



BUDGET WORK SESSION

March 24, 2025 – Council Chambers

INTRODUCTION

The following areas of focus will be presented to you by staff:

- Marti Praschan, CFO - FY26-7 Fiscal Outlook/Budget Process
- Dr. Missy Stults, Sustainability & Innovations Director
- Derek Delacourt, Community Services Area Administrator
- Jennifer Hall, Executive Director, Ann Arbor Housing Commission (AAHC)
- Jordan Roberts, Public Services Area Administrator
- Monica Boote, Human Resources & Labor Relations Director & Eli Boddy, Deputy Director

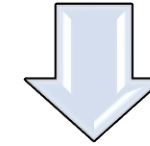
Thank you for your participation and thoughtful consideration.

FY26-7 BUDGET PLAN FISCAL OUTLOOK

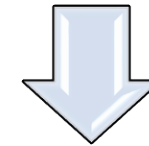
**Marti Praschan, CFO & Financial & Administrative
Services Area Administrator**

Budget Calendar

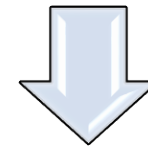
March 24, 2025 – **Today** (Council Work Sessions)
Staff Presents Overview of Budget



April 21, 2025 (Council Presentation)
City Administrator Presents Recommended Budget
First Reading of Ordinances for Rates Changes



May 5, 2025 (Public Hearings)
Public Hearings on Budget, Ordinances and Fee/Rates Changes
Second Readings of Ordinances and Rates Changes



May 19, 2025 (Council Consideration)
Council Considers Resolutions for Fee Changes and Budget Adoption

Development of Recommended Budget

- Two kinds of budgets are adopted – Operating Budget and Capital Improvement Budget.
- Council policies, staff expertise, and public input guide the development of City Administrator's recommended budget.
- Council policies include:
 - Fund balance policy
 - Pension & OPEB funding policy
 - Capital Improvement program policies
 - Capital repair/replacement policy
 - Enterprise capital repair/replacement policy
 - Parks "fairness" resolution

Rules Surrounding Budget Adoption



7 votes to adopt the budget.



6 votes to amend on the night of the meeting.



8 votes to amend during the fiscal year.



If not adopted at the end of the 2nd Council meeting in May, the City Administrator's recommended budget is considered adopted.



Budgets are adopted by the fund in total, not each line item, with one exception – the General Fund.



General Fund budget is adopted by Service Area represented in the fund (Safety Services, City Administrator, Community Services, etc.).



City not allowed to expend monies unless budgeted, so June has year-end budget amendment for areas forecasted to overrun.

City Financial Performance Measures

	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>
<u>Independent Assessments</u>				
1. Financial Audit - 0 material weaknesses & 0 significant deficiencies	0 / 0	0 / 0	0 / 0	0 / 0
2. Bond Rating (S&P) - LTGO is AAA, Water is AA, Sewer is AA+	AA+/AA/AA+	AA+/AA/AA+	AAA/AA/AA+	AAA/AA/AA+
<u>Fiscal Control</u>				
3. General Fund structural deficit (recurring revenues - expenditures)	Balanced	Balanced	Balanced	Balanced
4. General Fund unassigned fund balance	20%	28%	29%	27%
<u>Debt/Liability Management</u>				
5. Pension funded ratio	88%	88%	88%	90%
6. VEBA (retiree healthcare) funded ratio	76%	83%	83%	94%

