



City of Ann Arbor

FEBRUARY 11TH WORK SESSION

FY20/21 BUDGET REVIEW

Overview

- ▶ Tonight
 - ▶ Introduction
 - ▶ Overview of the General Fund for FY2020 and FY2021
 - ▶ Finance, Police, Fire, Court, Community Services, City Administrator, City Attorney, General Fund Public Services
- ▶ Upcoming Key Dates
 - ▶ 2/25/2019 Work Session
 - ▶ Public Services Budget
 - ▶ 3/11/2019 Work Session
 - ▶ Public Services Rate Discussion
 - ▶ 4/15/2019- City Administrator Lazarus presents the recommended budget to the City Council
 - ▶ 4/22/2019-Housing Commission and DDA
 - ▶ 5/6/2019-Public Hearing on Budget and Fee Increases
 - ▶ 5/20/2019- City Council consideration of the budget

Introduction

- ▶ This evening's presentation for each service area
 - ▶ An overview of budgeting consistent with strategic direction.
 - ▶ A summary of Budget Impacts will be reviewed with detailed impact sheets attached to the presentation.
 - ▶ Where available, dashboards developed for external use will be previewed in the individual service unit presentations.
 - ▶ The FY20/21 budget continues integrating performance measures to better assess service delivery and community member satisfaction.

Budgeting Consistent Strategic Direction

Service Enhancements

- ▶ Enable a safe, welcoming, and inclusive community.
 - ▶ Funding of Equity and Inclusion program development.
 - ▶ Initiation of Police and Fire Cadet programs.
 - ▶ Funding of Independent Community Police Oversight Commission.
 - ▶ Funding accessibility improvements.
 - ▶ Additional funding for streetlight and active transportation improvements.
- ▶ Ensure a financially stable City government.
 - ▶ Addition of a Contract Administrator to support work and mitigate risk.
 - ▶ Appropriate funding of long-term obligations.

Budgeting Consistent Strategic Direction

Service Enhancements

- ▶ Promote responsible economic development.
 - ▶ Additional resources to assist in planning and construction.
- ▶ Protect the environment as responsible stewards of natural resources.
 - ▶ Allocation of the County millage to Climate Action programs.
 - ▶ Funding of Clean and Renewable Energy and Green Fleets initiatives.
 - ▶ Continuation of Sustaining Ann Arbor Together Microgrant program.

Budgeting Consistent Strategic Direction

Service Enhancements

- ▶ Build and maintain sustainable infrastructure systems.
 - ▶ A Capital Sinking Fund has been established to invest in repair/maintenance of existing fire stations, City Hall and Justice Center with recurring funding of \$400K.
 - ▶ Additional funding for streetlight replacements has been added (\$65K) bringing the total General Fund funding to \$425K.
 - ▶ Barton and Superior Dam improvements are funded.
- ▶ Collaborate with community partners to enhance quality of life.
 - ▶ Inclusion of funding for the Priority Based Budgeting Initiative.
 - ▶ Recurring funding for Boards and Commissions recognition and Citizen's Academy.

Internal Service Enhancements

- ▶ Human Resources
 - ▶ Conversion of a temporary position to full time (1.0) HR Benefits (reimbursed by the Risk Fund).
 - ▶ Additional funding (\$100K) for succession planning/over-hire program.
- ▶ City Attorney
 - ▶ 0.25 FTE for a contract administrator to provide support (shared with other service areas for a total of 1.0 FTE).
 - ▶ Addition of \$100K for unforeseen outside legal requirements.
- ▶ Mayor and Council
 - ▶ Conversion of 0.75 FTE to 1.0 FTE.
 - ▶ Additional funding of \$24K for Mayor and Council (recurring and non-recurring)

County Millage

- ▶ The FY20/21 budget includes a separate fund for County millage proceeds and is budgeted per existing Council policy as follows:
 - ▶ 40% for Affordable Housing
 - ▶ 25% of this will support the Housing Commission for operations support and tenant supportive services
 - ▶ 75% of this will be transferred to the Affordable Housing fund for projects
 - ▶ 40% for Climate Change/Renewable Energy/Resiliency Programs
 - ▶ 20% for Pedestrian Safety
 - ▶ \$115K for new streetlights
 - ▶ \$105K for existing streetlights
 - ▶ \$220K for pedestrian crossings (in addition to the \$1.5M previously presented)

Non-Departmental Impacts

- ▶ One-time impacts for FY 20-\$416K net savings to be used for impacts in other areas
 - ▶ A non-recurring rebate of excess fund balance from the Risk Fund was added (\$2.1M). This was due to the accumulation of benefit savings.
 - ▶ Active Transportation (non-recurring) was added (\$1.5M).
 - ▶ Funding for an inclusion contract was added (\$59K).
 - ▶ Funding for staff training was added (\$25K).
 - ▶ Succession planning funding was added (\$100K).

