



In the eye of the storm – Part One

The City needs to make some significant budget decisions during the next few months. The income from taxes, state shared revenue, and other sources dropped in 2009 — and will drop more in 2011 and 2012. We cannot keep making incremental changes, crossing our fingers, and hoping things will improve. Instead, we have to make some systemic changes. Right now, the discussion at Council and in the media hasn't helped us understand what those changes should be. Too much of our time has been spent thinking inside the box. For various reasons, over half of the Big Ideas the City Council has been considering have been focused on Parks and Recreation. The City budget is expected to be \$5.8 million less in FY2011 than in FY2010, and the Chief Financial Officer for the City anticipates that revenues in FY2012 will drop even further. The Council cannot address these drastic budget shortfalls by looking only at changing the level of services the City provides. The City cannot reduce staff levels much further. The budget won't be resolved by redirecting our attention in just one or two areas.

Where are we and how did we get here?

Budget Inflexibility

The budget for the City is set each year by the City Administrator, who anticipates revenues and then devises a budget that matches the revenues. Ann Arbor's budget must balance. The last few years, as Michigan has become more affected by the worsening depression, Ann Arbor has confronted a loss of revenue into its millage funds and its general fund.

Chart 1: Revenues 2006 - 2011 (as budgeted and projected).

Chart 1: Revenues	
General Fund	Revenues
2006	\$76,965,738
2007	\$89,214,660
2008	\$81,806,203
2009	\$86,169,851
2010	\$81,947,487
2011 (estimate)	\$76,147,147

The figures are from the City's 2005 through 2010 Budgets plus 2010 — 2011 budget planning documents provided to Council.

The real problems facing our budget are caused by lack of fiscal flexibility.

The national financial situation — call it a depression or economic slowdown — was predicted for many years. But no one anticipated how bad it would be, or how long the recovery would take. Four years ago, most financial projections indicated that something would happen, but not that the bottom would drop out of the stock market and the housing bubble would burst at the same time. Michigan is suffering worse than most other states; Ann Arbor is feeling the same pain as the rest of the state.

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But that alone isn't causing our problems with the budget.

The City began building a healthy reserve (undesignated fund balance) after 2002. At the end of 2007, the City had reserves (undesignated fund balance) of **\$15,453,101**. Through 2008, the reserves held steady. They even increased a little, to **\$16,251,769**. In 2009, when the City agreed to the early retirement package for some members of the police department, the Council was assured that there remained sufficient flexibility in the budget to withstand the anticipated number of police who would accept the offer. More police officers retired than expected. In addition, the City had some unusual (and unanticipated) one-time expenses: the City purchased Tios property (\$617,161) and paid to demolish the Michigan Inn (\$215,058).

In 2008, the City borrowed \$27.6 million by selling bonds to build a new addition to our existing City Hall — the Courts/Police facility. The City also used as downpayment \$4.9 million from monies it had put (from General Fund savings) in a special Municipal Center Fund. In order to pay back the bond, the City relied on several funding sources: rent that would no longer be paid for court space to the County, rent that would no longer be paid for office space to private property owners, and fees that had been coming to the General Fund for cell tower usage. In addition, the City expected to receive \$3 million from the sale of property at First and Washington. That sale has not yet occurred.

In addition to the bonds for the Courts/Police building, the City pays \$70,000 per year out of the General Fund in interest for the purchase of the old 'Y' lot. The income from the parking lot on this site **does not go toward paying back the mortgage**. The mortgage (a balloon-style) is due in 2012 — and the City hasn't been putting money aside to pay it off.

In 2006 the City transferred \$2.1 million from the General Fund into the Economic Development Fund. According to the Chief Financial Officer of the City, "[w]hen the incentive expires in December 2010, the remaining funds will remain in the Economic Development fund unless Council approves a transfer to do otherwise. The Economic Development fund was established to fund any kind of economic development activity. It was not limited to the Google incentive." These funds, intended to provide inexpensive parking so Google would locate in downtown Ann Arbor, were not all used for that purpose.

The reserves had dropped to **\$10,674,271** at the end of 2009. With the salary reductions accepted by the Fire Department and other cuts, the Chief Financial Officer estimates that the reserves will hold steady through this fiscal year. However, revenue from taxes, fees and other sources, including the State of Michigan, have been steadily dropping. Ann Arbor doesn't have 5 or 6 million dollars in reserves for each of the next 5 years to help cushion this recession. Clearly, something has to change.

Chart 2: Undesignated Fund Balance 2006 - 2011 (as audited and projected).

