

April 20, 2015

To Mayor Taylor and Members of City Council:

I am pleased to submit the City Administrator's Proposed Fiscal Year 2016 Budget and Fiscal Year 2017 Plan. The FY 2016 budget is the first year of the City's two-year fiscal plan for the latest anticipated revenue receipts and includes expenditure strategies to establish an operating fiscal plan that is balanced over the two years. Balanced is defined as a plan that supports a sustainable delivery of services within the projected revenues.

Budget and Fiscal Health

Fundamental to a fiscally responsible budget is balancing the amount of recurring revenues with recurring expenditures and starts with realistic revenue estimates. General Fund revenues are projected to increase by 2.5%. FY 2017 revenues are projected to increase 1.4% from 2015. Property tax receipts are expected to increase approximately 2.7% in FY 2016.

The other major source of revenue in the General Fund is state shared revenues. State shared revenue has two components – constitutional and statutory (now called cities, villages, & townships revenue sharing or CVTRS). The recommended budget includes \$10.7 million for revenue sharing, a 4% increase from FY 2015.

Fee changes are recommended to fund the cost of some services, but the budget does not assume an increase in property tax rates.

The city's enterprise funds anticipate revenue increases as follows: Water 4.3%, Sewer 6.0%, and Stormwater 6.5%. The increase for the average residential customer is: Water 3.3%, Sewer 4.5%, and Stormwater 5.1%. The Water & Stormwater rate increases are primarily necessary to fund normal capital replacement of aging collection and distribution systems.

One-time expenditures are funded by use of non-recurring revenues. The General Fund unassigned balance is projected to be 17% of expenditures at the end of FY 2017. While below a 20% level, the fund balance is within the City Council policy minimum as revised and recommended by staff and is reasonable given the improving economic and fiscal condition of the city and state. More importantly, the FY 2017 Plan provides City Council the flexibility to defer non-recurring items to increase the fund balance if changes occur at the state level or economic conditions change.

Priorities

City Council adopted the Sustainability Framework in 2014. Among the Sustainability Framework theme areas are Climate and Energy, Community, Land Use and Access, and Resource Management.

In December 2014, City Council set priorities using the Sustainability Framework as an overarching policy guide. The proposed budget for Fiscal Year 2016 and the Plan for 2017 recommend funding to move toward accomplishment of City Council's priorities.

<u>Accessory Dwelling Units</u> -The proposed budget includes \$25,000 funding for consulting assistance to prepare zoning ordinance amendments, including community engagement, for accessory dwelling units.

Allen Creek Greenway – The proposed budget includes \$200,000 for a master plan. The funding would be used for consulting services. The amount is reduced from the original request. While the scope of work could be reduced to meet the smaller funding amount, the recommendation is for the City's portion to be supplemented by financial participation from other organizations or sources. Total project costs for the City could be reduced by involving partner organizations, a model successfully used for planning and constructing the Ann Arbor Skate Park.

The master plan would build upon community feedback by including additional stakeholders that require or expect a level of detail not currently available, such as property owners along the route, the Ann Arbor Rail Road, the Michigan Department of Transportation, the University of Michigan, city commissions and residents. A master plan would provide analysis of land use, transportation, historic preservation, and economic impacts of a greenway in a floodplain; develop cost estimates for a preferred route and propose funding options for acquisition and construction; and identify trail stewardship, operational budgets, and risk management approaches.

<u>Safe Systems for Autos, Pedestrians, and Bikers</u> – The proposed General Fund budget includes \$60,000 in FY 2016 and \$100,000 in FY 2017 for implementation of recommendations from the Pedestrian Safety Task Force. The proposed amounts are intended to provide City Council and the organization flexibility in addressing the task force's most pressing needs, changes, and recommendations.

In addition, the proposed budget includes street projects that will have non-motorized enhancements, such as Stadium Boulevard. The Geddes Road sidewalk is included in the budget.

