



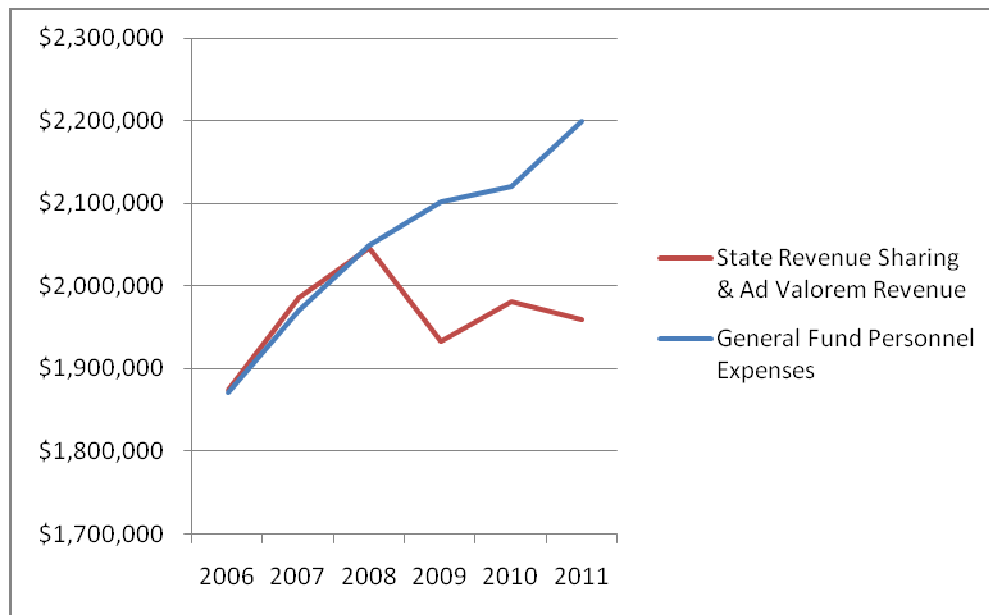
MEMORANDUM

City Manager's Office

To: City Council
From: Jered Ottenwess, City Manager
Date: August 13, 2010
Re: FY2011 Budget Message

Summary

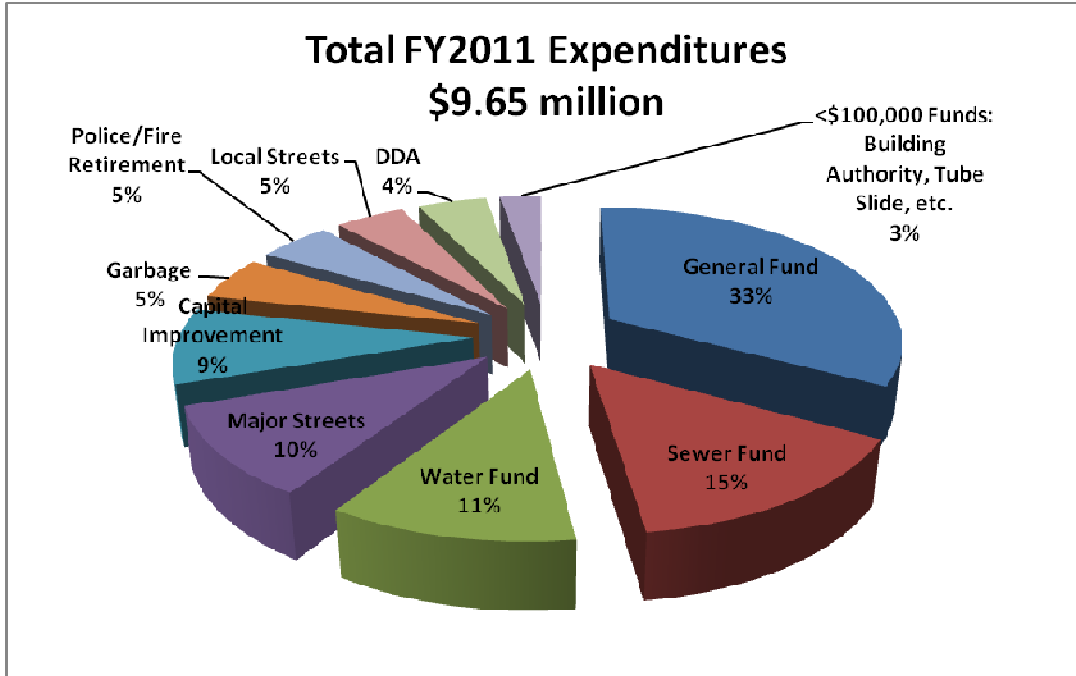
Municipal budgets throughout the country face increasing pressure that results from decreasing revenue and increasing costs. The global recession that began in 2007 has had a delayed effect on municipalities – it takes several years for real property valuation to decrease and impact local tax rolls. Decreased consumer spending results in decreased sales taxes and state revenue sharing. Proposal A and the Headlee Amendment limit the ability of municipalities to collect property taxes. Consequently, the General Fund is under intense pressure to maintain levels of service.