Chart 2: Undesignated Fund Balance	
General Fund	Undesignated Fund Balance as of June 30
2005	\$9,634,385
2006	\$11,832,621
2007	\$15,473,010
2008	\$16,251,736
2009	\$10,674,271
2010 (estimate)	\$10,674,271

The figures are from the City's 2005 through 2009 Comprehensive Annual Financial Reports plus 2010 — 2011 budget planning documents provided to Council.

Paying for the Courts/Police facility

Annual debt payments for the \$27.6 bond issue that helps pay for the Courts/Police facility are set at \$1.86 million for 30 years, about \$735,496 of which is being covered by discontinued leases. The Downtown Development Authority agreed to take on \$520,000 of the remaining cost, while \$374,180 is coming from revenue from cell tower usage and \$225,000 from court tickets.

The utilities along for the new building will cost an estimated \$130,000 the first year, a figure that jumps to \$275,000 the first full year of operation. Estimates for furnishing the building are not available.

Making decisions

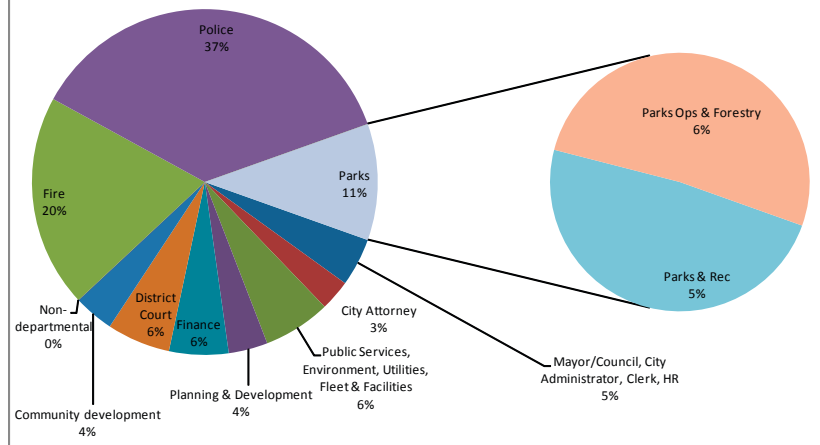
So we have no more budget flexibility. Now, Council needs to lead by looking at each type of expenditure, and thinking about what we can manage to reduce or do without.

Parks and public land

The staff have proposed several options for changing the way the City manages and supports its public land.

One option involves removing public land from public support, either through selling land (which would require a public vote) or through leasing it to a private partner. Maintenance would then be provided and paid for by someone other than the City — and your tax dollars. According to the City Administrator, any desire the City has to sell (or lease) public land is not to benefit from the dollars involved, but to benefit from not having to support the cost of maintaining the land itself.

Another option would be to significantly reduce maintenance of parks and to shift the cost of maintenance from General Fund dollars to other funds. While some staff seemed almost eager to consider removing public lands from City responsibility, other staff cautioned that failure to maintain parks would create a very negative impression that would be harmful to the City and create problems for the many people who use and enjoy parks.



Salaries and staffing

Over the last decade, the City has reduced its staff by about 25%. To do that it has tried various strategies, including not filling vacant positions, using independent contractors, restructuring the organization, and offering early retirement to police officers. That last strategy required a one-time payment from the general fund of \$4,829,373. This payout had a major effect on the 'undesignated fund balance' — our reserves — and on our ability to adjust to fluctuating revenues. The organization isn't as flexible as it used to be, and cannot absorb many more severe staff reductions.

The City staff has several unions; most of the time, everyone agrees that this is a good thing. The City and the unions must find real ways to agree to less money in their contracts — whether that means fewer people or lower salaries.

Doing more with less has been the City's catch phrase for the past few years. Some members of the Council and staff will tell you that the staff was too big, too top-heavy, and completely inefficient in 2000, when the last reorganization of the City began. Any savings realized from that reorganization have been used to pay for one project after another, and to fill the revenue gaps left from a falling economy. The City no longer has the luxury of just reducing the number of staff to do the work; now it seriously needs to tackle the salary structure and benefits package. At the same time, there are still ways to reorganize the staffing to make it leaner and more efficient. During the next year, this reorganization must be a priority in order to be ready for growth in the future.

Services and fees

Staff costs money - but so do the services they provide. The City can reduce the type and quality of services we offer, we can raise fees to cover the cost of offering those services, or we can do both. Cut the services too far, and everyone notices that work isn't getting done. Raise the fees too high and people complain that they cannot afford to come to Ann Arbor for recreation, a building permit, or to deliver supplies.

