



City of Ann Arbor

MARCH 13TH WORK SESSION

FY18/19 BUDGET REVIEW

Overview

- ▶ Tonight
 - ▶ Introduction
 - ▶ Pension, Utility Rates, DDA, Housing Commission, LDFA
 - ▶ Overview of Funds for FY2018 and FY2019
- ▶ Upcoming Key Dates
 - ✓ 2/13/2017 Work Session
 - ▶ Administrator's Office, Finance, Community Services, Police, Fire, 15th District Court
 - ✓ 2/27/2017 Work Session
 - ▶ Attorney's Office, Public Service Area
 - ✓ 3/13/2017 Work Session
 - ▶ Pension, Utility Rates, DDA, Housing Commission, LDFA
 - ▶ 4/17/2017- City Administrator Lazarus presents the recommended budget to the City Council
 - ▶ 5/15/2017- City Council consideration of the budget

Introduction-Pension

City of Ann Arbor Employees' Retirement System and Retiree Health Care Benefit Plan & Trust (VEBA)

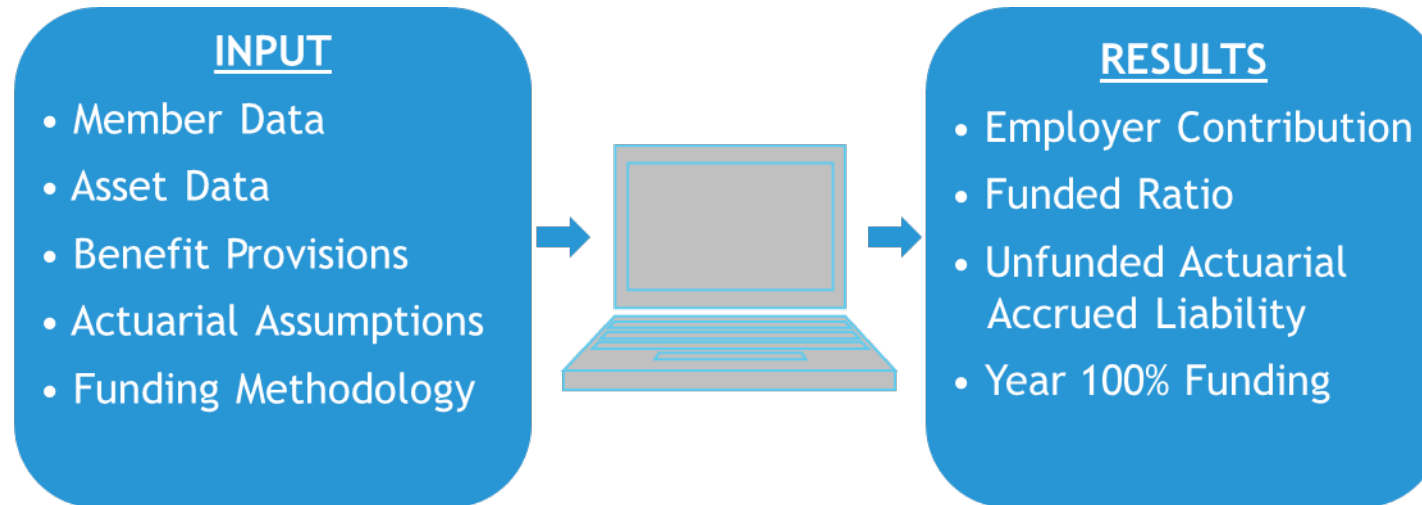
- ▶ Board Chairperson: Jeremy J. Flack, Fire Member Trustee
- ▶ Board Vice-Chairperson: Alexa Nerdrum, Citizen Trustee
- ▶ Board Secretary: David Monroe, Police Member Trustee
- ▶ Executive Director: Wendy Orcutt

Fund Overview

| | Employees' Retirement System | Retiree Health Care Benefit Plan & Trust (VEBA) |
|--------------------------------------|------------------------------|---|
| Actuarial Value of Assets | 470,028,788 | 143,250,000 |
| Total Actuarial Accrued Liability | 548,201,472 | 281,502,000 |
| Unfunded Actuarial Accrued Liability | 78,172,684 | 138,252,000 |
| Total City Contributions | 13,352,412 | 15,171,011 |
| Funded Ratio @ 6/30/2016 | 86% | 51% |
| Year 100% Funded | 2043 | 2032 |

Role of the actuary

The Employees' Retirement System and the Retiree Health Care Benefit Plan & Trust (VEBA) are actuarially prefunded. What that means is that the City makes contributions to the ERS and VEBA on behalf of employees while they are working which, when combined with investment earnings and member contributions, are estimated to be sufficient to pay for their benefits in retirement. The actuary determines these contributions amounts annually through a process called the actuarial valuation, illustrated below.



Prudent Practices in Place

- ▶ Actuarial Valuations completed within five months of the June 30 valuation date, in time for budgeting
- ▶ The Board of Trustees reviews the assumptions underlying the valuations every five years
- ▶ The Board of Trustees reviews its funding policy contribution, known as the Minimum Required contribution, at least every 5 years
- ▶ The City Funding Plan under Section 1.3 of the City of Ann Arbor General Pension Policy:
 - ▶ Provides for a contribution that is at least as large as the Minimum Required contribution
 - ▶ Provides for contribution stability

Observations

- ▶ The funded ratio for the Ann Arbor Retirement System And VEBA are higher than peers in Michigan
 - ▶ Median funded ratio of 82% for pensions vs 86%
 - ▶ Anecdotally, public sector retiree health care generally not funded vs 51%
- ▶ Assumptions and Funding Policies generally result in contributions that are higher
 - ▶ Ann Arbor uses assumed return on assets of 7%. 31% of retirement systems in Michigan use a return of 7% or lower
 - ▶ Ann Arbor uses generational mortality. About half of retirement systems in Michigan use generational mortality

