

---

# Memorandum

The City of Traverse City



---

TO: MAYOR & CITY COMMISSIONERS

FROM: R. BEN BIFOSS, CITY MANAGER

DATE: APRIL 28, 2010

SUBJECT: FISCAL YEAR 2010/11 DRAFT BUDGET

As required by Charter, attached please find the Draft Budget for the City of Traverse City for the 2010/11 fiscal year. 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).

## OVERVIEW

The City Commission has discussed the Budget status and priorities at two earlier study sessions. There is a recognition that the economy generally, but Michigan specifically, is in a state of decline. Economic impacts on municipal governments generally lag the overall economy. The decline is felt later and the recovery begins later for local government. Even though economic indicators suggest that the overall economy is in recovery, it is prudent to anticipate two years of fiscal decline for municipalities.

Because the City of Traverse City has a history of being fiscally conservative, Traverse City is better positioned than most municipalities to manage these times. Entering the current fiscal year (2009/10), the City of Traverse City anticipated a Fund Balance of \$4.181 million on June 30, 2009. The actual Fund Balance on June 30, 2009 was \$4.278 million or 30.4% of General Fund expenditures. The "target" for the Fund Balance is 25% of expenditures.

### FY 2009/10 General Fund Budget:

The FY 2009/10 General Fund revenue has been impacted by the economic decline to a greater degree than anticipated one year ago. State Sales and Use Tax sharing (Revenue Sharing) from the state is now projected to decline approximately \$225,000 from the original estimate. The intragovernmental City fee (the 5% fee charged to all enterprise funds and Light and Power) is expected to decline by approximately \$141,000 from the estimates one year ago. This is the result of reduced economic activity and customers consuming less water, electricity, etc.

In addition, the current FY 2009/10 Budget anticipated a \$182,000 transfer in from Light and Power for the cost of street lighting. That change is now expected at the beginning of the 2010/11 fiscal year. Reimbursement from other funds is expected to decline approximately

\$155,000; primarily reflecting services provided by General Fund employees to other funds. The current projection for Reimbursements is more in keeping with historical trends.

When combined with other current projections, the FY 2009/10 General Fund Budget projected revenue is expected to decline from \$14,051,900 to \$13,353,100, a decline of \$698,800.

While General Fund revenues are lower than budgeted so are General Fund expenditures. Most of the expenditure reductions are found in the Operating Departments. Currently projected expenditures for the General Fund in the 2009/10 fiscal year are \$13,353,100. The projected Fund Balance effective June 30, 2010 is \$4,278,486 or 30.4% of expenditures.

Public Act 345 of 1937:

Effective July 1, 1971, the City of Traverse City Charter adopted Public Act 345 of 1937, as amended. That Act establishes certain provisions regarding pensions for police and fire personnel including a provision that funds to support that obligation are a "special levy" outside of the general operating levy. In May of 2009, the amount of that levy was estimated at 1.3598 mills producing \$944,200 of tax income for the Act 345 Fund. The actuarial report completed through June 30, 2009, indicates that estimate was \$207,500 short.

The estimated Act 345 levy for the 2010/11 fiscal year is 1.74 mills. The actual levy necessary to support this obligation varies from year to year, generally following economic trends with higher numbers in years of economic decline and lower numbers in years of economic growth. The 1.74 mills noted above is near the top of the 20 year trends, meaning that lower levies may be necessary two or three years out.

The FY 2009/10 Budget manages the \$207,500 shortfall as a short-term loan from the Industrial Development Fund with an expectation that the amount will be repaid in future years through a levy when lower levy amounts are required for then current obligations. This is a one-year aberration as the timing of actuarial projections has been adjusted.

FY 2010/11 General Fund Budget:

The FY 2010/11 General Fund Budget includes a \$1,000,000 transfer to the Capital Improvement Projects Fund to continue the City Commissions priority on infrastructure spending, streets and sidewalks. If that expenditure was not included in the General Fund, the 2010/11 General Fund would be in surplus by \$624,615. With that expenditure in the General Fund, it is necessary to use \$375,385 of the existing Fund Balance; consistent with the intent to reduce the Fund Balance over two fiscal years. The effective result is that approximately \$375,000 of the excess Fund Balance will be dedicated to infrastructure spending in the 2010/11 fiscal year.

Total personnel costs including wages and benefits for the General Fund in the FY 2009/10 Budget are \$8,618,700. Total personnel costs in the FY 2010/11 Budget are estimated at \$8,556,920; a reduction of \$61,780.

The attached FY 2010/11 Budget includes new Performance Measurements in each department. These measurements will be expanded and refined in future years. Please allow time for these measurement instruments to develop into a useful tool.

### **REVENUE ISSUES**

The FY 2010/11 General Fund Budget anticipates the same operating levy as the FY 2009/10 Budget; 11.8167 mills. That levy is expected to generate the same tax income as the previous year; \$8,195,800. Property tax revenue accounts for approximately 61% of total revenues. State shared revenue is expected to be flat when compared to current projections for the 2009/10 fiscal year. However, that amount is approximately \$225,000 less than the FY 2009/10 Budget.