Last year the staff recommended a number of fee increases, such as putting parking meters in neighborhoods. This year, the recommendations include eliminating holiday tree pick-up and having us all bag our leaves. These two items would save the City \$7,500 and \$16,200 respectively. It will take a lot of these tiny changes to help the City weather the anticipated loss of \$5.8 million in revenues.

Human services

Small amounts do make a big difference when it comes to supporting human services. A \$2,000 grant can keep a program going that provides a daily meal for the elderly. \$2,500 provides funds to a clinic, so newborns get their inoculations. \$4,000 helps sustain a program that teaches budgeting skills and prevents evictions. The total amount the City plans to spend on human services from General Funds in FY2010 is \$260,000. The funding and management for human services is handled jointly with the County. Money spent on human services is frequently money the City and County don't have to spend on police and medical services.

The 15th District Court

Salaries for judges are set by the State. However, the rest of the Court's budget is the responsibility of the City. This year the Court is planning a move into the new Courts/Police building. The services offered still need to be assessed and the budget significantly reduced.

Capital improvements

Most of the money used for capital improvements — whether street rebuilding or building the new underground parking structure — doesn't come from the General Fund. The money comes from dedicated millages, state and federal dollars, and, when necessary or advisable, from bonds. But paying the money back for those bonds can affect the liquid assets in the General Fund or in other funds.

Capital improvements include new sewers, refurbished playgrounds, and repainting bridges. Capital improvements involve neighborhood street resurfacing, improving drainage in parks and — yes — rebuilding the Stadium bridges. But is it a good idea to try to build **more new infrastructure** in the face of this severe depression? Most of us understand that the City cannot build its way out of this depression, any more that it can borrow itself out of debt. Some improvements to our infrastructure are necessary and desirable. Others can be delayed or eliminated. It's Council's responsibility to determine which.

My proposals

Eliminating services without sufficient understanding of the implications creates an undisciplined budget. The City needs a clear organizational plan, coupled with guidance on priorities, benefits and impacts. The impacts of the decisions must extend beyond just the financial impacts to each division; the City Administrator and the Council need to comprehend the impacts their decisions have on the way the City serves its citizens.

City staff were told to develop budgets based on an overall 7.5% reduction on top of the 3.5% reduction already planned for the 2011 fiscal year (this year runs from July 1, 2010 through June 30, 2011).

This 11% across-the-board budget reduction could be in staffing, programs, projects, training, or any combination of expenditures. The results could severely affect the services available to Ann Arbor residents.

But before the Council can go to the voters asking for any kind of increase, the City needs to clarify the core services that we will deliver to our citizens. We need to look seriously at which other services should be privatized or receive reduced attention while this economic downturn lasts. We need to prioritize our goals for stabilizing our workforce. We need to commit to not taking on any more public debt.

Only then we can look rationally at which type of voter-approved income generation we believe we can support. And only then should the City and the Council ask the voters to trust us with more money.

Setting and changing priorities

The first essential act is to reset the City staff salaries and benefits. The largest section of any municipal organization's flexible spending is its staffing. That the City administration understands this is clearly indicated in the past willingness to eliminate positions and not fill open positions. The organization cannot continue to reduce staff, provide full services and still pay salaries and benefits near the top of the national average.

The City would save substantially by reducing base salaries of non-union employees. This should be done on a sliding scale, with the staff making the most taking the biggest hit in percentage terms. Cuts of up to 10% for high-level staff should be seriously considered; the City could save more than \$200,000 with an appropriate sliding scale reduction. Benefits and perquisites that aren't related to health care should be eliminated or sharply curtailed for all employees for the next 5 years, but reassessed annually, along with the fiscal health of the City. Union contracts should be renegotiated along similar lines.

The City should either change the management of or develop public/private partnerships to manage those business-type activities that are not breaking even, based on a 5-year average. This includes both golf courses, and may even include the airport. Unless the Council is willing to bring these activities back into the General Fund and admit that they are core services, these activities should be cut loose for the next 5 - 10 years to be managed by those who will put the proper energy into them to make them succeed.

Parks that are used for recreation should be maintained. This includes soccer fields, swimming pools, and neighborhood playgrounds. Parks that are used as natural areas should not be maintained beyond what is needed for safety. Residents and neighbors of parks should be encouraged to accept greater responsibility for parks maintenance for a limited time. However, **parks maintenance is a core service**; a planned program to restore this service as the economy improves must be developed and implemented.