Source: MAPERS Membership Survey presented at Fall MAPERS conference

Additional Topics

- ▶ Hybrid “Dual” Plan
 - ▶ No immediate impact on AAL
 - ▶ Employer contributions will decrease when compared to the current design over time
 - ▶ Employer contribution volatility will gradually lessen as risk is shared with members
- ▶ Amortization Methods and Impact
 - ▶ Open
 - ▶ Closed
 - ▶ Layered

Utility Rate Discussion



Typical Residential Bill Comparison

2017 Typical Residential Bill

| | |
|------------------------|-----------|
| Water | \$54.32 |
| Sewer | \$84.69 |
| Storm water | \$36.52 |
| Subtotal: | \$175.53 |
| Early Payment Discount | (\$17.55) |
| Average Quarterly Bill | \$157.98 |

2018 Typical Residential Bill

| | |
|------------------------|-----------|
| Water | \$55.80 |
| Sewer | \$89.11 |
| Storm water | \$42.53 |
| Subtotal: | \$187.44 |
| Early Payment Discount | (\$18.74) |
| Average Quarterly Bill | \$168.70 |

| | |
|-----------------|---------|
| Annual Increase | \$42.88 |
|-----------------|---------|

| | |
|--------------------|-------|
| Effective Increase | 6.79% |
|--------------------|-------|

The Typical Residential Bill is based on 17 units per quarter and falls in Tier 2 of the Storm water Rate Structure

Rate Comparison

| Community | Anticipated Increase |
|------------------------|-----------------------------|
| City of Ypsilanti | 13.26% |
| City of Port Huron | 3.00% |
| City of Ann Arbor | 6.79% |
| City of Lansing* | 2.60% |
| City of Grand Rapids** | 1.71% |

*Sewer rate increase only, Water was increased 28% in the past 5 years

**In 2016, the rate increase was 18.2%

Stormwater Cost-of-Service Study Objectives

- ▶ **Projection of full cost of service**
 - ▶ Develop multi-year financial management plan
 - ▶ Integrate desired level of service (LOS) and system needs
- ▶ **Evaluate stormwater cost allocation and fee structure**
- ▶ **Engage community stakeholders**
 - ▶ Input and expectations related to level of service & fees
- ▶ **Develop dynamic model for future use**
 - ▶ Long-term sustainability & ongoing financial management

Revenue Requirement Components



Stormwater O&M Phase-in Plan

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|
| Tree Pruning | \$700,000 | | | |
| Public engagement | \$150,000 | | | |
| Best Management Practices | | \$200,000 | | |
| Field Ops | | \$150,000 | | |
| Green Inf. Mant. | | \$200,000 | | |
| System Repair and R&R | | | \$920,000 | |
| Sewer Inspection & Cleaning | | | | \$650,000 |
| Yearly Total | \$ 850,000 | \$ 550,000 | \$ 920,000 | \$ 650,000 |
| Cumulative Total | \$ 850,000 | \$ 1,400,000 | \$ 2,320,000 | \$ 2,970,000 |

- ▶ Total O&M Enhancements = \$2.97M; FY 2017 O&M Budget = \$5.22M
- ▶ Phasing plan was created in order to recognize funding limitations, practical limitations and the prioritization of and coordination with other key initiatives

DDA Impacts

- ▶ Private Development since 1983: 3.4M square feet
- ▶ DDA District in 2016:
 - 25% of employment in Ann Arbor
 - 6,541 downtown residents (>3,100 housing units)
 - 8% annual population growth since 2010 (vs 0.8% in the city)
 - New residents increased retail potential by 45%
 - Downtown commercial vacancy 2% two years in a row
 - Demand for new office space (est'd 300,000sf)
 - Demand for additional residential (est'd 1,525 additional units)
 - 221 IT & venture capital companies (2,900 employees)
 - 64 outdoor permitted events (est'd attendance <658,000)



DDA Impacts

- ▶ FY17 Tax capture by the City within the DDA District \$4.8M

- ▶ \$19M commercial construction in 2016
 - Total number of building permits within the DDA: 211
 - Total value of building permits within the DDA: \$21,000,000
 - Total fees paid \$273,000

- ▶ Gross parking revenues provided to the City:
 - FY 2016: \$3,549,067 (actual)
 - FY 2017: \$3,610,561 (budgeted)
 - FY 2018: \$4,100,000 (budgeted)
 - FY 2019: \$4,200,000 (budgeted)



DDA Impacts/Achievements

- ▶ On-going DDA partnership and coordination with City staff
 - DDA partnered w/Forestry & Main St BIZ to replace 80+ dead trees
 - DDA & Engineering coordinate sidewalk and ROW repairs
 - DDA repaired sidewalk brick throughout downtown
 - Monthly Street Design Team meetings
 - Monthly DDA meetings w/Parking Enforcement committee
- ▶ DDA coordination/communication
 - Designed S. U. streetscape improvements to meet goals
 - Set goals for 5th/Detroit St project, seeking design input
 - Placement of annual winter lights
- ▶ Established DDA project priorities through 2025
 - Integrated DDA Street projects into the City CIP
 - DDA project planning incorporated City capital needs