The City Council directive to plan for improved street lighting where helpful to pedestrian safety is starting with defining a funding plan for consideration in FY 2017. The FY 2017 Plan includes \$400,000 for street light maintenance. This amount is a small portion of what is needed. The city has estimated \$4.3 million is needed for deferred maintenance or replacement of street lights. As future recurring resources are available, staff will incorporate a recurring capital contribution of \$400,000 for

streetlights. If \$400,000 is set aside for five to six years, and the \$4.3 million deferred need is funded, the City's streetlights will be appropriately maintained. Alternatively, the \$400,000 could be used for emergency or high-priority replacements. Staff will be developing an implementation plan for the recommendations from the street light white paper provided to Council on February 17, 2015.

<u>Forestry</u> – A rate study for the stormwater system is planned for FY16 to determine whether rates are sufficient to support all of the stormwater fund activities. The study will include rates necessary to maintain trees in the City's rights of way. The study will be completed for consideration in FY 2017.

<u>Streets and Roads</u> - The Proposed FY 2016 budget includes modifying the minimum fund balance policy to one half of annual receipts from the street millage. Since the construction season is based on calendar year instead of fiscal year, the one-time additional funds from this modification can be programmed for additional work in CY2016. With the use of projected funds plus the one-time county-wide millage proceeds, staff anticipates 29.2 miles of road repair to occur in CY2015 versus 12.2 miles that was performed in CY2014, an increase of 135%.

In addition to the specific City Council priorities, the City Administrator's proposed budget addresses other needs identified by the community, City Council, and the organization:

Neighborhood Services

The proposed budget creates a Neighborhood Services unit, formally Rental Housing and moves zoning administration to Neighborhood Services. The reorganization will improve the City's response to neighborhood quality of life concerns and specific zoning problems, such as over occupancy. Neighborhood Services will include rental housing inspection and zoning administration. One new FTE is proposed to achieve this reorganization.

Funding of \$50,000 is proposed for consulting assistance with zoning amendments to implement R4C recommendations.

Affordable housing

The FY2016 proposed budget includes a non-recurring \$25,000 for development and implementation assistance for the Affordable Housing Needs Assessment.

The FY2016 proposed budget includes \$180,000 from the General fund for the Ann Arbor Housing Commission. In addition, \$100,000 currently being contributed annually to the Affordable Housing Trust Fund is redirected to the Housing Commission. The total increase to the Housing Commission's FY16 budget is \$280,000. For FY 2017, the \$100,000 would continue to be redirected to the Housing Commission. City support for the Housing Commission involves significant policy questions that require direction before any decisions regarding recurring financial support should be made. During FY 2016 staff should be charged with developing, in cooperation with the Housing Commission, a partnership agreement that specifies the responsibilities between the City and Housing Commission, the Housing Commission's role in affordable housing,

and other policy considerations for City Council. The agreement would help answer public policy questions such as the City's responsibility, if any, to replace the declining federal support for public housing.

Infrastructure

In addition to the significant spending proposed for streets and roads, policy decisions regarding reinvestment in other infrastructure will be examined. In FY 16 a rate study will be undertaken to review level of service and investment in stormwater infrastructure and services. Recent stormwater studies have refined the estimates of capital investments for the stormwater system. Street tree management has been added to the stormwater system's responsibilities since the last rate study. Both the capital investments and the street tree maintenance are beyond the scope of the current rate structure. For FY 17 a rate study is proposed for the drinking water and sewage disposal funds. At that time the planning for the replacement of the drinking water plant number 1 will provide a reasonable construction estimate and project schedule to determine funding needs. Additionally the construction on the wastewater plant should be entering the final months, and knowing the final cost and debt structure for the sewage disposal fund will allow for better rate refinement.

The solid waste fund will be facing a variety of unknowns at the end of this planning period. The long term contract for solid waste disposal at a landfill will be expiring. It is expected that there will be an increase in fees, maybe significant increases. The Material Recover Facility needs to be evaluated for programmed capital investments as the facility ages. The program for replacement of the drop off station will be fully developed with a schedule and cost estimates.

CTN fund balance will fund IT's development of a \$2.5 million replacement for the city's I-net.

