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# Memorandum

The City of Traverse City



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TO: MAYOR & CITY COMMISSION  
FROM: R. BEN BIFOSS, CITY MANAGER  
DATE: MAY 4, 2009  
SUBJECT: FISCAL YEAR 2009/10 BUDGET

As required by Charter, attached please find the Draft Budget for the City of Traverse City for the Fiscal Year 2009/10. In addition to the General Fund, the attached includes the various other funds for the City, including the component units, Traverse City Light and Power and the Downtown Development Authority (DDA).

## **BUDGET PROCESS**

The Draft Budget for Fiscal Year 2009/10 has been prepared using the same methods and procedures used in past years. Prior to initiating any changes in the budget process, it was reasonable to experience the traditional approach and methodology to budget preparation. Next year the process will be substantially different whether following a process outlined by the Public Strategies Group or prepared in-house.

The Budget should be a public information document as much as a financial plan. In addition to allocating fiscal resources, it should outline what is being acquired with the expense; what is the public benefit. The resource allocation needs a context, and an information base that goes beyond the current year. Long-term trend lines need to be examined in the Budget so the public understands the longer term picture.

Following is a brief review of some of the larger issues that this Budget addresses.

## **REVENUE ISSUES**

The General Fund Budget is balanced with revenues and expenditures of \$14,376,900. The property tax levy remains constant at 13.1765. However, that levy is reallocated.

### **Act 345 Levy**

The City of Traverse City Charter was amended such that effective July 1, 1971, all police and fire pensions were subject to Act 345 of the Public Acts of 1937, as amended. Act 345 includes provisions regarding police and fire pensions, establishing certain minimums and procedures for

funding those pensions. Following is an Opinion from the City Attorney regarding those funding procedures, Attachment #1.

The Act requires that the cost of police and fire pensions be a Special Levy outside of the General Fund Levy. **THIS DOES NOT RESULT IN A TAX INCREASE.** The Special Levy in the amount of 1.3598 mills will be completely offset by the proposed equal reduction in the General Fund Levy. The General Fund Levy is proposed to be reduced by 1.3598 mills to a new levy amount of 11.8167 mills.

While speculative, it is reasonable to believe that Act 345 requires the Special Levy so that citizens are aware of the actual cost of the police and fire pensions provided. In future years, any cost increase or decrease associated with police and fire pensions would be reflected in that Special Levy outside of the General Fund and would be readily apparent to the electorate.

This change in accounting moves \$944,200 of both revenue and expense out of the General Fund and into the new Special Revenue – Act 345 Millage Fund. That is the amount necessary to fund the police and fire pension system. This change makes year-to-year General Fund comparisons difficult. This is only a problem for this fiscal year.

For example, there appears to be a decline in property tax revenue for the General Fund in the amount of \$589,200. If we ignore this accounting change, there is an actual increase in the amount of property tax revenue of \$355,000 or 4.04%. Likewise, if we ignore this accounting change, the total General Fund revenue would increase \$475,400 or 3.2% over the current year.

Expenditures are likewise affected. Total Departmental Expenses would be \$944,200 more than shown, or \$12,744,700. This would be a decline of \$130,000 from the current year rather than the much larger decline shown. The actual reduction in total Departmental expenses is 1.0%. Except for this change, total General Fund expenditures would be \$15,321,100, an increase of \$475,400 or 3.2% over the current year.

This change is pronounced in both the Police Department and the Fire Department budgets. Except for those departments and the General Fund totals, this accounting change is not an issue elsewhere in the Budget.

The General Fund does anticipate a surplus from the current fiscal year in the amount of \$325,650. That amount is rolled into the revenue stream for the 2009/10 fiscal year.

### **General Fund Balance**

The anticipated year-end General Fund Balance on June 30, 2010 is \$4,506,720 or approximately 31% of expenditures. Please note that a portion of the percentage increase in the Fund Balance is attributable to the smaller expenditure number, reduced by the \$944,200 amount. The rest of the increase beyond the 25% standard is directly attributable to a more conservative approach to budgeting in a time of high economic uncertainty. The separate Budget Stabilization Fund remains at approximately \$741,460.

## **Other Revenue Issues**

The General Fund anticipates no other major revenue changes; however, there are several modifications worthy of note. Principal among these changes is an expansion of the 5% administration fee to the Marina Fund, and through a formula process, to the DDA. The City has historically collected a 5% administration fee from Light and Power and the other City enterprise funds. This change is an extension of that existing policy.

Interest earnings are projected to decline by \$150,000 due to historically low interest rates. This amount includes the interest transfer from the Brown Bridge Trust Fund.

