TO: Mayor and Council

FROM: Tom Crawford, CFO

CC: Steven D. Powers, City Administrator

SUBJECT: AAATA

DATE: May 8, 2015

Question #109: The AAATA millage is reflected in the budget book (budget resolution, budget summaries, non-departmental detail) at the previous millage rate, not the new, higher rate (increase of 0.7 mills). Why is that? (Councilmember Lumm)

Response: The City does not levy the additional millage rate under the AAATA millage for the City due to the fact that this millage is levied on more than City properties. The additional millage is levied separately on the tax bill by the AAATA for each unit of government serviced by this new millage.

TO: Mayor and Council

FROM: Tom Crawford, CFO
Susan Pollay, Executive Director, DDA

CC: Steven D. Powers, City Administrator

SUBJECT: DDA

DATE: May 8, 2015

Question #110:. Thank you for the April 24th update on DDA and LDFA TIF revenues:

- FY16 – DDA = $5.321M; LDFA = $2.538M
- FY17 – DDA = $6.0M; LDFA = $2.747M

For the DDA, these revenues are quite a bit higher than what is included in the DDA budget -- $250K (5%) higher in FY16 and $775K (15%) higher in FY17. The DDA TIF cap language in the approved ordinance was "Beginning with the 2016 tax year the maximum captured taxable value shall be $224,000,000.00. Each tax year thereafter, the maximum captured taxable value shall be increased by 3.5% per annum." Assuming the 2016 tax year is FY17, is the $6.0M at the $224M maximum taxable value? If not, what is the taxable value assumed that's generating $6.0M? If so, what would the taxable value (and resulting TIF revenue) be in FY17 if the cap had not been in place? (Councilmember Lumm)

Response: Based on the City's numbers, the estimated taxable value for the $6M DDA estimated TIF capture is $215M which is $9M below the $224M maximum taxable value in FY 2017.

Question #111: Also on the DDA, the Parking Fund (0063) revenues for FY16 are up $1.5M to $22.4M, but then fall by $800K to $21.6M in FY17. I'm assuming the FY16 increase reflects the rate increases, but what causes the FY17 reduction? Also, can you please provide a spreadsheet showing both TIF and parking revenues for DDA from FY12 through FY17. (Councilmember Lumm)

<u>Response</u>: The cause of the FY 2017 reduction in Parking Fund (063) revenues is the reduction of $800,000 in Prior Year Surplus from FY 2016 to FY 2017. The DDA does not plan on using any prior year surplus in FY 2017.

Below is a chart of DDA TIF and Parking income amount from FY 2012 to FY 2017:

Fiscal Year	Income TIF	Income Parking
2012*	$3,726,763	$17,050,292
2013*	$3,738,160	$19,086,835
2014*	$4,371,289	$19,692,876
2015#	$4,800,000	$19,297,782
2016#	$5,071,059	$21,525,369
2017#	$5,223,190	$21,525,369

* Per DDA Audit
# Per DDA Budget

TO: Mayor and Council

FROM: Tom Crawford, CFO

CC: Steven D. Powers, City Administrator

SUBJECT: LDFA

DATE: May 8, 2015

Question #112: Regarding the LDFA, the proposed FY16 budget reflects a 44% ($872K) increase in expenditures, including $300K for incubator expansion, $254K for Ypsilanti, $125K more for SPARK staffing, $100K for micro-loans and other smaller increases.

Given these significant changes, why did we not have our normal January work session with the LDFA folks? And perhaps I missed a communication somewhere, but can you please provide additional details on each of these proposed increases. It is also recommended that $300K of fund balance is used in FY16 to cover the additional operating costs. It does not appear, however, that there are any capital or infrastructure investments contemplated in either FY16 or FY17 – can you please confirm if that is correct? (Councilmember Lumm)

Response: Historically, the LDFA has not held a work session each year with Council, and this year it did not have a separate presentation of its budget given the heavy agenda of presenters to Council, and the timing of budget recommendation coming later in the City's process. Lastly, this year's LDFA budget recommendation was made more difficult by State's delay in consideration of the SmartZone extension and amendment.

Explanation for increases:
Incubator expansion ($300k) - The existing incubator utilizes the first floor and a portion of the second floor of 330 E. Liberty St. The renovation would be to the newly leased fourth floor (6,600 square feet). The fourth floor will be utilized by companies who have grown past a couple of employees (and therefore not containable on the first floor) but are not mature enough to lease market space. The expectation is that a company would be ready to exit the fourth floor incubator space within 12 months.

Ypsilanti 10% ($254k) – The use of TIF funds in Ypsilanti is not permissible under the existing plan but would be required under the new plan. This line item is subject to approval of the SmartZone's TIF Plan by the State. If the Plan is not approved, the use of these funds would not be permitted. The SmartZone Board chose to provision for this item in case the State did approve the Plan; thereby permitting the use of these funds in FY16.