FY 2016 and FY 2017 Budget Impacts

In addition to the proposed changes already highlighted, notable General Fund changes include: (Unless otherwise noted amounts listed are total increases in expenditures. **R=recurring**)

Parks – New programming and increased participation \$150k R
Planning – Sign ordinance revision \$75k FY 17
Facilities

- Larcom City Hall Environmental Controls \$90k FY 16
- Larcom City Hall Meeting Chambers Renovation \$140k FY 16
- Larcom City Hall Elevator Replacement \$200k FY 17
- Fire Stations Generators \$230k FY 16 and \$100k FY 17
- Fire Stations Renovations \$221k FY 17
- 415 W Washington Site Stabilization and Environmental Assessment \$133k
- Barton & Superior Dam maintenance \$120k FY 16 and \$250k FY 17

Police

Contract Washtenaw County for animal sheltering and control \$108k

- Accreditation \$40k FY 16 and \$26k FY 17
- Equipment \$109k FY 16

Fire

- Accreditation \$86k FY 16 and \$72k FY 17
- Equipment \$115k FY 16

Deer Management - \$40k FY 16 and \$20k FY 17

Construction Code Fund – Addition of 1 FTE plan examiner to support building official and in response to increased building activity. The Construction Code Fund is funded by permit fees and receives no General Fund support.

The proposed budget sets staffing levels at 722 full time employees for FY 2016 and FY 2017.

General Fund Expenditures	2016	
Recurring Items:		
Mayor & Council	\$	376,077
City Attorney		2,010,833
City Administration - Administrator, Clerk, Human Resources, Safety		3,783,274
Planning & Development		1,349,069
Planning		1,123,082
Community Development		3,841,288
Parks & Recreation		5,696,568
Finance		7,392,374
Public Services: Field Operations		4,773,850
Public Services: Public Services All Other		7,165,246
Fire		14,852,447
Police		25,359,776
Fifteenth District Court		4,404,519
AAATA		10,070,668
Debt Service/Transfers/Other		4,273,555
Subtotal Recurring Expenditures	\$	96,472,626

Non-recurring Expenditures:		
City Administrator-Strategic Management Assistance	\$	50,000
City Administrator-Citizen survey		30,000
City Clerk-presidential primary election		110,000
City Attorney-upgrade CityLaw software		15,000
Housing Commission One-time support		180,000
Community Services-Affordable Housing Workgroup		25,000
Community Services-training on International Property Maintenance		
Code		10,000
Community Services-Deer Management		40,000
Community Services-hire consultants for zoning amendments		75,000
Community Services-hire consultant for Allen Creek Greenway		
Master Plan		200,000
Public Services-Geddes sidewalk		364,285
Public Services-Barton and Superior Dam work		120,000
Public Services-Guy C. Larcom Building Environmental Controls		90,000
Public Services-Council Chambers renovations Phase 2		140,000
Public Services-Fire Station generators (CIP item)		230,000
Public Services-415 West Washington Site Stabilization		133,000
District Court-Document Imaging Project		50,300
Safety Services-Police-CALEA accreditation		39,297
Safety Services-Police-Body Armor, AEDs for patrol cars, and		400.000
tasers		108,800
Safety Services-Police-Promotional Process Costs		35,000
Safety Services-Fire-CPSE Accreditation		86,000
Safety Services-Fire-One year support for Fire Dashboard		26,510
Safety Services-Fire-Equipment : KnoxBox, SCBA, thermal imaging		40,656
Safety Services-Fire-Two passenger vehicles for department pool		48,000
Non-departmental-Pedestrian Safety - sidewalk gaps & enforcement _		60,000
Subtotal Non-Recurring Expenditures	\$	2,306,848
Total General Fund Expenditures	\$	98,779,474
General Fund Revenues		
Taxes	\$	53,288,065
State-shared Revenue	Ψ	10,716,390
Charges for Services		6,174,928
Fines & Forfeitures		4,237,632
Transfers from other funds/AAHC for personnel		11,226,097
Other		15,216,112
Total General Fund Revenues	•	100,859,224
Total General Fund Nevenues	Ψ	100,009,224
Memo: Unassigned Fund Balance as of 06/30/2014	\$	14,278,680

City employees and City Council over the past decade have built a solid financial foundation. This foundation has been essential to the City providing the award-winning services expected by Ann Arbor's taxpayers, residents, and businesses. I thank all the members of the staff for their hard work in preparation of this budget. I thank City Council for their time and thoughtful consideration of the budget.

Respectfully yours,

Steven D. Powers
City Administrator