In addition, three primary factors lead to reduced gas and weight taxes:

1. Consumers drive lighter, more fuel efficient vehicles; and
2. Higher gas prices lead to decreased demand for gas; and
3. The state legislature has not increased gas and weight taxes since 1996.

This results in less revenue for the Major and Local Street Funds. As a result, the General Fund has subsidized a greater percentage of those funds through time via interfund transfers. A similar story has unfolded throughout Michigan and the country over the past few years: municipalities have reduced staff and services. Looking forward, the City of Ishpeming must determine the most appropriate levels of service and sustainable staffing levels commensurate with reduced revenues.



General Fund

The proposed 2011 General Fund budget is not a status quo budget. Decreases in revenue sharing, limits on property tax collection, and increasing personnel costs compel the City to become more efficient with existing staff. This includes prioritizing the repair, maintenance, and replacement of sewer and water infrastructure more than in the recent past.

Target Fund Balance: \$500,000-\$1,000,000 (60-120 days operating expenses)

Beginning Fund Balance: \$406,206

Ending Fund Balance: \$424,037

Primary Revenue Assumptions:

- ~ 4% decrease in state revenue sharing – approximately \$32,000 reduction
- ~ Maintain same millage rate as 2009 less the rubbish millage = 18.8773
- ~ Maintain similar interfund transfer structure as in recent years

	2009		2010		Revenue +/-(-)
	Millage Rate	Tax Revenue	Millage Rate	Tax Revenue	
General Fund	13.5082	\$1,165,025	13.4839	\$1,170,746	\$5,721
Police/Fire Retirement	0.9004	\$77,656	0.8988	\$78,037	\$381
Rubbish	2.7015	\$232,993	0.0000	\$0	\$1,144
Public Improvement	4.5027	\$388,399	4.4946	\$390,246	\$1,907
	21.6128	\$1,864,014	18.8773	\$1,639,029	(\$224,985)

Primary Expenditure Changes:

- ~ Partially shift Light Equipment Operator (cemetery) to Sewer and Water Funds
- ~ Partially shift Greaser position to Sewer and Water Funds
- ~ Reduce cemetery clerical position to part-time position

- ~ Partially reduce staff hours through possible retirement attrition and reduced overtime.
- ~ Reduce part-time summer positions by 50%

Implementation:

The Department of Public Works (DPW) intends to transfer responsibilities among the two clerical positions. The Cemetery Office Manager plans to retire in early 2011. The Michigan Employee Retirement System (MERS) has new rules for retire-rehire. When an employee retires, they cannot be rehired for 30 days and subsequently can work no more than 720 hours per year, the equivalent of 13.5 hours per week. The budget plans for the current Office Manager to retire and then rehire after 30 days and work the maximum allowable thereafter. The rehired Office Manager will focus solely on cemetery and parks issues. The current DPW Clerk will assume more responsibility. Some details of these changes will have to be worked out with the union moving forward.