No new parks should be established that need major restoration, development, or maintenance while the City is restricting maintenance on parks. This means that the City can purchase park land in Ann Arbor, but if the City doesn't have the money to maintain parks, the park will be a natural area. **This also means that the City should not spend significant amounts of money planning for the future use of parks, including a study about removing Argo Dam, until financial stability is restored.**

For the next two years the focus of capital improvements should be to replace the Stadium bridges. Other capital improvements should be limited to those that are absolutely necessary for the health, safety and welfare of the citizens and visitors to Ann Arbor. Streets must be maintained; water, storm water and waste water systems must be maintained and improved as needed. But the City should not take on new debt to pay for construction, including **the construction of Fuller transit station or any hotel or conference center related to the top of the Library Lot.**

Core Services

The Council and the City staff have not had a discussion that would define core services. But the community has been discussing this issue for much of the past year, as budget constraints became more apparent.

The City is not a business. It isn't supposed to make a profit; it's supposed to serve the needs of the citizens. **When faced with serious financial constraints, the City must focus on core services to guarantee it meets your needs.**

Core services guarantee health, safety and welfare. When we try to define those more exactly, we look at garbage pick up, clean drinking water, waste water treatment, infrastructure maintenance (street repair and bridge repair), garbage/recyclable/compostable pickup and parks maintenance.

We also expect our money to be well managed, so we need to maintain financial services and treasury. These last must be streamlined and kept efficient.

The District Court has proposed that it can reduce its budget by \$200,000. **Its annual budget of \$4.2 million could, if cut by the standard 11%, be expected to be show a \$462,000 reduction.** The Court must find ways to trim their costs even more.

Bringing in more income

I do not support a city income tax, and will not vote to put it on the ballot. Targeting non-residents for such a tax may have some superficial appeal, but doing so sends the wrong message to these people and their employers. We should be glad that businesses locate in Ann Arbor, and that they employ people who live outside the City limits but come here daily to work, shop, eat, and enjoy our community. The income tax is a divisive tax, and should be rejected.

I do support putting a “Headlee override” on the ballot for citizen consideration — **if, and only if, the City makes a clear decision on its priorities and makes changes along the lines I have proposed above.** The Headlee Amendment to the state constitution says that property taxes may rise no faster than inflation. This provision has meant a steady decrease in Ann Arbor’s various property tax rates in recent years. However, voters may “override” this provision and allow the City to start assessing the full amount of its millages again. If the voters approve, a Headlee override would bring in an average of \$6 million additional per year for the next five years. This is not a new tax. Instead, it would mean a small increase in property taxes for those who now pay such taxes.

Organizational Change

The pressure from the Administration to limit our choices to just a few opportunities — and those mostly for revenues from increased taxes — is significant. Before the Council comes to the citizens of Ann Arbor asking for more money, we need to be confident that we know the City is providing the core services **and nothing but the core services** at the best possible cost.

Bottom line — affecting us all

Changes in the City’s budget will affect all of us. Some budget changes might affect whether the City picks up your garbage — or a private company does. Others could have you bagging your leaves or hauling your tree to the recycle center. Still others might find you and your neighbors mowing the neighborhood parks. All of those changes might save the City several hundred thousand dollars a year.

We need to save between 5 and 6 million dollars.

Council must set clear priorities, identifying and focusing on the core services for our community. Each division of the government must be prepared to trim its budget, but not at the cost of these core services and the people who perform them. Once the Council knows what these services cost, then we can begin to set other priorities and new directions for the City.

Unforeseen consequences

Last year the Council worked hard to preserve funding for a few programs in the FY2010 budget, and to find options for the FY2011 budget that would keep other programs open, such as Mack Pool and the Senior Center. The time that members of Council spent on behalf of all the community on these efforts was significant. In the end, Council approved a budget that took those efforts into consideration, and retained as many of these high-profile programs as could be managed within the constraints of the time. What Council members didn’t see until the last few weeks before they voted, and didn’t have an opportunity to explore with staff, were all the proposed additional fees that were added to the budget. These fees — about 50 pages of them — affected many in the City, but especially vendors, developers, and parks users. Over the last year, Council members have learned more about the impact of these fees and how much more we should have known before we approved them.

This year, the Council needs to focus its discussion on finding ways to reduce costs. But if we focus so much on which programs to eliminate or reduce that we fail to see either opportunities for change or to see organizational changes that we didn’t anticipate, we won’t provide the leadership Ann Arbor needs at this juncture.

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The City’s Budget