DDA Impacts/Achievements

- ▶ Established DDA Grant Program guidelines
 - Grant to the State Theater project (façade) \$200,000
 - Grants to the Farmers Mkt project (bldg & storm water infiltration) \$375,000
 - Grant to the Ark (façade/door) \$100,000
 - Grant to the Art Center (façade/door) \$50,000
- ▶ Overseeing DDA Brownfield and Partnership Grants
 - 318 W. Liberty (water main expansion) \$48,000 est
 - 618 S. Main (water main expansion, storm water, streetscape) \$650,000 est
 - 116-120 W. Huron (water main expansion, streetscape) \$390,000
- ▶ Grant for Power!Up (original artwork on signal boxes, anti-graffiti) \$70,000



DDA Impacts/Achievements

- ▶ Annual DDA grant for anti-graffiti materials (paint, rollers) \$7,500/yr
- ▶ Annual DDA grant for Downtown Blooms/Spring Clean Up \$7,500/yr
- ▶ Annual DDA grant for City Court/Police Municipal Building \$508,000/yr
- ▶ Annual DDA grants for Art Fair map & trolley \$14,000/yr



DDA Impacts/Achievements

- ▶ Parking system serves residents, customers, businesses, visitors
 - 2.3 million hourly patrons in FY16
 - 611,353 rides on DDA-sponsored go!Pass and grants supporting increased transit service \$751,000 (est)
 - Bike parking installations including two bike houses, in-street racks
 - 28 electric vehicle (EV) charging units
 - Two car share companies offering services
 - Easy Pay parking at 4th & Washington, Liberty Sq, Library Lane
 - Epark system expansion
- ▶ Parking system supports special events and non-profits:
 - Meter bag fee waivers in FY15: \$177,740 (60+ events)
- ▶ Upcoming debt service completions:
 - FY17: 4th & Washington
 - FY20: Refunding Maynard, Forest & 4th & Washington
 - FY22: 4th & William



DDA Impacts/Achievements

- ▶ Innovative and effective parking management
 - Transportation Demand Management (TDM) study & recommendations to build on efforts to improve parking system efficiency & access to downtown
 - Operational review assessing policies/procedures against best practices \$65,000
 - Technology review to improve operations and support TDM \$35,000
 - Creative parking landscaping to encourage walk-by interest (eg vegetables)
- ▶ Ongoing parking management
 - Parking operator contract has been bid out
- ▶ Rigorous ongoing repair & maintenance
 - Triennial engineering assessment
 - Annual 2-day maintenance walk-throughs
 - Structure repairs & preventative maintenance/deck coating \$850,000 in 2016
 - Annual parking lot repairs/maintenance \$50,000 in 2016
- ▶ Ongoing reinvestment in parking facilities
 - 4th & William parking structure stair/elevators project \$5 million
 - ePark purchase/installation (110 stations, 76% of on-street spaces) \$1 million



DDA Innovations/Ideas/Initiatives

- ▶ Selected a new service provider for parking pay-by-phone
- ▶ Setting aside funds for future parking or transportation infrastructure
- ▶ Future projects includes poss. 2-way traffic conversion on 1st & Ashley
- ▶ Potential parking agreement changes, including possible changes to enforcement
- ▶ DDA adopts Vision Zero and Goals to Design Streets for People
- ▶ Adoption of a new Long-Term Parking Permit Policy
- ▶ Created a Manager of Parking Services position
- ▶ Undertaking a feasibility study for a downtown circulator



DDA FY2018 & FY2019 Budget

Revenues

| | <u>Actual FY 2016</u> | <u>Budget FY 2017</u> | <u>Request FY2018</u> | <u>Forecast FY2019</u> |
|------------------------|---------------------------|---------------------------|---------------------------|----------------------------|
| Parking Income | \$21.4 | \$21.8 | \$21.1 | \$21.8 |
| Investment Income | \$.2 | \$.1 | \$.1 | \$.1 |
| Miscellaneous Income | \$.3 | \$.1 | \$.1 | \$.1 |
| Operating Transfers In | \$ 3.9 | \$ 4.8 | \$ 4.0 | \$ 4.0 |
| Taxes | <u>\$ 5.4</u> | <u>\$ 6.3</u> | <u>\$ 6.5</u> | <u>\$ 6.7</u> |
| Totals | \$31.2 | \$33.1 | \$31.8 | \$32.7 |



DDA FY2018 & FY2019 Budget

Expenses

| | <u>Actual FY 2016</u> | <u>Budget FY 2017</u> | <u>Request FY 2018</u> | <u>Project. FY 2019</u> |
|-----------------|---------------------------|---------------------------|----------------------------|-----------------------------|
| Personnel | \$.6 | \$.7 | \$.9 | \$.9 |
| Other Services | \$ 7.3 | \$ 9.4 | \$ 9.7 | \$ 9.1 |
| Material & Sup. | \$.1 | \$.1 | \$.1 | \$.1 |
| Other Charges | \$ 6.4 | \$ 7.3 | \$ 7.9 | \$ 7.7 |
| Pass Throughs | \$10.7 | \$11.6 | \$ 9.9 | \$10.2 |
| Capital Outlay | <u>\$ 3.5</u> | <u>\$ 5.0</u> | <u>\$ 7.2</u> | <u>\$ 4.6</u> |
| | \$28.6 | \$34.1 | \$35.7 | \$32.6 |



DDA FY2018 & FY2019 Budget Notes

▶ Revenues

- ▶ There is a cap on the DDA's TIF revenue growth
- ▶ Parking revenues were down during the first half of FY17 against the previous year. The amount budgeted for parking income in FY18 was adjusted downward to reflect this.
- ▶ A parking rate change is planned for FY2019



DDA FY2018 & FY2019 Budget Notes

▶ Expenses

- ▶ Periodically DDA undertakes large capital improvements projects, for which the DDA utilizes funds in its fund balances