Another reallocation proposed in this Budget is the use of the proceeds from the communication tower leases in the Brown Bridge Quiet Area. Those proceeds are currently allocated to the Brown Bridge Trust Fund. This allocation is by City Commission resolution adopted September 2, 1997. This Budget includes a recommendation that a Brown Bridge Quiet Area Operating Fund be created that would receive those proceeds to be used for operating and capital expenses in the Quiet Area. This would create an ongoing fund with revenues of approximately \$50,000 per year for as long as the communication tower leases remain in place. If the appropriate resolution is adopted by the City Commission with the Budget Resolution on June 1, 2009, it could also redirect these funds in the current 2008/09 fiscal year and result in \$100,000 being available in that fund the first year.

The General Fund anticipates no change in State Revenue Sharing. Approximately \$300,000 of the \$1.33 million of Revenue Sharing is statutory and therefore at some risk of a state reduction; however, to date state officials have indicated their intent to balance the state budget without reductions to the Revenue Sharing Program. In the event that were to change, the enhanced Fund Balance would be available. The balance of the State Revenue Sharing is constitutionally protected.

## **Water and Sewer Rates**

The Water and Sewer Funds include a recommended rate increase. Following are memorandums from the City Treasurer/Finance Director that discusses the specifics of this recommendation, Attachment #2. Please note the revised approach to the issue of water and sewer rates. Rather than avoid rate increases for several years followed by a relatively large rate increase, this revised recommendation is that these rates be adjusted annually based on a cost inflation formula. In this way, there would be a small annual increase but no “sticker shock” associated with infrequent rate adjustments.

It is recognized that this increase is recommended in a very difficult economy. However, the state of the economy cannot be allowed to impair our ability to provide safe and clean drinking water or our ability to protect our environment through the proper administration of our sewer system and wastewater treatment. Further, these enterprise funds must be able to manage smaller capital improvement projects to maintain and enhance the system.

Several larger capital improvement projects are anticipated in coming years. In order to match the costs and benefits of those improvements, bonding is anticipated. The benefits of those future projects, such as a new redundant water intake from East Bay, accrue to future users of the system. Future users would pay for those improvements through the consumption charges. If those improvements were paid for from retained earnings of the system, then past users would pay for the improvements.

## **EXPENSE ISSUES**

### **Employee Benefit and Cost Issues**

The City Commission's top priority is to attract and retain the best human resources possible. However, that must be managed within the context of long-term financial sustainability. Specific steps include reversing the trend lines for the cost of employee pensions and health insurance. Specific action has been initiated to accomplish these tasks.

First, the City is in the process of bidding a new health insurance coverage package for all eligible employees. This is a high deductible plan coupled with a Health Savings Account (HSA). The initial deductible for all health insurance costs (except preventive care) is \$1,150 for singles and \$2,300 for double or family coverage. Funds in the HSA are available to cover the costs of the high deductibles.

The effect of a high deductible plan is that employees make more informed health care decisions. This results in lower immediate costs and future cost trend lines that are lower than the current plan. The City's ability to control health insurance costs is directly related to the caps on the City's cost that were put in place many years ago. Without changes to the program, the employee cost for family coverage would exceed \$300 per month. These shared costs create a mutual motivation to control costs.

Employee pension cost reduction proposals have been reviewed with the City Commission in conjunction with ongoing labor contract negotiations. If successful, these efforts will reverse the trend lines for pension costs.

The number of employee positions has also been reduced. This Budget includes eight fewer City employees. That includes one police position, four fire positions, one streets position, one parks position and one position in the Garage. This represents an approximate 5% reduction in the size of the workforce.

### **Other Vacancies**

All vacancies will be individually reviewed by the City Manager. No vacant positions will be filled without a specific, individual and written approval by the City Manager. It is expected that future vacancies in the Police and Fire Departments will not be filled, but that vacancies in other departments may be filled with the City Manager's approval.

## **Infrastructure Issues**

The Budget includes an allocation of \$780,000, or one mill, for infrastructure projects. It is noted that approximately \$180,000 of that amount is made available by a proposed change in how street lighting is funded. This Budget anticipates a contract with Traverse City Light and Power under which Light and Power would pay for the cost of the street lighting system. Under discussion is the possibility of Light and Power just absorbing the entire system or contributing additional revenue to the City equal to the cost of the street lighting system. The lights, poles and all associated equipment are owned by Light and Power. It is reasonable for Light and Power to pay the cost of operating that system. The Light and Power Board would need to formally concur before this change could be accomplished.