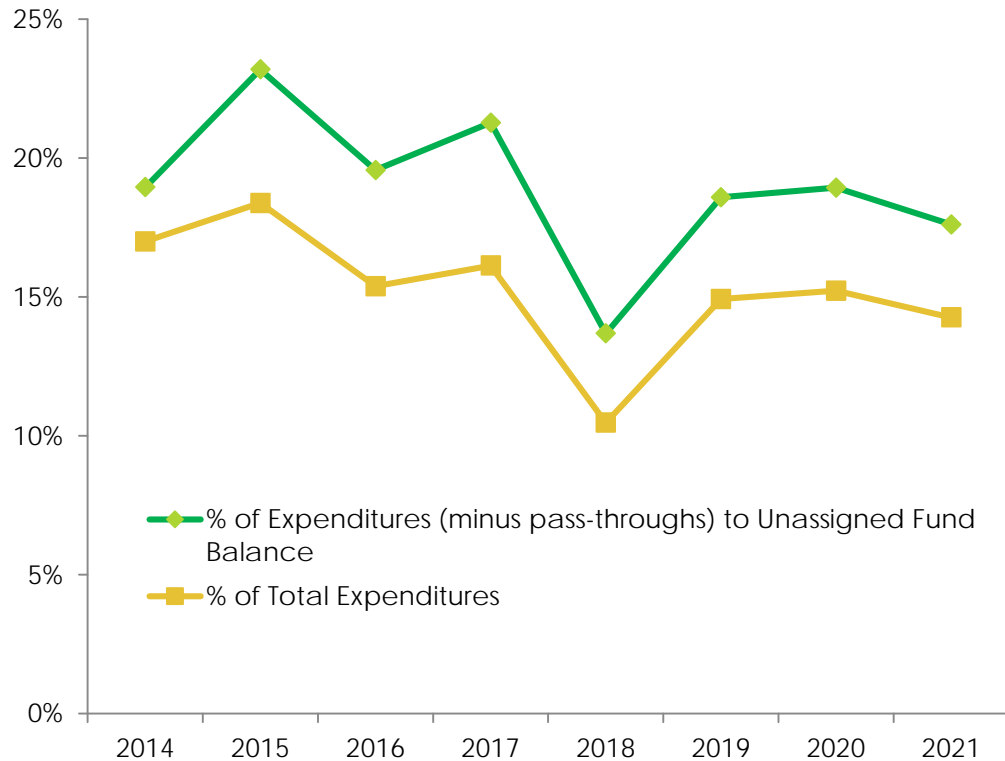
General Fund Key Assumptions

- ▶ The overall recurring revenue increase was 4.0% in FY20 and 2.2% in FY21 (without the GASB #68 reimbursement revenue).
 - ▶ Property taxes are projected to increase 3.5% in FY20 and 3% in FY21.
 - ▶ State Shared Revenue is projected to be 3.4% growth for FY20 and 1% for FY21. Given the uncertainty of the State's appropriation, the annual growth is assumed to be non-recurring.
- ▶ The overall recurring expenditure increase was 4.1% in FY20 and 3.1% in FY21.
 - ▶ Includes costs of labor contracts, increases in pension and revisions in forecasted health care costs.
 - ▶ Includes additional funding for pension (\$500K).

Financial Overview

	FY2020	FY2021	
<u>EXISTING OPERATIONS</u>			
Revenues	\$ 107,507,508	\$110,052,017	} Targets Asking Service Units to Cut
Expenditures	(107,356,746)	(110,632,353)	
Projected Recurring Surplus/(Deficit)	\$ 150,762	\$ (580,336)	
<u>STAFF REQUESTS</u>			
Recurring Revenue Requests	274,399	279,197	} This represents where we are after all recurring impacts.
Recurring Expense Reductions (Requests)	68,702	191,201	
Adjusted Recurring Surplus / (Deficit)	\$ 493,863	\$ (109,938)	
Non-Recurring Revenue Requests	2,340,000	300,000	} If all requests are approved, fund balance would be 17.4%.
Non-Recurring Expense Requests	(2,851,559)	(467,200)	
Non-Recurring Net Requests	\$ (511,559)	\$ (167,200)	
Adjusted Net Surplus / (Deficit)	\$ (17,696)	\$ (277,138)	