- ▶ FY18 & FY19 TIF capital projects:

- ▶ South University improvements \$2.1M
- ▶ 5th & Detroit project (historic brick, streetscape) \$2.9M
- ▶ Huron Street improvement project \$4.0 M

- ▶ These costs are shown in the budget as:

- ▶ Other Services which are the professional services for these projects
- ▶ Capital Outlay construction costs

- ▶ Within Capital Outlay, the DDA has budgeted increased costs for sidewalk repairs (brick, trees, grates). This has been increased from \$200,000 to \$400,000 in FY18 & FY19

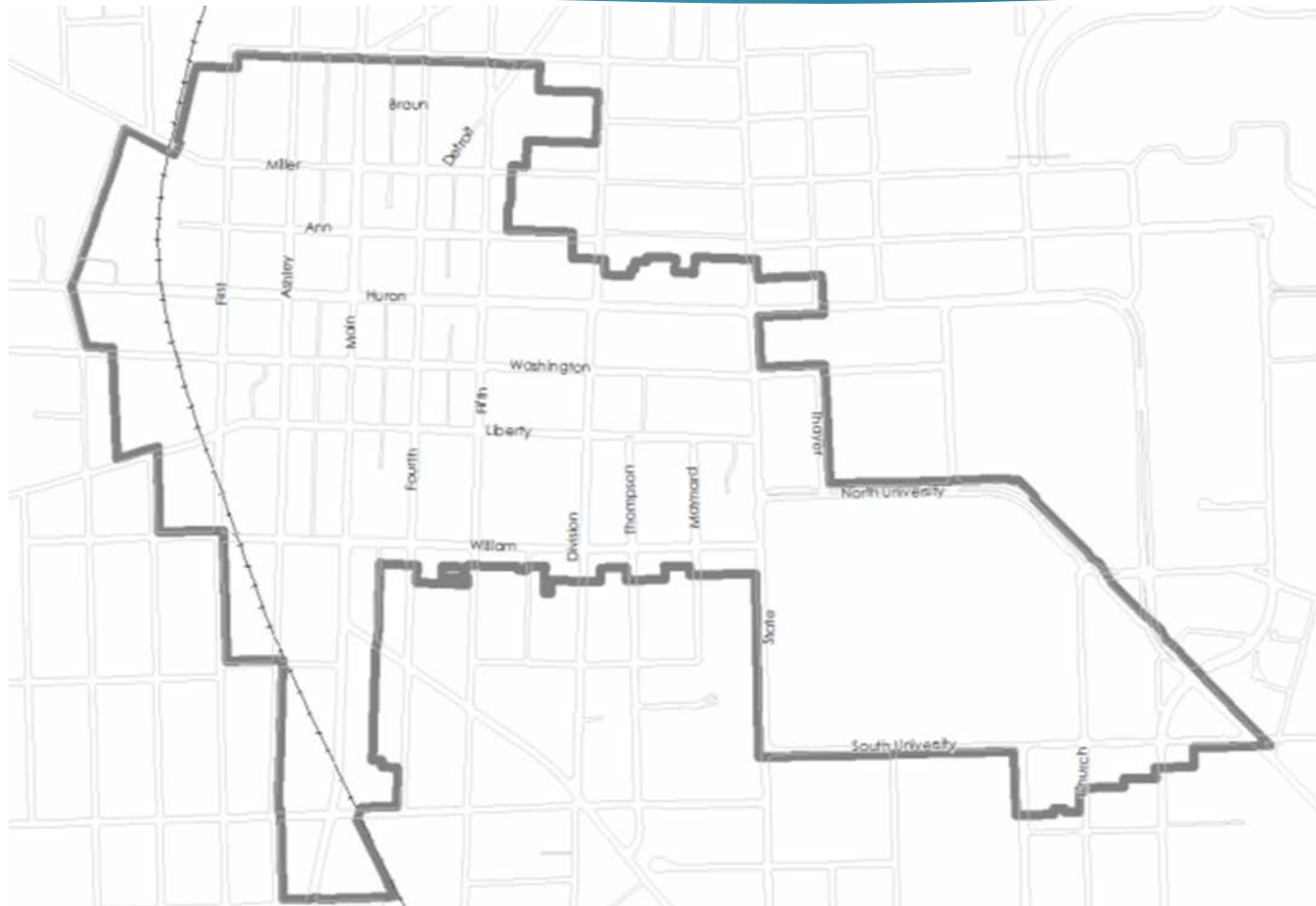


DDA FY2018 & FY2019 Budget

- ▶ **Expenses (continued)**
- ▶ Other Charges – the increase in this category is primarily due to the DDA increasing the amount of parking revenues provided to the City in FY18 & FY19 by 3% . The DDA's Housing Fund grant amount was also increased to make these funds available for use and the TIF amount increased to pay for Brownfield/Partnerships grants.
- ▶ Pass Throughs – this category decreased due to a parking bond being paid off in FY17
- ▶ Personnel – the DDA created a new Parking Manager position in FY17. Funds are shown to allow the DDA board flexibility to potentially add another position in FY18 or FY19