DPW continues to utilize an increasing amount of contracted services for repair and maintenance. Therefore, the budget anticipates a reduced need for Greaser services. Instead, the Greaser will be reassigned as needed to sewer and water work. Similarly, the current Light Equipment Operator assigned to the cemetery will take on sewer and water work as needed depending on conditions and work at the cemetery. Combined with fewer part-time positions, the cemetery will face pressure to complete work with less staff services.

Regarding millage rates, I recommend that the City Council approve a motion to set the 2010 millage rate at 18.8773.

Major and Local Street Funds

The proposed FY2011 Major and Local Street Fund budgets are relatively status quo. As state revenue contributions decline, the General Fund must subsidize (transfer) funds to maintain the Street Funds. So there is a direct link between winter and routine maintenance personnel costs and the General Fund's balance.

Pine Street Phase II is the only budgeted capital improvement project. It is funded by a Small Urban Transportation Fund grant that funds \$375,000 with a \$125,000 matching requirement. \$223,000 still remains from a USDA loan from FY2009. The proposed budget includes a drawdown in FY2010 to increase the beginning fund balance in FY2011. In addition the proposed budget draws from this loan to provide the matching funds necessary for the Phase II project.

Major Street Fund

Target Fund Balance: \$0

Beginning Fund Balance: \$71,975

Ending Fund Balance: \$3,775

Local Street Fund

Target Fund Balance: \$0

Beginning Fund Balance: \$21,216

Ending Fund Balance: \$916

Primary Revenue Assumptions:

- ~ General Fund subsidy increase/continuation
- ~ Decreasing gas/weight and snow fund revenue
- ~ \$125,000 USDA loan drawdown

Primary Expenditure Changes:

- ~ Reduce winter maintenance overtime-related wages

Implementation:

The budgets will put pressure on DPW staff to closely monitor winter maintenance and adjust accordingly. I recommend reducing overtime services associated with Sunday plowing and overtime double-shifts. I intend to work closely with DPW staff to formulate strategies to accomplish this. Please keep in mind that the winter maintenance budgets are very similar to previous years, however, depending on the severity of the winter months, some modifications to standard practices may be necessary.

Garbage Fund

Perhaps no other fund will see a more significant change than Garbage. Council action thus far in FY2010 will lead to contracting for garbage collection and recycling services. Consequently, the proposed FY2011 budget will eliminate the personnel costs in the Garbage Fund associated with recycling services. The position of Recycling Attendant will be reassigned.

Please note that bids for garbage service are not available as of this writing, so revenues and fees for service are speculative.

Target Fund Balance: \$0

Beginning Fund Balance: \$383,455

Ending Fund Balance: \$383,455

Primary Revenue Assumptions:

- ~ Discontinue rubbish millage (~2.7 mills)
- ~ Switch to user fee – monthly utility bill

Primary Expenditure Changes:

- ~ Reduce personnel costs to those necessary for compost/yard waste services and monthly cleanup only

Implementation:

The proposed budget plans for personnel services to maintain the compost/yard waste function at the current recycling center site and monitor the monthly cleanup containers that will be included within the new solid waste agreement – roll-off containers will be provided on-site. The proposed budget accommodates approximately 12 hours per week of staff time at the compost site. In addition, I recommend declaring the recycling equipment surplus and selling at auction.

<\$100,000 Funds: Building Authority, Tube Slide, etc.

Al Quaal Trails

The proposed budget includes personnel services and equipment rental to improve the trails at Al Quaal. Cliffs Natural Resources donated several hundred thousand dollars specifically for this purpose when they considered expanding mining operations into the Suicide Hill/trails area. \$53,000 remains of this fund. Based on staff recommendations, the proposed budget plans to widen (at least) the Olympic Trail in order to make the trail potentially eligible to host nationally sanctioned cross country ski competitions. Additional remaining funds may be used for signage. Minor winter grooming activities will also provide a shorter, less difficult loop on the Teal Lake Trail for the average skier.