Revenue Assumptions

Real & Personal Property Tax

- FY 26 –5.9% Increase (\$5M)
- FY 27-30 – 3% Increase

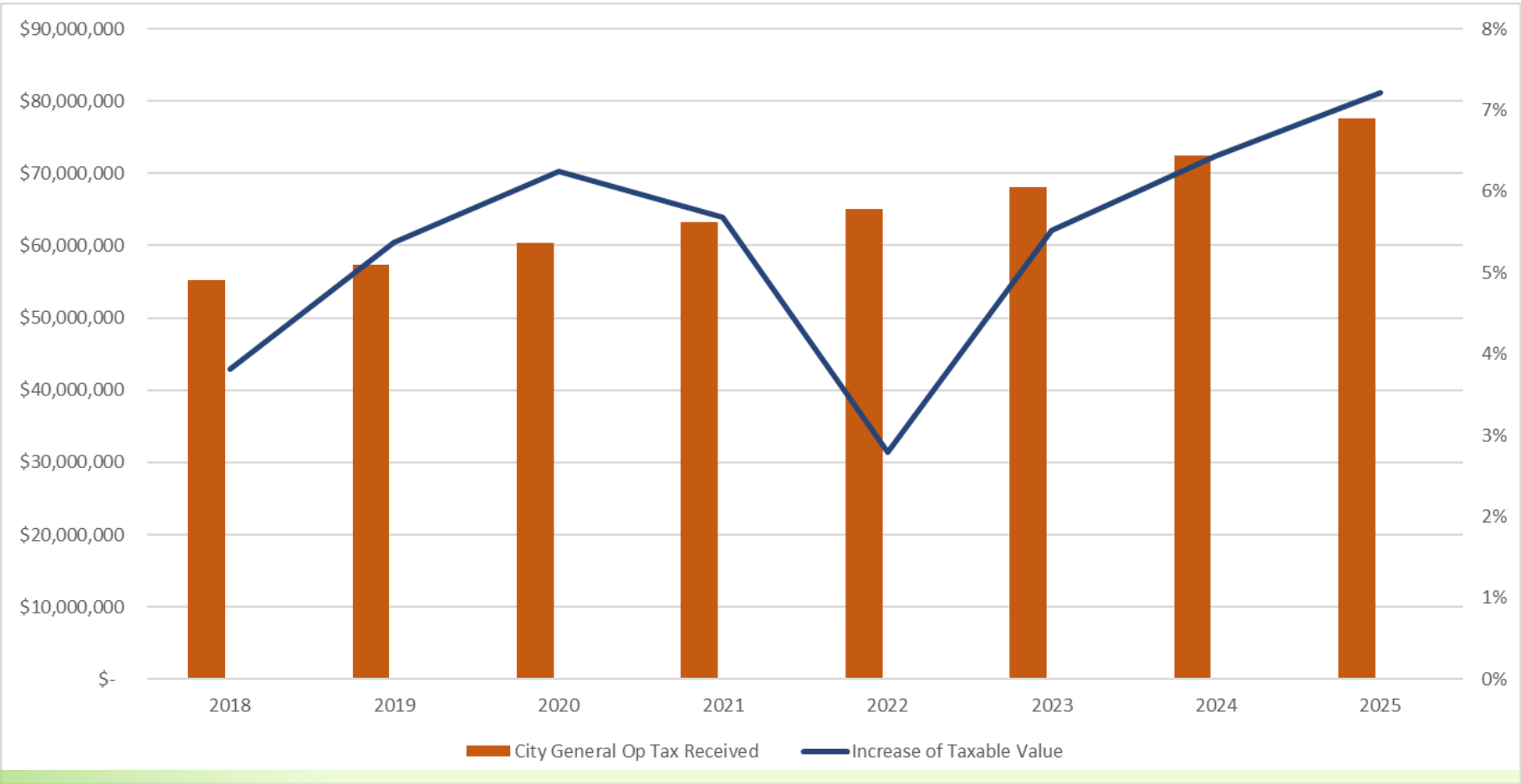
State Shared Revenue

- FY 26 - 1% Increase -Constitutional
- 4% -Increase Statutory

Parking

- FY 26 - 14% Increase
- FY 27 – 7% Increase

Tax Levy History



Expenditure Assumptions

Personnel Costs

- FY 26 – 6.4% Increase
- FY 27 – 4.8% Increase

Fleet Costs

- FY 26 – 14.2% Increase
- FY 27 – 1.4% Increase

IT Costs

- FY 26 – 5.8% Increase
- FY 27 – 2.1% Increase

General Fund Projections

	FY 2026/27 Financial Outlook General Fund	
	FY 2026 Projected	FY 2027 Projected
<u>RECURRING</u>		
Revenues	145.8	150.3
Expenditures	(144.7)	(150.1)
Adjusted Recurring Surplus / (Deficit)	1.1	0.2
<u>NON-RECURRING ITEMS</u>		
Non-Recurring Revenue	0.5	0.5
Non-Recurring Expenses	(1.9)	(3.0)
Non-Recurring Surplus / (Deficit)	(1.4)	(2.5)
Net Surplus / (Deficit)	\$ (0.3)	\$ (2.3)
 Unassigned Fund Balance	 \$ 24.2	 \$ 21.6
Policy Range (15% to 20%)	22%	19%

Impact Requests for FY26/27

Deputy Chief Financial Officer (FY27) – 1 FTE & Associated Costs

- \$201,299 (Salary & IT Costs)
- Single point of failure
- Increased Grant Activities
- SEU stand-up
- Increase in Economic Development

Contracted payroll back-up and training – recurring

- \$40,000 annually
- Single Point of Failure
- Increase in total FTEs
- Documentation
- Additional/Change in Union Labor Contracts

Utility Rate Increases

- **Water** – Revenue need to increase approximately **6%** for the foreseeable future to fund reinvestment in the water system including the water treatment facility and the distribution system. Future funding needs are heavily dependent on the final design, timing and cost estimates of the water treatment plant rehabilitation.
- **Sewer** – Revenues need to increase by approximately **3%** annually for the foreseeable future to continue to operate and maintain the treatment facility and collection system including capital investment.
- **Stormwater** – Revenues need to increase annually by approximately **3%** for the foreseeable future to maintain the stormwater system including implementation of the asset management plan and capital investment.



