduce our spending while keeping our focus on our primary mission, service to the Ann Arbor community. Historically staff has done a great job in coming up with creative and innovative ways to balance expenditures. During the next several weeks, we need to identify ways to cut 15% over two years, without materially reducing services.

Why 15%? Much of the answer to the question "WHY?" is addressed below. While our actual budget reduction over two years from July 2009 to June 2011 will probably be less than 15%, it has become quite clear that across the board cuts of any fixed amount do not work well. We are asking for your help in identifying what a 15% reduction in each work unit would look like so that as we work with Council in January and February we can all fully understand the service impacts. This will assist us in making the best decisions as staff puts together a formal, two-year budget proposal for Council that includes an average 10% reduction.

The following is provided to help you understand the context we see that drives our presumptions for the next two fiscal years:

Background

- We've all read about the economic challenges both locally and nationally. Ann Arbor has been fortunate to be impacted less than many other areas due to a relatively stable housing market and above average commercial market.
- Pfizer's surprise announcement to appeal their local taxes is anticipated to reduce the City's property tax revenues.
- At this time, it appears residential housing prices in the City will decline by approximately 7% for 2010 & 2011 and there are early signs of a slowdown in local commercial development.
- Significant work has been done to contain the City's increasing costs but the difficult economic environment will require continued diligence.
- The upheaval in the stock and bond markets has reduced the City's pension and retiree health care trusts. Without a significant improvement in the financial markets, the City will likely be required to contribute significantly more money for these benefits.
- As the City starts preparing its budget, staff estimates the future costs to maintain the

same level of services that we now have in FY 2009 through FY 2010 and FY 2011 by adjusting FY 2009 for expected inflation. This methodology projects a deficit of approximately 10% for the two year period.

- Ann Arbor City Council has considered Police and Fire services to be core activities within the General Fund and has been reluctant to reduce them at the same rate as other activities. Other General Fund activities have been more severely impacted by reductions. As we work toward understanding the priorities of our community and Council in this budgeting cycle, some General Fund areas may be required to achieve greater efficiencies or reduce more than others.
- City services funded outside the General Fund are also included in this effort to identify the impacts of a 15% expenditure reduction. We anticipate higher revenues in any form (tax levies, utility rates, investment income, etc.) will be very difficult to achieve in this economic environment.
- As of June 2008, the City's General Fund had a healthy 20% fund balance (as a % of expenditures). The City utilizes its fund balance to pay for significant one-time expenditures and infrastructure (i.e. buildings, new technology, etc.) for the General Fund. If we did not have this fund balance, major, one-time expenditures would have to be addressed in the annual operating budget and could create significant spikes in expenses that would have to be offset by additional reductions in spending for services.
- You may recall the City created a plan to fund the new Court/PD building with a combination of cash and financing. Bonds to finance the project were issued in July. Funds to pay the bonds off will come from the existing budget where the City is now paying for lease space in privately-owned buildings. By discontinuing these leases the City also avoids future lease cost increases.
- Having the funds in place for this project allows the City to continue with its construction plans, providing critically needed space for the 15th District Court and Police Services. While the economic news is bad in many ways, it is good for the project as construction materials and other costs have declined dramatically. As an additional good note, the project will help employ hundreds of workers during its construction, which may help the community's economy.

Action

- During December, staff is asked to work within their Service Area to explore ideas that can make a 15% reduction in spending during a two year period.
- If you have ideas/suggestions over the course of the next month we want to hear them. There are several ways employees can offer suggestions:
 - During the next few weeks, you will be learning about small group discussions to share information and hear ideas from staff throughout the organization. Please offer ideas during these discussions so your ideas can be brought forward and considered.
 - If you have ideas sometime after the discussion session, the City's intranet (a2central) has a message board which enables you to post an idea for consideration. The link is:
<http://a2central/Lists/Budget%20Discussion%20FY2010%20%202011/AllItems.aspx>
 - If you have an idea that you would prefer to offer anonymously, you may send the idea in interoffice mail to Sandi Bird in the Finance Office on the 5th floor of City Hall.
- On January 10 the staff will discuss the City's financial projections with the new Council at an off-site meeting. At this meeting we plan to describe the City's financial outlook and confirm Council's priorities as we develop a recommended budget for their consideration.
- As a reminder, this is the year we develop a 2-year fiscal plan so most of the numbers you hear will refer to the challenges over that two year timeframe. We're working to have

a recommended FY 2010 budget (as part one of the two-year plan) to Council by April 15th and to have Council approval of two year fiscal plan and the FY 2010 budget by the 2nd meeting in May.

- Between January and April there will likely be a number of opportunities for public discussion about the budget which will assist us communicating our budget challenges and choices while assuring that we hear and understand community priorities.
- Employees who do the work are the experts on how to best provide the services the community needs. Your support and ideas are crucial to developing a budget recommendation which can achieve the optimum level of community services while addressing the most important organizational needs as well.

Thank you for your help!

Roger Fraser