Tube Slide

The proposed budget provides sufficient personnel services at the Tube Slide to keep one rope tow open. The plan is to close the south tow, which recently has been severely underused. Even with these reduced costs and no transfer budgeted for FY2011, the Tube Slide requires General Fund subsidy to continue to operate.

Primary Revenue Assumptions:

~ \$53,000 remains dedicated for Al Quaal trail improvements

Primary Expenditure Changes:

~ Al Quaal trail improvement

Community Development

Primary Expenditure Changes:

~ Community Development increases in demolition funding from \$40,000 to \$60,000 may accommodate up to 3 demolitions

Implementation:

City staff currently paid out of the General Fund's Al Quaal department will be paid directly out of the Al Quaal Trails Fund. Keep in mind that this is a one-time revenue source (from Cliffs). In effect, this defrays the long-term, recurring expense of General Fund staff. City staff believes they will be able to widen the trails during the summer while still providing other routine services at Al Quaal.

I recommend continuing the General Fund subsidy for the Tube Slide Fund. I believe this is a well-used, valued service that is an integral part of the recreational amenities the City operates. The tube slide activity was separated from the General Fund several years ago to track and monitor its finances. This contributes to its exception as an activity that operates at a loss. Remember that it is one of the few recreational activities that continues to generate significant revenue. In addition, the City's auditor recently discussed the weakening financial viability of the Tube Slide Fund and I recommend reincorporating the fund into the General Fund – it does not seem to be self sufficient.

Downtown Development Authority (DDA) Fund

The DDA Fund will see significant changes with the proposed FY2011 budget. The proposed budget does not include an Executive Director. Instead, the budget includes payroll expenses directly for the City Manager, City Manager's Secretary, and Treasurer.

The DDA is currently in the planning and preparation stages of a bond issue. The bonding potential of the DDA could result in >\$5 million to spend on large-scale projects including infrastructure development along US41 and downtown streetscape improvements. The proposed budget does not include any new bond issue because it is speculative at this point.

The proposed budget switches to a "committee expenditure" format whereby expenditures are grouped into the activities undertaken by each committee. The committees are Finance/Economic Development, Promotions, and Beautification. The DDA has recommended continuation of existing program funding including event promotion like Festival of Treasures, parking lot improvements, and downtown beautification through contracted services.

Target Fund Balance: varies

Beginning Fund Balance: \$523,110

Ending Fund Balance: \$674,210

Primary Revenue Assumptions:

- ~ Slight decrease in tax increment financing (TIF) revenue collection with elimination of rubbish millage

Primary Expenditure Changes:

- ~ No Executive Director – switch to direct payroll for City Hall staff
- ~ Committee expenditure format
- ~ \$27,500 earmarked for Chamber of Commerce subsidy

Implementation:

The FY2011 budget will vary greatly depending on the outcome of the bond issue. The actual activities undertaken by the DDA could range from status quo small-scale projects to significant capital investment in excess of \$5 million. If large-scale projects are undertaken, there will be pressure on City Hall Staff to administer the bond issue and capital investment activities. Please also note that in consideration of unexpectedly higher revenue figures, the DDA intends to reexamine their proposed budget at their next meeting.

Capital Improvement Fund

The proposed Capital Improvement Fund budget is relatively status quo. The primary needs demanded of the fund include heavy equipment purchases and building repair and renovation. In particular, the Fire Hall and DPW Garage are old, deteriorating, and in need of significant repair. Council has taken action to complete an engineering study to determine the structural condition of the Fire Hall and this will have a major impact on plans moving forward for its long-term use.

The proposed budget focuses primarily on Fire Hall building improvements and DPW equipment. In addition, the DPW Garage must have some plumbing renovations to address fume ventilation and drainage issues (\$30,000).