Questions?

Sustainability & Innovations

Budget Impacts and Horizon Issues

Dr. Missy Stults, Director



- A look at the funding landscape: What's a go? What's being held?
- Phasing of staff to General Fund as a result of change in millage formula
- SEU Plateau Goal by June 30, 2026
- Horizon Issues

Grant Name	Funding Source	Total Dollars Granted	Status
ARPA	ARPA	\$4,500,000.00	Deploying
Community Project Funding - SEU	State of Michigan	\$5,000,000.00	Deploying
UCRF Michigan	State of Michigan	\$72,500.00	Closed
ClimateCorp CNCS (does not include City Match)	Passthrough State (but Federal funding)	\$477,713.00	Unclear
Bryant Geothermal Heating and Cooling (does not include City Match)	US DOE	\$563,250.00	Unclear
DOE Grant EECBG	US DOE	\$182,360.00	Unclear
HUD Sustainability Grant	HUD (Federal community impact/project funding)	\$2,500,000.00	Deploying
Fuel Transformation Program	FTP - DOT	\$57,326.36	Deploying
USEPA Pollution Prevention at Food-Focused Business Program (does not include City Match)	EPA	\$124,000.00	Unclear
Environmental Justice Gov-to-Gov Program (FY25)	EPA	\$1,000,000.00	Deploying
MPSC Bryant Neighborhood Decarbonization	MPSC (but pass through from Coronavirus State and Local Fiscal Recovery Funds)	\$3,115,600.00	Deploying
Expanding Equitable Access to EV (does not include City Match)	USDOT (IRA funding)	\$2,790,512.03	Unclear
U.S. Department of Energy Geothermal Continuation Award for Bryant	USDOE	\$10,000,000.00	Unclear
U.S. Forestry Service (I believe this is in Parks Budget)	USFS (IRA funding)	\$1,000,000.00	Just cleared
American Lung Association - DERA	DERA	\$667,621.00	Deploying
Direct Pay Provision	IRS		Unclear
Homeland Security Grant Award	Homeland Security	\$21,000.00	Unclear
Circular Economy Action Planning Next Cycle	State of Michigan	\$99,630.00	To Council