SPARK staffing ($125k)– This covers the LDFA allocation of three salaries of Spark employees that were previously covered by a grant from the MEDC.

Micro-loans ($100k) – The micro-loan program was created when the LDFA set aside $950k as a pool to lend $50k or less to small companies who met specific criteria. The loans carry a 12% interest to encourage repayment and recognize that some companies will go out of business and the loan be written-off. Repayments are put back in the fund and eligible to be loaned to other companies. There has not been a need to contribute to the fund since 2012. The Board's recommended budget contributes $100k for two years to the program to maintain its ability to continue making the small loans.

Infrastructure improvements – the $300k use of fund balance relates to one-time investment in the leasehold improvements to the fourth floor of the Incubator space described above; at this time no other infrastructure projects have been included in the budget, however LDFA would review requests for such projects that are appropriate given its statutory mandate.

Question #113: The footnotes indicate that the incubator expansion is subject to approval in the contract and the 10% for Ypsilanti is pending approval of the Amended TIF agreement. What is the current status of these two conditional requirements as well as the request for the 15-year SmartZone extension? (Councilmember Lumm)

Response: Contract approval – After the Council budget process is complete, the LDFA establishes a contract for services consistent with the approved funding. The contract is typically completed in June. Given that the expansion plans were not yet final at the time the budget was reviewed, the LDFA reserved the right to approve the expense subject to review of a final expansion plan.

10% for Ypsilanti – this is tied to the State's approval of the SmartZone's TIF/Development Plan which is currently in a holding pattern.

State's Approval of TIF/Development Plan – the SmartZone was notified that the MEDC has suspended their deadlines pending the start date of the new State Treasurer (just recently occurred).

TO: Mayor and Council

FROM: Tom Crawford, CFO

CC: Steven D. Powers, City Administrator

SUBJECT: Wages

DATE: May 8, 2015

Question #115: What is assumed for salary increases for non-union employees (percent and dollars) in both FY16 and FY17? (Councilmember Lumm)

Response: For the unions with settled contracts, the salary raises are consistent with the contracts (see chart below). For all other employees, the increases are consistent with Council Labor Committee direction.

Union	% Increase	FY2016 Dollar Amount	%Increase	Incremental FY2017 Dollar Amount	Notes
AAPOA	2.75%-effective 1/1/2015	$ 217,180	N/A-Contract Expired	N/A-Contract Expired	Half Year Effect-Contract Expired 12/31/2015
AFSCME	1%-effective 1/1/2015	$ 146,218	1%-effective 1/1/2016	$ 147,681	
COAM	2.75%-effective 1/1/2015	$ 64,838	2.75%-effective 1/1/2016	$ 66,621	
COMMUNITY SERVICE ASSTS	1.0%	$ 3,160	1.0%	$ 3,191	
DEPUTY CHIEF	2.75%-effective 1/1/2015	$ 6,660	2.75%-effective 1/1/2016	$ 3,375	Half Year Effect-Contract Expired 12/31/2016
FIRE	varies due to differentials given -effective 1/1/2015	$ 317,122	2.5%-effective 1/1/2016	$ 284,793	Half Year Effect-Contract Expired 12/31/2016
NON-UNION	2.75%	$ 434,599	2.75%	$ 447,614	
POLICE PROFESSIONALS	1.5% + 1% lump	$ 4,604	1.5%	$ 4,673	
TEAMSTER	2.5%-effective 1/1/2015	$ 77,434	2.5%-effective 1/1/2016	$ 79,370	

TO: Mayor and Council

FROM: Tom Crawford, CFO
Craig Hupy, Public Services Area Administrator

CC: Steven D. Powers, City Administrator

SUBJECT: Public Services

DATE: May 8, 2015

Question #116: Can you please provide more detail on two of the proposed solid-waste capital expenditures (1) $1.25M for "Container Storage Building" and (2) $1.28M for "Landfill Entrance Improvements" including what the project scope is and why it is needed? (Councilmember Lumm)

Response: Commercial and residential recycling, yard refuse, and commercial and domestic refuse carts are presently stored at a number of locations throughout the City including at 721 N Main. The Container Storage Building project proposes construction of a building to house all of these containers in a single location, most likely on the landfill where a small aging building performs part of this function. A single building will improve maintenance efficiency and make tracking inventory easier. This building will need to be completed prior to the demolition of the existing building at 721 N. Main, which houses many carts. The project scope per the CIP includes: determining the proper size and layout of this building; evaluating the building needs (i.e. heat, water, sanitary, storm sewer and fire suppression); proper city site plan review and/or Pittsfield Township PUD plan adjustment; preparation of final building design and specifications; demolition of existing storage building on the landfill; construction of new container storage building and improvement of the gravel drive leading to the site from Platt Road. The Landfill Entrance Improvements project relates to the Platt Road entrance drive to the compost facility, the landfill gas to energy facility, the landfill monitoring facilities, the material recovery facility and the Wheeler Center. The identified need is for security improvements to reduce illegal dumping and to facilitate flow and capture of load weights. In addition, there are portions of the concrete road that require replacement. The scope includes: possible relocation or replacement of the scale operation currently located at the Materials Resource Facility (the "MRF"), RFID card entry gate, access road reconfiguration, examination of potentially using recycled glass (based on market and engineering), and review of potential habitat with NAP.