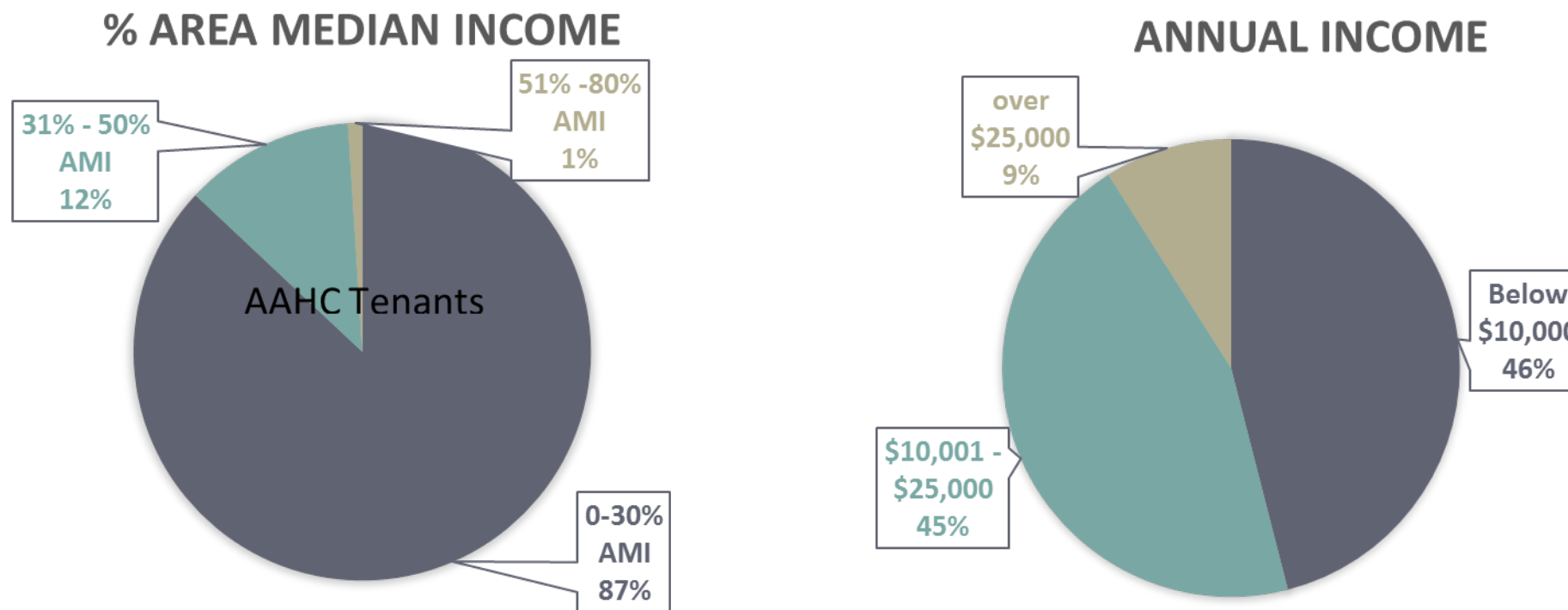
www.a2dda.org



Ann Arbor Housing Commission (AAHC) Programs

- 1) Properties owned and managed by the AAHC with property-based rent subsidies
 - 49 Public Housing apartments
 - 332 Affordable Housing apartments
- 2) Tenant Based Voucher Program, rent subsidies for tenants living in private landlord housing
 - 1,233 Housing Choice Vouchers
 - 226 Veterans Administration Supportive Housing (VASH) for Homeless Veterans
 - 100 Mainstream Vouchers for disabled households
- 3) Continuum of Care Vouchers and Services for Homeless Households
 - 211 Households living in private housing with rent subsidies and supportive services
- 4) Supportive Services
 - AAHC Family Self-Sufficiency program (145 participants)
 - Local nonprofit partnerships provide services to AAHC tenants and AAHC voucher holders

Demographics – AAHC Tenant Income



2010 Census Washtenaw County: 8% below \$10,000, 13% \$10,001 - \$25,000, 79% over \$25,000

AAHC Goals

- ▶ Modernize properties
- ▶ Strengthen organization
- ▶ Play more active role in broader community effort to provide affordable housing for low-income and special needs populations
- ▶ Bring in additional financial resources

Modernize Properties

2010 Condition of Apartments

- ▶ \$14.5 million in immediate capital needs (\$41,000/apartment)
- ▶ HUD providing about \$500,000/yr in capital funding (\$1,408/apartment)



Condition of Buildings



Modernize Properties - Achievements as of 2017

- ▶ FY 2013: Approved by HUD to convert portfolio of public housing under RAD to project-based vouchers
- ▶ \$46 million secured for redevelopment
 - ▶ \$17 - \$19 million still needed
- ▶ 288 apartments renovated
- ▶ 42 newly constructed apartments
- ▶ 1 new community center/property management office
- ▶ 49 public housing apartments left to be redeveloped