Fund Balance Summary



FUND BALANCE

	Amount	% of Total Expenditures	% of Adjusted Expenditures
FY2014 Unassigned	\$ 14,278,680	17%	19%
FY2015 Unassigned	\$ 17,235,156	18%	23%
FY2016 Unassigned	\$ 15,330,765	15%	20%
FY2017 Unassigned	\$ 16,243,676	16%	21%
FY2018 Unassigned	\$ 11,143,139	10%	14%
FY2019 Forecasted Unassigned	\$ 15,912,432	15%	19%
FY2020 Forecasted Unassigned	\$ 15,894,736	15%	18%
FY2021 Forecasted Unassigned	\$ 15,617,598	14%	17%

Long-term obligations - Pension

- **Pension (6/30/18)**

	<u>FY2020</u>	<u>FY2021</u>
→ Actuarial - Unfunded Liability	\$ (78,586,000)	\$ (82,471,000)
→ Actuarial - Percent Funded	87%	86%
→ Actuarial - Required City Contribution	\$ 14,093,000	\$ 14,978,000
<i>Memo: General Fund Portion</i>	\$ 11,289,042	\$ 12,110,323

State law requires municipalities to contribute their actuarial required contribution.

- Present projected year to achieve full funding with existing policy is FY2038 (20 years).
Prior projected year to achieve full funding under existing policy was FY2034 (16 years).
An Experience Study, which updates assumptions to reflect actual results, was completed for FY2018.
- Conclusion: The year to achieve full funding is very sensitive to meeting assumptions.
New Hybrid Plan: For non-safety services provides reduction in sensitivity to assumption changes.
- Recommendation: Reset the City contribution to a higher amount before applying 2% policy, and evaluate alternatives to reduce future contribution volatility.

Long-term obligations – Retiree Healthcare

- **VEBA (6/30/18)**

	<u>FY2020</u>	<u>FY2021</u>
→ Actuarial - Unfunded Liability	\$ (105,868,000)	\$ (98,066,000)
→ Actuarial - Percent Funded	64%	67%
→ Actuarial - City Contribution (by policy)	\$ 16,308,000	\$ 16,634,000
<i>Memo: General Fund Portion</i>	<i>\$ 10,835,858</i>	<i>\$ 11,062,434</i>

→ Present projected year to achieve full funding with existing policy is FY2029 (11 years).

 Prior projected year to achieve full funding with existing policy was FY2030 (12 years).

→ Conclusion: There is little sensitivity experienced when actual results don't meet assumptions.

→ Recommendation: When active medical expenses underrun plan, consider a supplemental one-time contribution to VEBA per funding policy. Alternatively, a rebate to all contributing funds can be done to pay for other priorities.

Financial and Administrative Services Impacts

- ▶ One-time impacts for FY 20-\$48K
 - ▶ Non-recurring funding for scanning paper Assessor records was added (\$8K).
 - ▶ Non-recurring funding of \$40K was added to start Priority Based Budgeting.
- ▶ Recurring impacts-\$9K net cost
 - ▶ A reduction of appraisal services was made to meet the target (\$61K).
 - ▶ Priority based budgeting will have \$20K in recurring costs.
 - ▶ 0.5 FTE for a contract administrator to provide support (shared with other service areas for a total of 1.0 FTE).

Financial & Administrative Services Dashboard

THE CITY OF ANN ARBOR OUR FINANCIAL HEALTH BY THE NUMBERS

UNDESIGNATED FUND BALANCE

In an effort to stabilize the budget against future unexpected costs, the City attempts to maintain General Fund reserves as a percent of annual General Fund expenditures in the range of 15%-20%. This fund balance may be higher than the required target range to save for large, planned expenditures.

12.1% 2018 FUND BALANCE

How does this compare to the last 5 years?

Year	Fund Balance (%)
2013	18.4%
2014	16.8%
2015	21.2%
2016	18.2%
2017	18.7%

FUNDING OF RETIREMENT PLANS

The city contributes funds to retirement plans so that when an employee retires from providing services to the city, adequate funds are available to pay for their retirement benefit. A trust is utilized to invest all employer and employee contributions. When the value of the investments in the trust are less than the value of the cost of the benefits, the fund is less than 100% funded.

