



Office of City Administrator

April 21, 2014

To Mayor Hieftje and Members of City Council:

I am pleased to submit the City of Ann Arbor's Fiscal Year 2015 Recommended Budget. The recommended budget adjusts the two-year fiscal plan for the latest anticipated revenue receipts and includes expenditure strategies to establish an operating fiscal plan that is balanced. Balanced is defined as a plan that supports a sustainable delivery of services within the projected revenues. Recurring expenditure increases are offset by efficiencies, operational improvements, or revenue increases. A use of fund balance is recommended for non-recurring items.

City Council Priority Areas

Community Livability and Quality of Life

As directed by City Council, development of zoning text amendments in the D1 and D2 districts to minimize impact on residentially zoned neighborhoods adjacent to downtown is included in the budget. Separately, the budget includes an inventory of existing signs and amendments to Chapter 61 of the City Code. The FY 15 Recommended Budget includes \$100,000 for contractual services to complete these two initiatives.

Affordable housing

A subsidy of \$209,000 from the General Fund is allocated to meet Ann Arbor Housing Commission's operational needs. Zoning text amendments for D1 and D2 districts planned in the budget will also include changes that promote affordable housing.

Public Safety

A rental housing inspector has been included in the budget to comply with the requirements of the City's Housing Code to protect health, safety and welfare of the residents. The need for an additional position is partly due to the addition of units in recently completed high rise buildings.

Included in the recommended budget are three additional police officers. The positions will allow the police department to deploy additional personnel to focus on proactive policing and community engagement without impacting core services of patrol response and follow-up investigations. Two of the three new positions will be assigned to the Community Engagement Unit.

Some examples of proactive duties performed by these officers:

- Downtown Foot/Bicycle Patrols
- Foot/Bicycle Patrols in other business districts outside of the downtown area
- Neighborhood Meetings and presentations
- Community events
- Liaison with Ann Arbor Public Schools
- Liaison with other youth programs

Additional dedicated traffic enforcement has also been identified as a priority by City Council. An enhanced focus on traffic safety will be a part of proactive policing. The third position will be assigned to the traffic unit as an additional enforcement officer.

The recommended budget includes one additional firefighter position. The position will increase staff deployment. In 2012, the City was awarded a federal SAFER Grant for three additional firefighter positions. The grant ends this August, and the recommended budget proposal for FY 15 includes \$250,000 to maintain these three positions.

Economic Health

Implementation of recommendations from the MEDC Redevelopment Ready Audit is also planned in this budget. This implementation is envisioned to remove barriers to desirable development by providing clear, fair and consistent development review process.

Infrastructure

The FY2015 recommended budget includes a transfer of \$1 million from the unassigned General Fund balance to the Stormwater fund to pay for the deferred maintenance on the City's trees along the street right-of-way. In previous years, these street trees were the financial responsibility of the General Fund. In fiscal year 2012, the maintenance responsibility for the trees was transferred to the Stormwater Fund without funding necessary for significant deferred maintenance. The recommended transfer of \$1 million from the General Fund is a significant investment toward catching up on the deferred need, as documented in the draft Urban and Community Forest Management Plan.

The non-recurring \$1 million would be used for tree removals, stump removals, and tree pruning. The backlog of priority tree removals would be eliminated. The additional funding would also support the pruning of trees with large dead, broken, hanging or diseased limbs and eliminate the backlog for this maintenance category.

Activity	Number of Trees	Average Cost per Tree (Estimate)	Total Cost
Tree Removals- Priority 1 & 2 removals (Backlog) and trees greater than 12" diameter on the Priority 3 removal list.	735	\$602	\$442,470
Stump Removals-- for tree removals listed above	735	\$210	\$154,350
Tree Pruning – highest priority trees in need of immediate pruning on Priority 1 pruning list.	1000	\$400	\$400,000
TOTAL			\$996,820

These tree maintenance activities may extend beyond the FY2015 timeframe, and should be established for multi-year funding until expended. Once expended, recurring revenues from the Stormwater fund will be used to maintain the tree inventory.

Budget and Fiscal Discipline

Fundamental to a fiscally responsible budget is balancing the amount of recurring revenues with recurring expenditures. This budget continues to meet this standard. Additional positions are funded by recurring revenues, based on conservative fiscal estimates. One-time investments, such as the \$1 million for deferred maintenance of the city's tree inventory, are funded by use of fund balance. Some one-time expenditures for the General Fund, including planned capital improvements and contributions for affordable housing are funded by available fund balance. The General Fund balance is projected to be 12% of expenditures at the end of FY 2015. While below a staff preferred 15% - 18% level, the fund balance is within the 8%-12% City Council policy minimum and is reasonable given the improving economic and fiscal condition of the city and state.

GASB

A significant change incorporated in the FY2015 recommended budget is the implementation of Government Accounting Standards Board (GASB) 68, **Accounting and Financial Reporting for Pensions**.

Recommended implementation includes:

- Move the Farmers' Market into the General Fund.
- Move the employees of the following into the General Fund and lease them back to the individual funds:
 - Ann Arbor Housing Commission
 - Airport
 - Internal Service funds (IT, Fleet, Risk, etc.)
- Four major enterprise funds would incorporate their proportionate share of the unfunded liability starting FY2015.
 - Water
 - Sewer
 - Storm water
 - Solid Waste
- The City's government-wide statements would incorporate the full value of the unfunded liability as defined by GASB #68.