Question #117: Not a big deal obviously at $10K a year, but why would "non-motorized education and outreach" be considered a capital expense/capital project? (Councilmember Lumm)

Response: The item is not considered capital; however, is treated as a "project", which enables us to track costs for specific efforts separately.

Question #118: Regarding Public Services proposed fee increases, there's a whole new section of new fees for "Project Management Staff Review of Planning Petitions". Do these fees replace current fees somewhere else or are they completely new? Also, can you please elaborate on the Plat approval fees – is it necessary to get both preliminary and final approvals and did you consider phasing in the big increases for preliminary plat approvals (increasing $1,050 for tentative and $2,300 for final preliminary approval)? (Councilmember Lumm)

Response: The Project Management Staff Review of Planning Petitions is not a fee replacement, it's a new fee to cover a service that has been provided at no cost to site plan petitioners.

To comply with state law and the Land Division Act, both preliminary and final plat approvals are necessary. We did not consider phasing these increases in for the simple reason that it has been years (late 80's/early 90's) since a Plat was actually submitted to the city as developers now choose to create Site Condominiums instead. Phasing in the fee is extremely unlikely to have an actual impact to a petitioner, but since the option exists, we need to have a reasonable fee to support the work involved in the activity.

Question #124: The General Fund expenditures in Public Services-Systems Planning are the same ($64,191 in FY16 and $64,490 in FY17) as shown on the budget impact sheets at the work session before adding the $85K funding for Energy & Outreach Sustainability. Is that position not being added or is it being funded from another (non-GF) source? (Councilmember Lumm)

Response: The position is not being added.

Question #125: Regarding Street Tree Maintenance, what level of ongoing activity does the budget proposal contemplate and when the work associated with the one-time $1M in FY15, how much of the catch-up will be accomplished? (Councilmember Lumm)

Response: The proposed FY16 Forestry budget will address routine street tree maintenance activities, such as sight clearance pruning, storm and hazard response, tree planting and care and removals associated with the normal annual tree mortality rate. If resources are available, Forestry will continue to work on reducing the maintenance backlog not addressed with the $1M in additional Forestry funding. The chart below details the Forestry maintenance backlog to be addressed with $1 Million and the backlog remaining after the funding has been utilized.

Activity	Current Maintenance Backlog (Number of Trees)	Maintenance Backlog to be addressed with $1 Million (Number of Trees)	Maintenance Backlog Remaining AFTER additional $1 Million in funding is utilized (Number of Trees)
Tree Removals- Priority 1 & 2 Removals (Highest Priority Removals)*	682	682	0
Tree Removals- Priority 3 Removal (Lower Priority Removal)	547	547	0
Tree Pruning – Priority 1 Pruning (Highest priority trees in need of immediate pruning)	1,000	1,000	0
Stump Removals—including those generated by Tree Removals above	1450	735	715
Tree Pruning- Priority 2 Pruning (In need of immediate pruning)	1950	0	1950
Tree Pruning- Routine Tree Pruning (proactive maintenance program)	39,500	0	39,500

TO: Mayor and Council

FROM: Tom Crawford, CFO

CC: Steven D. Powers, City Administrator

SUBJECT: Other Charges

DATE: May 8, 2015

Question #119: In several of the departmental year-to-year expenditure explanations for "other charges", there's a statement saying the increase in expenses is "due to increased retiree health care costs and increased information technology charge". Can you please elaborate on the dollar magnitude of these two items? (Councilmember Lumm)

Response: With respect to retiree health care costs, the City is still funding the future costs for retired employees which increase each year due to health care inflation. In addition, the VEBA trust was established only 15 years ago and is currently 44% funded. Until this trust is 100% funded, we expect these costs to continue to increase to contribute to the unfunded liability. We have mitigated the cost increases by significantly reducing the City's liability for this benefit for new hires. The total VEBA contribution for FY15 was $14.6 million and in FY16 has increased to $15 million in accordance with the Council policy on VEBA funding.