Target Fund Balance: varies

Beginning Fund Balance: \$380,605

Ending Fund Balance: \$354,201

Primary Revenue Assumptions:

- ~ Continue 4.5 mills Public Improvement millage

Primary Expenditure Changes:

- ~ City Hall's climate control may need repair – since the \$1 million renovation in 2000 it has never functioned optimally. Its inefficiency is costly.
- ~ Police Department has only minimal expense budgeted for possible building renovation work
- ~ Fire Hall substantial building improvements budgeted
- ~ Fire Department budget includes several, smaller items such as radios and airpicks
- ~ Fire Department budget does not include an aerial truck
- ~ DPW building improvement for drainage
- ~ DPW equipment includes a loader and 1-ton dump truck
- ~ \$50,000 for landfill fence

Implementation:

The results of the Fire Hall engineering study and ensuing planning process will have a major impact moving forward. Therefore, the funds budgeted for building improvements may change drastically.

Depending on the amount of building improvements actually undertaken, there will be substantial flexibility in reassigning budget funds. I suggest considering this in light of some items which I have not included in my recommendations.

I recommend taking action immediately to install fencing at the old landfill site.

Sewer and Water Funds

The Sewer and Water Funds need substantial improvement to adequately provide repair and replacement for an aging system. Failure to do so leads to 12" water main breaks like the one at the High Rise on July 16, 2010. Specifically, the Sewer and Water Funds should use a Capital Improvements Plan to schedule and budget repair and replacement. While this is currently not in place, steps must be taken to implement such a plan.

Sewer Fund

The proposed FY2011 budget increases personnel services to begin to emphasize inspection and maintenance. Combined with slightly higher fees from the Waste Water Authority, rates must increase to keep pace. Please keep in mind that the FY2010 Sewer Fund budget actually operates at a loss on a cash flow basis, excluding depreciation. The proposed FY2011 budget includes a 10% rate increase and still operates at a loss on a cash flow basis.

Target Fund Balance: asset accounting
Cash Flow w/o Depreciation: (\$70,950)

Primary Revenue Assumptions:
~ Increased rates

Primary Expenditure Changes:
~ Increased personnel services for sewer line maintenance

Implementation:

I strongly recommend increasing rates to reach the recommended budget revenue and including an automatic, annual Consumer Price Index (CPI)/inflation adjustment. In addition, I think it is imperative to examine the rate structure and its long-term implications, particularly in light of the Partridge Creek project. The USDA, the most likely potential lender to the City, will scrutinize the financial condition of the Sewer and Water Funds. They have already indicated concern about the "Capital Improvement" charge levied by the Sewer Fund and the improvements for which that is used. Although there is insufficient time to thoroughly analyze the rate structure prior to budget adoption, I recommend that Council take action to conduct a study as soon as possible.

Water Fund

The proposed FY2011 budget increases personnel services to begin to emphasize inspection and maintenance. Combined with slightly higher fees from the Water Authority, rates must increase to keep pace. Like the Sewer Fund, please keep in mind that the FY2010 Water Fund budget actually operates at a loss on a cash flow basis, excluding depreciation. The proposed FY2011 budget includes a 10% rate increase and operates with positive cash flow.

Target Fund Balance: asset accounting
Cash Flow w/o Depreciation: \$2,150

Budget Message Cont'd

Primary Revenue Assumptions:

~ Increased rates

Primary Expenditure Changes:

~ Increased personnel services for transmission and distribution

Implementation:

I strongly recommend increasing rates to reach the recommended budget revenue and including an automatic, annual Consumer Price Index (CPI)/inflation adjustment. As with the Sewer Fund, I recommend that Council take action to conduct a rate study as soon as possible.

Police/Fire Retirement Fund

Actuarial analyses determine the contribution that must be made in order to maintain this fund. Ideally, the fund would be able to pay out 100% of its liabilities if they all came due at one time. In reality, 80% funded is a more realistic goal and one that the fund has maintained.

Target Fund Balance: asset accounting

Beginning Fund Balance: \$4,307,029

Ending Fund Balance: \$4,202,466

Primary Revenue Assumptions:

~ Status quo interest earnings and appreciation

Primary Expenditure Changes:

~ Increased General Fund contributions from \$40,000 to \$50,000

Implementation:

Constant monitoring of the Act 345 investments is crucial to the long-term success of this fund. The City relies on consultants to provide this service and the Act 345 Board functions as their overseer.