PENSION
The City has funded **85.9%** of current pension liability.

HEALTH CARE
The City has funded **65.7%** of its retiree health care liability.

How does this compare to the last 5 years?

PENSION CONTRIBUTIONS

Year	Contribution (%)
2013	80%
2014	83%
2015	88%
2016	84%
2017	88%

HEALTH CARE CONTRIBUTIONS

Year	Contribution (%)
2013	39%
2014	44%
2015	48%
2016	51%
2017	57%

AUDIT RESULTS

0 Material Weaknesses

0 Significant Deficiencies

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Ann Arbor's internal controls.

A significant deficiency exists when the design or operation of a control does not allow management of employees, in the normal

OUR BONDS WERE RATED HIGHLY BY STANDARD AND POOR'S

The city pays an independent third party (Standard & Poor's) to evaluate the credit quality of the city and publish their findings to potential investors. The rating firm considers many aspects of the city including its financial status, financial trends, management oversight, liquidity, etc. A higher credit rating results in a lower cost to the city for debt. The ratings from highest down are AAA, AA+, AA, AA-, A+, etc.

AA+ GENERAL OBLIGATION

AA+ WASTEWATER DIPOSAL SYSTEM REVENUE

AA WATER SUPPLY SYSTEM REVENUE

A LOOK AHEAD PROJECTED OPERATING DEFICIT

The city's primary operating fund is the General Fund. Financial projections comparing recurring revenues with recurring expenditures illustrate a deficit in future years. Revenues equal to or exceeding expenditures is reflective of a balanced and sustainable budget.

\$1.24 MILLION IN FY 2020

2020-2025 PROJECTED DEFICIT

Year	Projected Expenditures (\$M)	Projected Revenues (\$M)
2020	~110	~108
2021	~112	~109
2022	~114	~110
2023	~116	~111
2024	~118	~112
2025	~122	~110

CAPITAL FINANCING MODEL

City facilities for police, courts, fire stations, etc. require periodic renovation and capital maintenance. Cities may fund these as the need arises or plan for them in advance. By planning in advance a predictable amount is set aside in a sinking fund so that as the need arises, there are funds available.

Year	Normalized Funding (\$M)	On-Demand Funding (\$M)
2020	~0.5	~0.5
2024	~0.5	~0.5
2028	~0.5	~0.5
2032	~0.5	~0.5
2036	~0.5	~0.5
2040	~0.5	~2.8

Priority Based Budgeting

Phase I – “Program Budgeting”

- ▶ **Survey** – utilize an online survey to determine what resident’s top priorities are and create result definitions for each. (The recent survey PBB helped with City with may already fulfill the input needed for development of this.
- ▶ **Program Inventory** – develop a detailed inventory of all programs the City offers.
- ▶ **Program Costs** – calculate the cost and associated revenue for each program.

Priority Based Budgeting

Phase II – “Priority Based Budgeting”

- ▶ **Program Scoring and Peer Review** – program managers score each program on how they influence desired results. These scores are then peer reviewed to obtain consistency and eliminate bias.
- ▶ **Program Prioritization** – The scored programs are utilized to prioritize programs and resources based on how they influence desired results.

Priority Based Budgeting

4 Levels of PBB Mastery



Police Impacts

- ▶ One-time impacts for FY 20-\$109K
 - ▶ Bullet Proof Vests - 36 vests in FY20 and 68 vests in FY21
 - ▶ Tasers - 12 Tasers in FY20 and 41 Tasers in FY21
 - ▶ Mics to transition motorcycle helmets to new radio system
 - ▶ Vehicle crash forensic mapping system
 - ▶ Body cameras (95) & Interview Room Cameras (3) - initial purchase
- ▶ Recurring impacts-\$55K net cost
 - ▶ Personnel changes
 - ▶ Loss of revenue from the Solid Waste Fund for enforcement activities
 - ▶ Body camera & Interview Room camera data storage
 - ▶ Bank Service Fees - credit card processing for parking tickets
 - ▶ Software maintenance - for PowerDMS training software
 - ▶ Police Cadet Program - 2.0 FTEs