The FY 2010/11 Budget anticipates the Intragovernmental Fee to rebound to almost last year's original estimate. Another significant change in the revenue picture is the elimination of the transfer in from Light and Power for street lights in the amount of \$182,000. Rather than transferring that revenue into the General Fund Budget, the expense of that operation has been transferred out of the General Fund to Light and Power. The last significant change on the revenue side is the expected reduction in Miscellaneous: Contribution – Public Sources that represents the reduction in fire service to the Airport. This is included in the existing contract with the Airport and is offset by leaving an anticipated vacancy in the Fire Department by attrition.

In total General Fund revenue is projected at \$13,691,400. This is a decline from the current Budget in the amount of \$360,500; or 2.6%. Please note that this decline is on top of declines in the FY 2009/10 Budget and the FY 2008/09 Budget.

### **EXPENDITURE ISSUES**

As noted above, the General Fund includes a transfer to the Capital Projects Fund in the amount of \$1,000,000. Maintaining this level of funding for infrastructure projects necessarily impacts spending in other areas.

#### Personnel:

The FY 2010/11 General Fund Budget includes four fewer positions than the FY 2009/10 Budget. Vacancies by attrition include one anticipated vacancy in the Police Department, one position in the Fire Department and one position in DPS. A vacancy in the Human Resources Office in the City Manager's Department exists by way of a layoff that occurred in April. The FY 2010/11 Budget includes funding for a one-half time position in Human Resources if necessary. Those funds could be used for a part-time consultant, or in combination with Light and Power or Grand Traverse County if necessary. As the elimination of the position is experimental, the workload will dictate which of these options, if any, should be pursued.

The FY 2010/11 Budget does include a one-half time position for a Community Development Officer. That allocation will continue the experiment with this position. Under the Budget Recommendations, the City would contract with the DDA for 50% of the time of the DDA Executive Director. The cost of this position is managed through a transfer from the Industrial Development Fund to the General Fund.

The FY 2010/11 Budget does continue the school liaison police officer position. The Traverse City Area Public Schools (TCAPS) has proposed the elimination of its contribution to this position which does represent lost income in the amount of \$25,000. The Police Department and the City Manager believe this position is cost effective even without this reimbursement.

Under the "Other Information" tab, please find a history on the number of City positions. Please note the reduction in the number of personnel by 15 positions since the FY 2007/08 Budget. This represents a decline of 8.6% in the number of total City employees. Please understand that these and continuing declines in the number of employees will at some point begin generating complaints from residents about service levels.

Other personnel costs have also been addressed throughout the current fiscal year. By July 1, 2010, all eligible employees will have converted to the high deductible HSA health insurance program. For the 2010/11 fiscal year, the costs of employee health insurance will increase approximately 6%. This compares to a 10% increase under the prior City plan. City employees contribute approximately 12% of this cost through pay roll deduction for single coverage; 22% for family coverage.

All new hires to the City of Traverse City will be hired to a significantly lower cost pension program. Most new hires will receive a fixed contribution to a Retiree Health Saving Account that, in the long term, eliminates retiree health insurance as a legacy cost. This change will be pursued in other labor agreements as those agreements are negotiated.

#### Operating Departments:

Total Departmental spending in the FY 2010/11 Budget (before transfers and Capital Outlay) is projected at \$11,322,485. This compares to the FY 2009/10 Budget of \$11,800,500; a decline of \$478,015 or 4.1%. This decline is in addition to a decline in the FY 2009/10 Budget and the FY 2008/09 Budget.

#### Other:

When compared to the infrastructure spending and employee reductions, all other expenditure issues are relatively minor. The most significant would be a reallocation of some administrative DPS time from the General Fund to the Water and Sewer Funds to better reflect actual experience. All departments are impacted by an increase in vehicle rental rates from the Garage Fund. This is most notable in the Police and Fire Department budgets. A 5% per year increase in these rates is expected for several years. The General Fund Contingency account includes funds for a "right sizing" review of police operations. In general, most departments and budgets see a continuing constriction in operating funds.

There are a number of ongoing efforts that may have budgetary impacts during the year. An Advisory Committee will shortly make recommendations to the City Manager regarding the operation of Hickory Hills. The efforts regarding the dams are continuing and the solid waste contracting efforts continue through this year. Funding for the Senior Center may be before the electorate this fall. Operations of the Opera House are under review and a new lease agreement for the Heritage Center is expected during the fiscal year. The Budget should not be considered a static document, but rather an evolving document.

**WATER AND SEWER**

Attached please find recommendations from the City Treasurer/Finance Director regarding water and sewer rates. Adoption of the recommended rates would be part of the City Commission Budget adoption.

**CAPITAL IMPROVEMENT PROJECTS**

The Capital Improvement Projects funds are expected to be active in the forthcoming fiscal year. Street and sidewalk improvements will require the Commission's attention to work through conflicts between the Infrastructure Policy and the Master Plan. Funding for Bayfront improvements will be the focus of considerable attention and possible action by the electorate. The attached DDA and TIF budgets reflect considerable capital spending. Many good things are happening in Traverse City.

**PROCESS**

In accordance with the Charter for the City of Traverse City, the City Commission shall adopt a Budget not later than the first Monday in June. This year that is June 7. The attached Budget recommendation can be reviewed at regular meetings and study sessions as the City Commission desires. A Public Hearing on the Budget is scheduled for the regular meeting of May 17, 2010.

While the attached represents the City Manager's budget recommendations, it is for the City Commission to make budget decisions. All of the attached is subject to change at the City Commission's discretion. Thank you.