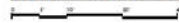


J. Hall

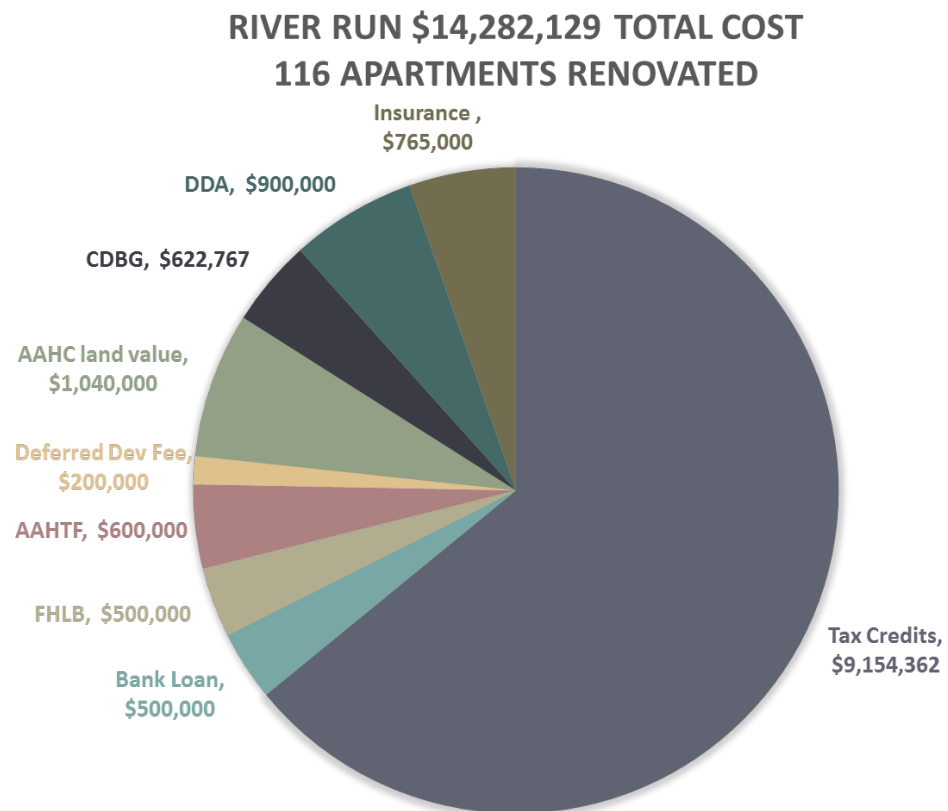
Rendering of White Street Apartments



HENRY STREET ELEVATION (SOUTH) 1/8" = 1'-0"

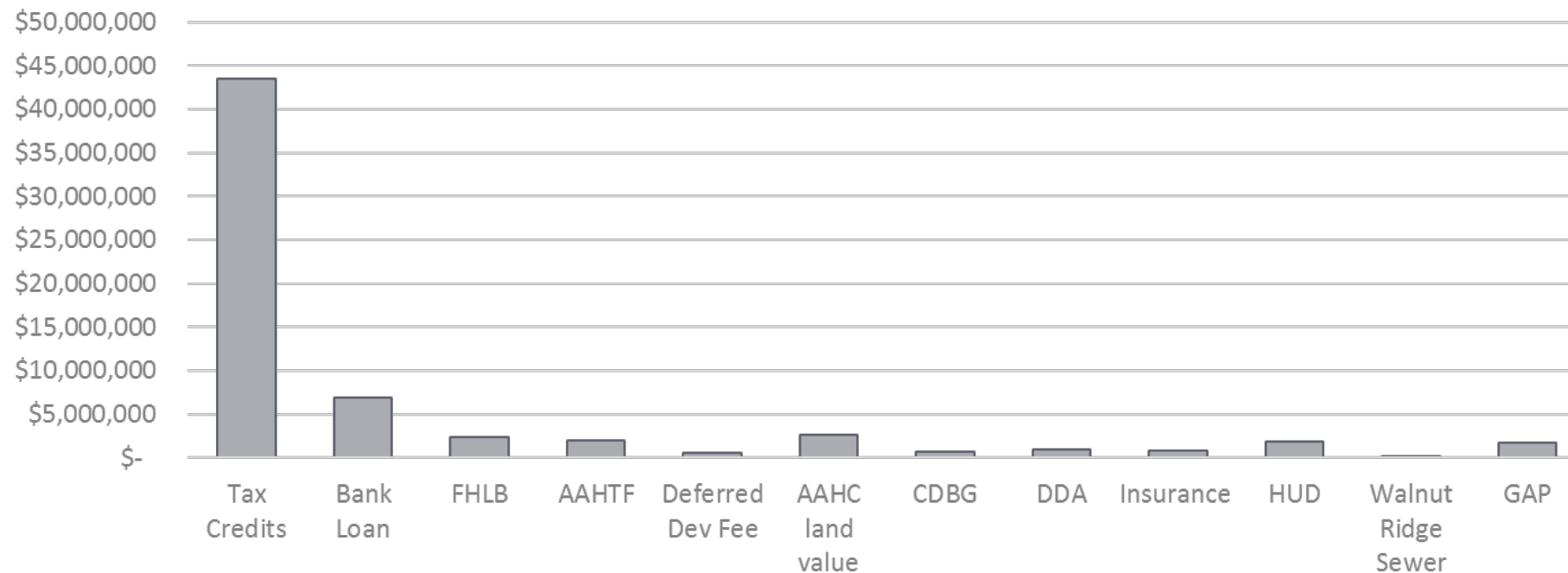


Funding Sources Tax Credit Project



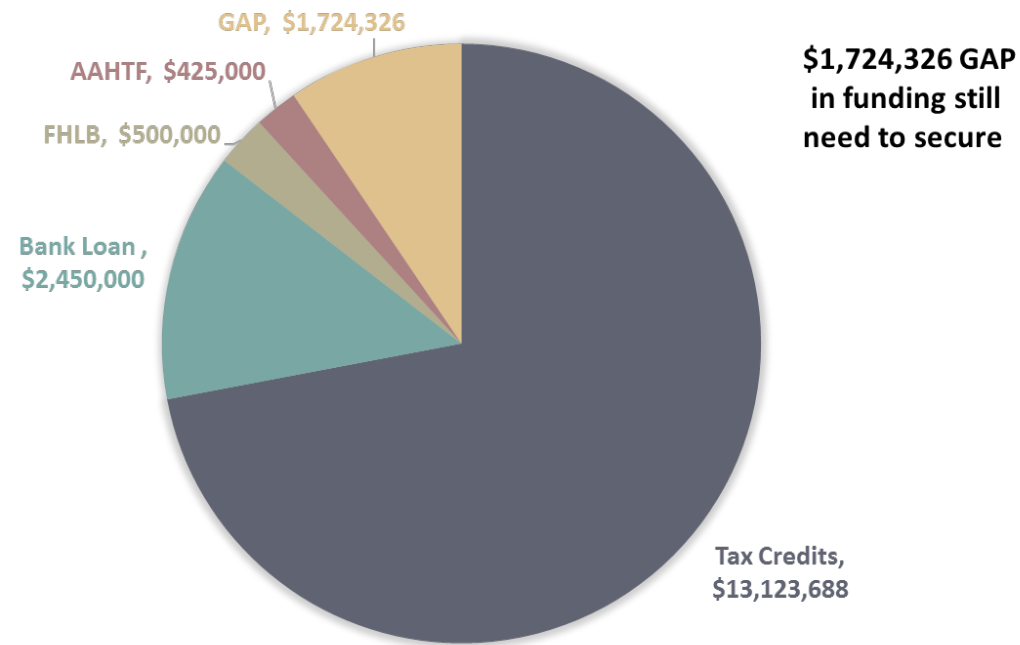
Total Redevelopment Funding All Properties by Source