Movement of employees will increase the General Fund, but this increase is fully offset by contributions from other funds to pay for the services of the employees. Consequently, the budget pages for internal service funds will show the correct total expenditures for each internal service fund and will list a General Fund expenditure for the personnel costs related to each internal service fund.

FINANCIAL CONDITIONS

The General Fund relies heavily on property taxes to pay for services like Police, Fire, District Court and Parks & Recreation. Property tax receipts are expected to increase approximately 2.4% in FY 2015. State law 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 increase, communities are limited to the lower of 5% or the rate of inflation.

The other major source of revenue in the General Fund is state shared revenues. State shared revenue has two components – constitutional and Economic Vitality Incentive Program (EVIP) appropriated annually by the legislature. The recommended budget includes \$10.2 million for constitutional and EVIP funds.

The costs for retiree health care are projected to increase with General Fund revenues and consistent with Council policy. The cost to fund the City's pension system is projected to increase approximately 10% reflecting the last year of phasing-in the losses resulting from the 2008/2009 financial downturn.

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 FY 2001 to a proposed 720 FTEs in FY 2015.

FY 2015 Modifications

The FY2015 recommended budget reflects a continuation of services planned in the FY2014 two-year fiscal plan with some modifications as described below.

Selected fees changes are being implemented, but the budget does not assume an increase in property tax rates. Expenditure levels will deliver the same services in FY 2015 as those delivered in FY 2014. Significant changes from the General Fund activities in FY 2014 are listed below:

(- is an increase in net expenditures + is a decrease in net expenditures)

Community Services

- Incorporate the Market operations into the General Fund (net -\$29k)
- Rental Housing – addition of an FTE (full time equivalent) and related revenues (+\$33k)
- Parks – Program changes at Mack Pool and Argo Livery (net \$0k)
- Housing Commission – provide non-recurring operating support for RAD conversion (-\$209k)
- Planning – utilize consultants for sign inventory and downtown zoning (-\$100k)

Public Services

- Public Art – provide transitional funding for Public Art Administration (-\$80k)
- Facilities - Facility repairs and renovations (-\$100k)

Safety Services

- Police – Add three FTEs (-\$287k)
- Fire – Add one FTE (-\$93k)

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- Community Events – Increase funding levels per City Council resolution (-\$10k)

Non-Departmental

- VEBA Contribution – supplemental funding to meet City Council funding policy (-\$84k)
- Street Tree Maintenance – one-time supplemental funding to address deferred maintenance on street trees (-\$1,000k)

Significant adjustments for other major funds include:

Information Technology – increase expenditures to recognize transfer of fiber network from Streets to IT (-\$80k)

Major Streets – Increase street surface treatment program (+\$80k)

Numeric Summary

General Fund Expenditures 2015

Recurring Items:

Mayor & Council	\$ 390,259
City Attorney	1,982,510
City Administration - Administrator, Clerk, Human Resources	3,614,769
Planning & Development	1,461,311
Planning	1,005,576
Community Development	3,721,488
Parks & Recreation	5,571,345
Finance	7,293,373
Public Services: Field Operations	5,701,292
Public Services: Public Services All Other	6,892,892
Fire	14,652,903
Police	25,173,472
Fifteenth District Court	4,611,816
AAATA	9,797,711
Debt Service/Transfers/Other	3,411,961
<i>Subtotal Recurring Expenditures</i>	<u>\$ 95,282,678</u>

Non-recurring Expenditures:

Planning Consultants for Zoning and Signs	100,000
Financial Services (succession plan/process improvements)	55,000
Art Administration Transition Costs	80,000
Hydropower (regulatory and capital improvements)	606,000
Facilities (capital projects)	178,000
Demolition of 415 W. Washington	300,000
Corridor Studies (State St. & Ellsworth Rd.)	200,000
RAD Assistance to the AAHC	209,000
Public Services (traffic calming)	60,000
Street Trees	1,000,000
Police & Fire hiring costs	53,528
<i>Subtotal Non-Recurring Expenditures</i>	<u>\$ 2,841,528</u>
Total General Fund Expenditures	\$ 98,124,206

General Fund Revenues

Taxes	\$ 51,997,444
State-shared Revenue	10,163,934
Charges for Services	6,133,054
Fines & Forfeitures	4,275,400
Transfers from other funds/AAHC for personnel	11,199,502
Other	11,513,344
Use of Fund Balance	<u>2,841,528</u>
Total General Fund Revenues	\$ 98,124,206

Memo: Unassigned Fund Balance as of 06/30/2013 \$ 14,392,854

City employees and City Council over the past decade have built a solid financial foundation. This foundation has been essential to the City providing the award-winning services expected by Ann Arbor's taxpayers, residents, and businesses. The fiscal year 2015 recommended budget builds upon the foundation. I thank all the members of the staff for their hard work in preparation of this budget. I thank City Council for their time and thoughtful consideration of the budget.

Respectfully yours,

A handwritten signature in cursive script that reads "Steven D. Powers". The signature is written in black ink and is positioned above the printed name and title.

Steven D. Powers
City Administrator