Fire Impacts

- ▶ One-time impacts for FY 20-\$46K
 - ▶ Tornado Siren replacement
- ▶ Recurring impacts-\$154K net savings
 - ▶ Reduce temp pay-no longer needed
 - ▶ Reduce Fire Inspection by 1.0 FTE - position is currently vacant
 - ▶ Reduce vehicle 1017. By eliminating 1.0 FTE (above), we can reduce one vehicle
 - ▶ Reduce IT services. By eliminating 1.0 FTE (above), we can reduce one desktop
 - ▶ Reduce budget previously allocated to CERT.
 - ▶ Reduce membership of Michigan Task Force 1 (technical rescue team) from 3 to 1 staff - reduction would be in overtime pay
 - ▶ Fire Cadet Program-1.0 FTE

Fire Services Dashboard

HOW WE WORK FOR YOU A2 FIRE DEPARTMENT BY THE NUMBERS



CALLS FOR SERVICE IN 2018

7,528

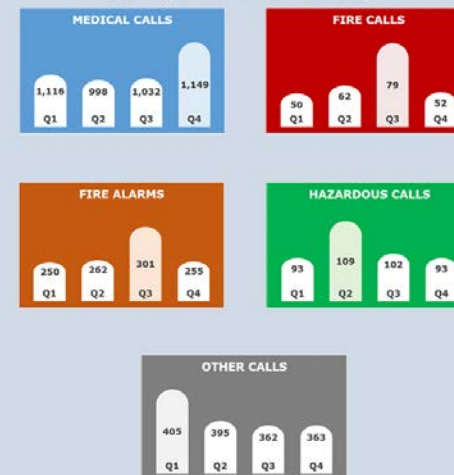
5,148 of those calls were emergencies and we were on scene within 6 minutes **89% of the time.**

WHAT KIND OF HELP WAS NEEDED?



- MEDICAL 57% (4,295 CALLS)**
Medical emergencies, vehicle crashes, lift assists, and elevator rescues
- FIRE 3% (243 CALLS)**
Structure fires, vehicle fires, and vegetation fires
- FIRE ALARMS 14% (1,068 CALLS)**
Malicious and unintentional transmission of alarm as well as alarm malfunctions
- HAZARDOUS MATERIALS 5% (397 CALLS)**
Combustible/flammable spills and leaks, power line down, electrical hazard, natural gas leak
- OTHER 20% (1,525 CALLS)**
Child locked in vehicle, animal rescue, building flood

CALLS FOR SERVICE (BY QUARTER IN 2018)



KEEPING YOU SAFE

0 deaths
9 injuries

as a result of Fire-related Calls



WE PROTECTED

\$123,684,852

WORTH OF PROPERTIES

Property damage was limited to **\$2.1M** which represents **1.7%** of the total assessed value of property involved in a fire call.



Court Impacts

- ▶ Recurring impacts-\$32K net savings
 - ▶ Court Administration and Judicial Support- \$5k reduction of contracted services & addition of \$6.6k recurring software application (Matterhorn)
 - ▶ Case Processing-Decreases in temporary pay \$14k, professional services \$10k, software maintenance \$8.7k & Education Reimbursement \$5k
 - ▶ Probation-Decrease in overtime of \$5k

Community Services Impacts-Building & Rental Services-General Fund

- ▶ Recurring impacts in the General Fund-\$44K net savings
 - ▶ Building-Employee allocation adjustments
 - ▶ Building-Variou increases to postage, printing, materials, travel
 - ▶ 0.25 FTE for a contract administrator to provide support (shared with other service areas for a total of 1.0 FTE).
 - ▶ Building-Reduce Deer program starting in FY21
 - ▶ Building-Reduce County contract starting in FY21

Community Services Impacts-Building & Rental Services-Construction Fund

- ▶ One-time impacts in the Construction Code Fund-\$337K
 - ▶ Purchase of 13 electric vehicles and charging stations
- ▶ Recurring impacts in the Construction Code Fund-\$509K
 - ▶ 3.0 new FTEs
 - ▶ Personnel allocations
 - ▶ New Service Area Layout
 - ▶ Additional Fleet Costs for electric vehicles

Community Services Impacts-Parks

- ▶ One-time impacts for FY 20-\$40K
 - ▶ Neighborhood ice rinks
- ▶ Recurring impacts-\$125K net savings
 - ▶ Parks-fee increases for day camps and ice rink rental
 - ▶ Parks-Fleet, IT and Position Allocation Savings
 - ▶ Parks-Community Action Network annual funding increase for expanded programs
 - ▶ Parks-Argo Parking Lot Rental Increase
- ▶ Millage Fund-add an additional FTE for a park planner