Most of the balance of the increase in funding for infrastructure is made available by funding fewer employee positions. Please see the discussion under Employee Benefit and Cost Issues.

The specific project list will be developed following the principles of an Asset Management Program. Due to the lead time necessary to update the asset inventory, select projects, undertake necessary field work and actually design the project, it is likely that much of the actual construction activity will not occur until late fall or next spring.

This allocation of approximately 1 mill for infrastructure is expected to be an ongoing commitment. The planning of the Asset Management Program will use a 10-year planning time frame. However, it should be noted that even this level of investment is not expected to be sufficient to fund all of the infrastructure improvements that are necessary. In future years, some additional supplemental funding will be required; likely equal to an additional mill.

Special Study Sessions are suggested this summer to review the constraints on infrastructure funding. The sources for necessary additional funding are limited by State Statute. One possibility is the consistent and broad use of Special Assessments to provide partial project funding. Another method is the use of General Obligation Bonds. Such bonds could be supported by the single mill discussed above and/or an additional levy. This discussion should occur before 2009/10 projects proceed in order to provide equity with the Special Assessment Program.

Please note that this increase in infrastructure spending represents all of the increase in General Fund spending for the upcoming fiscal year. The total increase in General Fund spending is \$475,400, while the increased transfer for Public Improvements is \$609,450.

## **Community Development**

While the Traverse City Downtown has been very successful over the years, the corridors and neighborhoods have received less focused attention. This Budget includes a recommendation that would undertake a one-year pilot project with the position of a Community Development Director, please see Attachment #3.

Vital neighborhoods, corridors and community are necessary for a long-term vital downtown. In order to enhance our downtown, we need to enhance the balance of our community. Therefore, the City Manager is requesting that the DDA provide an executive loan of its Executive Director for a one-year period at the DDA's expense.

While this Budget anticipates that the Executive Director would remain a DDA employee, a new departmental budget is included. This new departmental budget is \$30,000 and includes funds for office expenses as well as "seed" money for projects to be developed. Those funds are provided as a transfer from the Economic Development Fund (formerly the Industrial Development Fund).

Please note that this is an experiment with the outcomes unknown. In a year's time, it may be desirable to continue this position on a full-time or part-time basis; or it may be desirable to try something else. One year is not sufficient time to create dramatic changes, but it should be sufficient time to determine whether this approach is desirable.

The City has a current economic development contract with the Traverse Bay Economic Development Corporation. That \$65,000 contract included a \$40,000 subcontract for services that have been provided. There is a need for the City to continue participating in regional economic development activities. The City of Traverse City is the core city for the five-county region and needs to continue to be an active participant in regional coordination and development issues. An ongoing \$20,000 appropriation for the Traverse Bay Economic Development Corporation is recommended from the Traverse City Light and Power Budget.

### **Streets Department/Funds**

The General Fund includes a Department for the DPS Director and Streets Administration. That department shows an expense of (\$155,000); or actual revenue. This is a result of the interfund transfers associated with the Major Street, Local Street, Trunkline and General Funds. The actual expense associated with all of this activity is \$2,777,500. An explanatory summary page is included with an expectation of greater clarity in the future.

### **Other Issues**

Other issues include the expected full funding of the Airport Fire Contract. The Senior Center funding is continued as status quo with the expectation that this matter will be addressed at the November 2010 election for possible countywide funding. The City Manager anticipates action on an advisory council to consider funding alternatives for the Hickory Hills Ski Area.

There are a number of ongoing issues that may have budgetary impacts. To name only a few: Division Street, the dams, the ongoing Solid Waste review, Bayfront Plan implementation, funding for the Opera House and the Heritage Center, the Public Strategies Group proposal, SEEDS, ongoing discussion on the delivery of police and fire services and many others. The Budget should not be considered a static document but rather an evolving document. Changes will be necessary to reflect a changing environment.

A City Commission Study Session is scheduled for Monday, May 11, 2009, to begin the City Commission's review of this Draft Budget. At that time, the City Commission can consider additional dates as necessary for Budget review. A public hearing on the Budget is scheduled for Monday, May 18, 2009. By Charter, the City Commission must adopt the Budget not later than the first Monday in June. This year that is June 1, 2009.

This Draft Budget was prepared under the direction of the City Commission Goals and Priorities adopted April 6, 2009. Prior to the City Commission's adoption of the Budget, the City Commission should determine whether modifications to the Budget are desirable to further those Goals and Priorities. Once adopted, the Budget will become the City of Traverse City financial plan for the upcoming year.

We look forward to reviewing the Budget with the City Commission and public and providing any additional information requested. Thank you.