With respect to IT charges, the operating expenditures (excluding projects) in the IT fund have decreased from $6.6 million in FY15 to $6.3 million. However, the charges to the service units in prior years included rebates of excess revenues accumulated for various projects and ultimately not needed. In FY16, only a small amount of rebate is included in the rates. The revenue (charges to departments) in FY15 was $6.2 million and the revenue for FY15 is $6.7 million. The anticipated discontinuation of rebates resulting in an increase in charges was highlighted in prior budget presentations.

TO: Mayor and Council

FROM: Tom Crawford, CFO

CC: Steven D. Powers, City Administrator

SUBJECT: Non-Departmental and General Fund

DATE: May 8, 2015

Question #120: In the non-departmental service area, the "personnel services" expense category is proposed at $1.1M in FY16 and $1.0M in FY17. The notes indicate the $400K increase over the FY15 budget "is attributable to higher anticipated severances for FY16." What are the projections for FY16 and how does that compare (number of severances and dollar amount) with the last five years or so? And can you please remind me what the City's severance policy is? (Councilmember Lumm)

Response: Severance is budgeted for employees eligible for retirement at 33% of the total amount calculated, as not all employees who are eligible actually retire. If the employee does not retire in the year they are eligible, the amount will be included in the subsequent year's budget. 67 General Fund employees are eligible for full retirement in FY16. Employees that retire from the City receive a payout of accumulated vacation, sick, compensatory and personal time balances, subject to certain limits. Severances for FY16 are budgeted at $1.1 million.

Fiscal Year	Amount	Number of Payouts
2011	$749,343	25
2012	$779,841	27
2013	$469,506	21
2014	$384,225	15
2015-partial	$273,608	14

Question #121: Also in non-departmental, the "other charges" (which I'm assuming includes the debt service payments) are projected to increase in FY16 by about $500K and then by another $1.6M in FY17. The notes say "the increase is primarily comprised of contingencies within the General Fund”. Can you please provide the contingency amounts for FY16 and FY17 included in the proposal as well as the contingency amounts included in the GF budgets the last few years. (If contingency does not account for all the year-to-year increased “other charges” expenses in FY16 and FY17, please provide the explanations and amounts. (Councilmember Lumm)

Response: Contingency budgets depend on the number of unsettled contracts at the time the personnel budget is developed as well as other factors unrelated to contracts. The contingency amounts for FY2016 and FY2017 are $1.6 million and $3.2 million, respectively. In FY2015, the contingency was $1.8 million and for FY2014, $1.3 million.

Question #122: Are there cost savings reflected in the proposals for FY16 and FY17, and if so, can you please elaborate on what they are and the directional savings amount? (Councilmember Lumm)

Response: The budget impacts submitted do not reflect any cost savings from programmatic changes. However, during the forecasting process for each budget year, the City adjusts for various factors analyzing prior years’ performance. For example, in this budget process, health care rates were reduced significantly to reflect good experience over the last several years.

Question #123: In terms of the proposed new General Fund Fund Balance Policy, the denominator in the new calculation is “recurring expenditures (excluding AAATA pass-through and other reimbursed pass-through expenditures)”. What are the other pass-through expenditures and their approximate amounts? (Councilmember Lumm)

Response: The other pass-through expenditures relate to the GASB #68 change put into place in FY2015 whereby all internal service fund employees were moved to the General Fund and the General Fund was reimbursed for those employees. The cost of those employees and the associated revenue in FY16 is $11 million.

TO: Mayor and Council

FROM: Tom Crawford, CFO

CC: Steven D. Powers, City Administrator

SUBJECT: I-net Project

DATE: May 8, 2015

Question #127: Can you please give an update on the status of the I-net project? Also, it has been suggested that replacement of the Comcast I-net might create a pathway for expansion of fiber to other users. Is this feasible? (Councilmember Warpehoski)

Response: The I-net project is in the early planning stages. At this time staff is meeting with other governmental related entities in town to determine their status and needs. This collaborative approach will help insure that the infrastructure installed is not being duplicated with another governmental entity unless there is a compelling reason to do so. After the information is gathered staff anticipates issuing an RFP for design & engineering services this summer. It's anticipated the winning contractor will help refine the scope of the project and assist us in understanding the incremental impact of provisioning for other users.

TO: Mayor and Council

FROM: Tom Crawford, CFO

CC: Steven D. Powers, City Administrator

SUBJECT: Proposal 1

DATE: May 8, 2015

Question #135: During our budget work sessions, I recall that it was mentioned that State Proposal 1 had some impact on the city budget proposal and my takeaway from that (perhaps wrong) was that the choice/priority of projects and spending recommended in the budget was influenced by Proposal 1. Now that it did not pass, can you please clarify what (if anything) would change in your budget proposal (projects recommended, spending amounts etc)? (Councilmember Lumm)

Response: The proposed budget did not assume passage of Proposal 1. Passage of the Proposal would have improved the City's financial ability to deal with several issues.