Community Services Impacts-Planning

- ▶ One-time impact for FY20-\$500K (placeholder)
 - ▶ Master Plan redesign
- ▶ Recurring impacts-\$34K net savings
 - ▶ Planning-Hire consultant to perform Brownfield environmental assessments and increase Brownfield fees
 - ▶ Planning-Amend numerous application fees to reflect inflationary increase, actual, or estimated cost of petition review
 - ▶ Planning-Move Fence Permit Fees from 0026 Construction Fund, to General Fund
 - ▶ Planning-Add temporary employee

Public Services General Fund Impacts

- ▶ One-time impacts for FY 20-\$256K
 - ▶ Systems Planning-Treeline Trail staffing allocation
 - ▶ Barton and Superior Dams Safety Inspection items
 - ▶ Barton Dam Embankment Rehabilitation Note: \$800,000 is planned in FY22
- ▶ Recurring impacts-\$10K net savings
 - ▶ Engineering-Asset Management Software License
 - ▶ Engineering-Reduce Professional Services
 - ▶ Training and compliance funding

City Attorney Impacts

- ▶ One-time impacts for FY 20-\$72K
 - ▶ Temporary coverage for planned leave of absence
 - ▶ Citylaw Data Conversion
- ▶ Recurring impacts-\$25K net cost
 - ▶ 0.25 FTE for a contract administrator to provide support (shared with other service areas for a total of 1.0 FTE).
- ▶ Addition of \$100K for unanticipated legal costs.

Mayor & Council Impacts

- ▶ One-time impacts for FY 20-\$16K
 - ▶ Copier and badge reader for Council office
 - ▶ Miscellaneous other items
- ▶ Recurring impacts-\$38K net cost
 - ▶ Boards & Commissions Recognition Event
 - ▶ Council Allowances
 - ▶ Miscellaneous Costs
 - ▶ Increase Executive Assistant to full time-.75 FTE to 1.0 FTE

City Administrator Impacts

- ▶ One-time impacts for FY 20
 - ▶ Intern/Job Corps Program (\$25K cost)
 - ▶ City Clerk-Presidential Primary Election Reimbursement Revenue (\$90K revenue)
 - ▶ Fleet & Facilities-ADA Accessibility Improvements - Continued implementation of ADA improvements based on the 2018 ADA Compliance Assessment. The consultant estimated approximately \$150,000 in Larcom City Hall and \$21,000 in the Justice Center. The Larcom estimate is high. This will be a multi-year effort. (\$25K cost)
 - ▶ Safety (Risk Fund)- One time cost for professional services to generate specifications and professional drawings for needed fall protection upgrades to city facilities (\$25K)

City Administrator Impacts

- ▶ City Administrator-Recurring Impacts-\$79K Net Savings
 - ▶ Eliminate Temp Pay
 - ▶ 8 sessions of Ann Arbor Citizens Academy
 - ▶ Increase Conference and Training
 - ▶ Increase Dues & Licenses
 - ▶ Reduce City Administrator contingency
- ▶ City Clerk-Recurring Impacts-\$80K net savings
 - ▶ Medical Marijuana Permit Fees

City Administrator Impacts

- ▶ Office of Sustainability and Innovation-Recurring Impacts-\$53K Net Cost
 - ▶ City Membership Dues in State/National Organizations (MI-MAUI, Urban Sustainability Directors Network, American Society of Adaptation Professionals, Planet Footprint, ICLEI-Local Governments for Sustainability)
 - ▶ Telecommunications, Mileage, Printing, Training, Outreach not previously budgeted
- ▶ Human Resources-Recurring Impacts-\$16K Net Cost
 - ▶ Conversion of Full-Time Temp to FTE (\$78K position cost less \$10K temp pay reduction)-offset by revenue from the Risk Fund
 - ▶ Other miscellaneous costs (printing, training, travel)
- ▶ Fleet & Facilities-Recurring Impacts-\$10K net savings
 - ▶ Eliminate vehicle #1268 from Fleet
 - ▶ Reduce city staff time with transition of building to U of M Dental School

City Administrator Impacts

- ▶ Safety (Risk Fund)-Recurring Impacts-\$35K cost
 - ▶ Temporary employee (Temp Safety Coordinator).
 - ▶ Consolidate billing of crane inspections within Safety budget.
 - ▶ Consolidate billing of prescription safety glasses program within Safety budget.
 - ▶ Development and implementation of an incident management system.

Questions?

- Please send questions to Sara Higgins and cc Howard Lazarus, Tom Crawford and Karen Lancaster
- Responses will be grouped by topic, sent to Council and posted on the City's website