\$64,210,657 total funding needed for 412 apartments



Final Tax Credit Application

SWIFT LANE 64 APARTMENTS (HENRY STREET & PLATT ROAD)



Redevelopment Achievements & Long-Term Sustainability

- ▶ Healthier Housing for Residents
- ▶ Energy Efficiency Improvements
 - ▶ 42 KW Solar array at Miller
 - ▶ Reduced energy consumption over 20% which saves money for tenants & AAHC
- ▶ Operating Reserves
 - ▶ \$911,000 Initial
 - ▶ \$1.7 million Restricted developer fees help for operations
- ▶ Capital Reserves
 - ▶ \$300,000 Initial
 - ▶ \$126,000 Annually from operations
- ▶ Preventative Maintenance Plan
- ▶ Asset Managers and oversight – Investor, MSHDA, Bank

Operational Achievements

- ▶ No longer in Troubled Status
- ▶ Increased Utilization
 - ▶ 100% of voucher funding utilized
 - ▶ Unit turns in housing decreased from 240+ days to less than 25 on average
- ▶ Technology
 - ▶ Mobile maintenance with laptops
 - ▶ On-line waitlist application (unless need accommodation)
 - ▶ Electronic Fund Transfers (EFT)
 - ▶ Mobile Housing Quality Standard inspections
- ▶ Staff retention and investment in training

Community Role Achievements - Serving Special Needs Residents

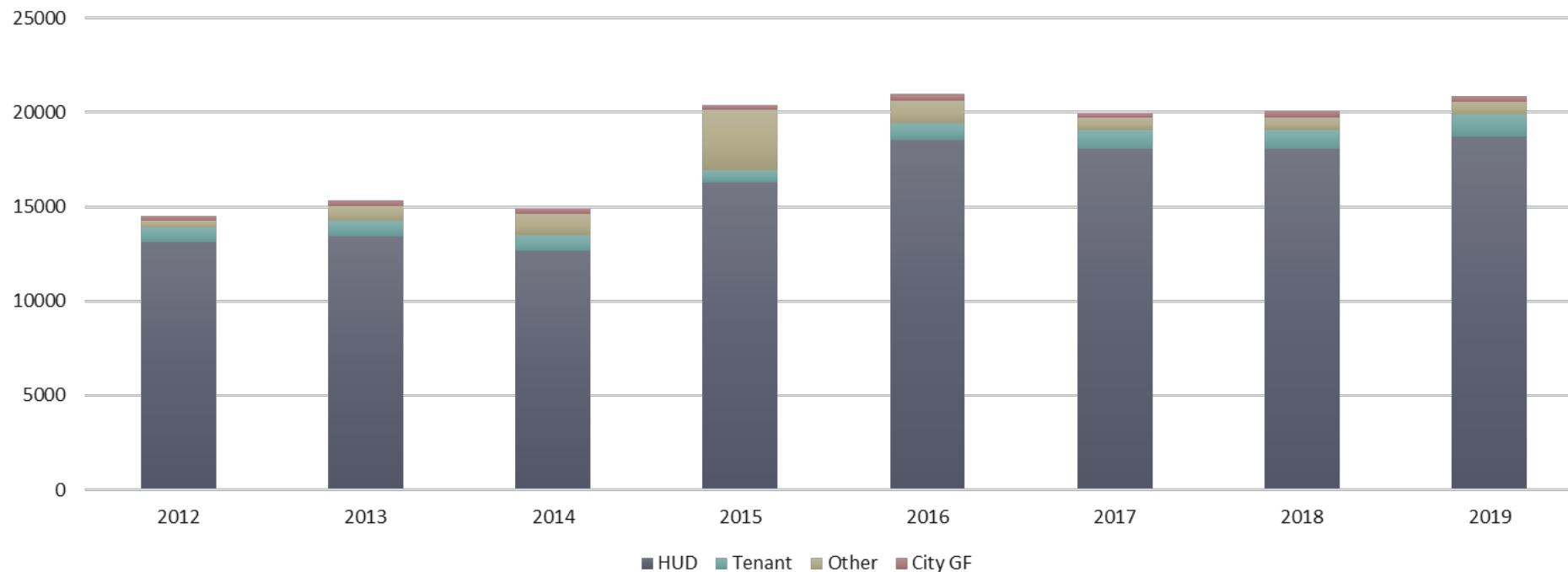
- ▶ Setting aside over 25% of redeveloped apartments for homeless households
- ▶ Leader among Housing Authorities on permanent supportive housing model
- ▶ Miller Manor
 - ▶ 24/7 on-site services at Miller Manor
 - ▶ 45 apartments for chronically homeless individuals, services provided by Avalon Housing
 - ▶ 15 apartments for chronically homeless veterans, services provided by Veterans Administration
 - ▶ 4 apartments for homeless youth, services provided by Ozone House
 - ▶ 86% of homeless households continued to be successfully housed after 1 year
 - ▶ Art room with art therapy classes
 - ▶ AA and NA classes led by tenants
 - ▶ Community kitchen and community living classes
 - ▶ Mental health and medical health services on-site

Community Role Continued

- ▶ FUSE partnership
 - ▶ 100 chronic homeless frequent users of emergency health services
 - ▶ Avalon, MAP, U-M Medical Center, St. Joseph Mercy Health, WCCMH, Shelter Association, Packard Health Clinic and more
 - ▶ One of 4 national grants to demonstrate the health benefits and cost savings of permanent supportive housing
- ▶ SOS partnership voucher program
 - ▶ SOS provides case management services to AAHC voucher participants who are in danger of losing voucher for any reason

Achievement - Securing Additional Resources Operations

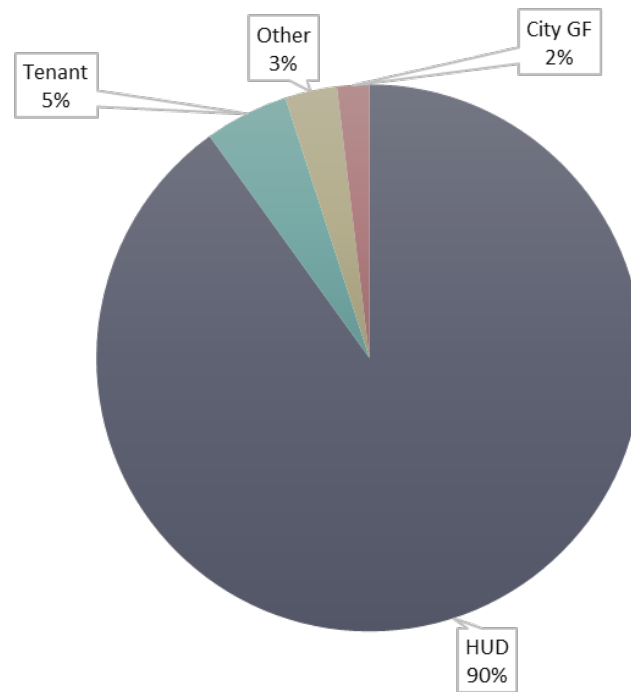
AAHC Operating Revenue Sources by Year



Continued Challenges & Risks

- ▶ Need to convert remaining Public Housing
 - ▶ \$17 - \$19 million needed
 - ▶ May need to sell Broadway (20 units) to finance if city does not sell Library Lane Lot
- ▶ Unpredictability of HUD Voucher Program funding
 - ▶ Insufficient VASH and RAD rent subsidies in 2016 and 2017 – shortfall
 - ▶ 78% - 82% reimbursement rate for Program Administration
 - ▶ HUD proposed new reimbursement structure would fully fund AAHC if adopted
- ▶ Uncertainty around Ongoing Service Support Funding
 - ▶ State requested Medicaid waiver to reimburse PSH-type services
 - ▶ Cannot pay for services with rents, but can with post-audit distribution of cash-flow
- ▶ Need consolidated AAHC office & maintenance space

2018 & 2019 AAHC Operating Budget



Still primarily HUD funded
\$20 million/year budget
Requesting
FY18 \$108,000 general fund
FY19 \$68,000 general fund
Plus IT, HR and payroll support

LDFA FY2016 Achievements

- ▶ 102 companies rec'd Business Accelerator services
 - ▶ 276.5 retained jobs → 357.5 current FTEs = 81 new jobs
- ▶ 29 companies utilized Entrepreneurial Boot Camp
 - ▶ 62 retained jobs → 72.5 current FTEs = 10.5 new jobs
- ▶ 76 companies were Incubator clients
 - ▶ 28 companies were seated clients, 4 graduated and stayed in the city
 - ▶ 174.5 retained jobs → 269 current FTEs = 94.5 new jobs
- ▶ 3 companies received loans totaling \$80,000
 - ▶ 8.5 retained jobs
- ▶ 59 educational programs and events hosted
 - ▶ 2,950 attendees (1028 entrepreneurs)

Companies are served by a mix of programs, therefore jobs created by program contain overlapping figures.
Total net new jobs was 150.5.

LDFA Initiatives/Innovations/Ideas

- ▶ 15 Year Extension – actively working with MEDC. Anticipate bringing to Council within next two quarters
- ▶ Developing plans for how funds allocated to Ypsilanti can best be utilized
- ▶ Strategic Planning – Board has started a strategic planning discussions on how to invest the funding for the next 15 years and will engage a third party expert
- ▶ FY18 budget allocates resources to leverage other regional investments in mobility
- ▶ Remaining focused on serving accelerator and incubator clients

LDFA Budget Impacts

- ▶ See agenda attachment for detailed budget page.
- ▶ Highlights:
 - ▶ Budgeted activities are consistent with MEDC and legal requirements
 - ▶ Support increasing demand for Phase III consulting services
 - ▶ Allocate resources to connect entrepreneurs with private funding
 - ▶ Facilitate networking, education, sponsorship efforts
 - ▶ Add support to encourage new business related to mobility given regional trends
 - ▶ Discontinue microloan program
 - ▶ Perform SPARK contract audit
 - ▶ Allocate funds to support strategic planning effort and third party expert

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