TOTAL

\$32,171,512.39

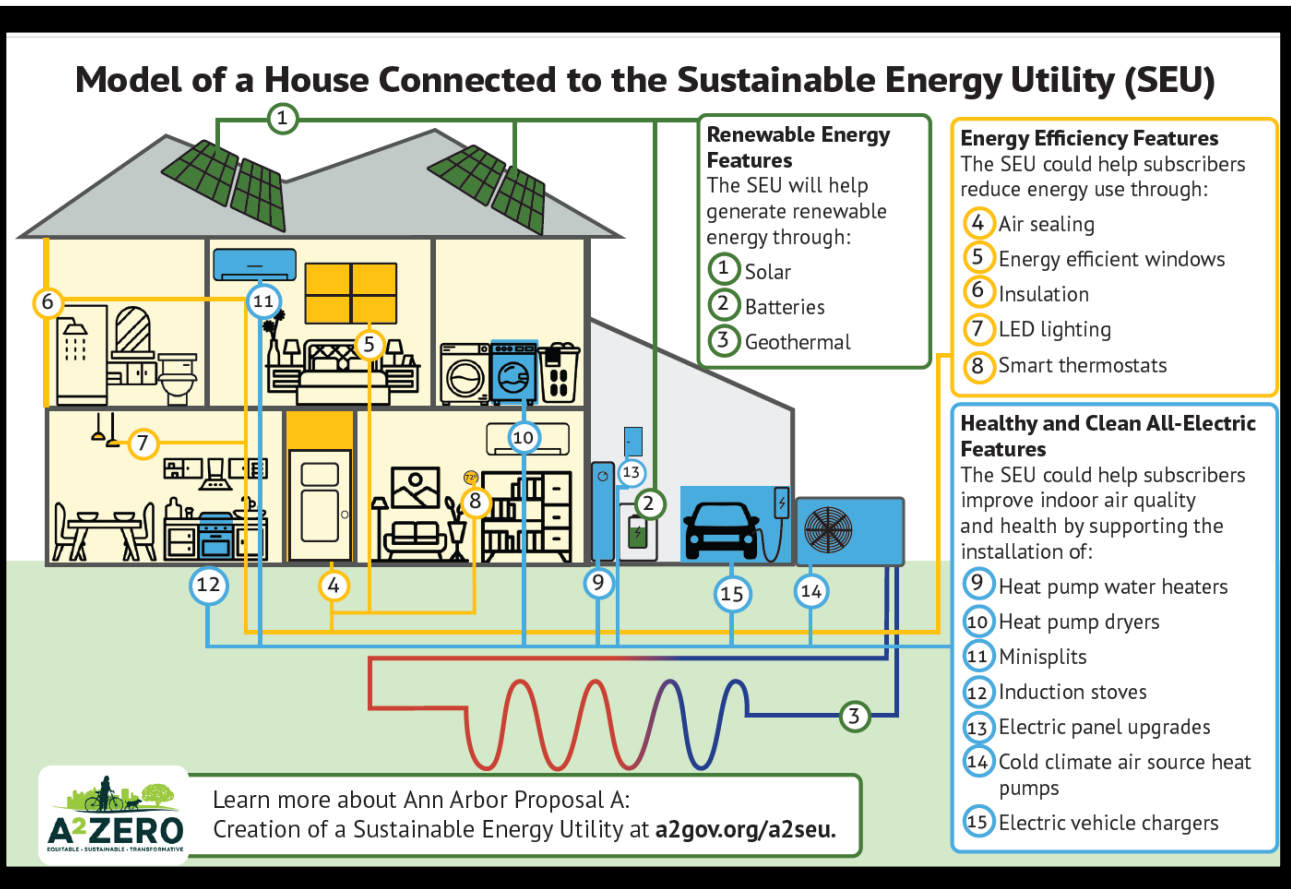
From Public Safety Rebate to General Fund

- Loss of Rebate from Public Safety Millage effective July 1, 2025
 - Equates to a reduction of \$1.2 million annually for the Office
 - OSI has reprioritized some work to absorb as much as possible
 - Yet, demand is very high from the public for climate work at the very time this reduction is coming, creating some tensions
 - Including SEU start-up costs
 - And, Public Safety Rebate included funding for 2 staff members
- Ask: Funding for the two staff that were covered by the revoked Rebate (\$ include benefits, IT costs, etc.)
 - FY 26 \$415,786
 - FY 27 \$444,712)



SEU Project – July 2026

- SEU operational
 - 20MW of energy under contract with customers
- Building of systems underway
 - Contractors hired, trained, and in the field
 - Following all standard technical specifications and standards
 - Geothermal system being installed
- 5-7 FTE's hired for SEU
 - Supported by City units
- Stakeholder engagement underway (following customer recruitment and retention plan)
- Rates finalized and continued service expansion
- First payment of debt (because we are generating revenue!!)



Horizon Issues

- Having the team physically together
- Growing the A²ZERO movement
- Commercial Decarbonization
- Circular Economy Work

May your holiday season be bright, safe, and joyful.



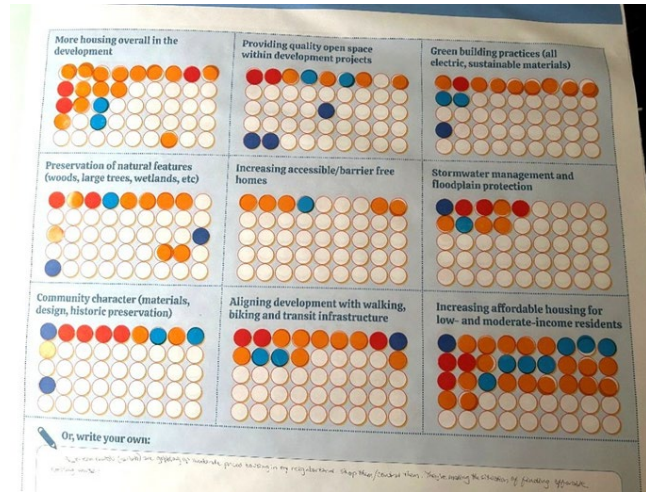


Questions?

Community Services

Budget Impacts and Horizon Issues

Derek Delacourt, Community Services Area Administrator



Comprehensive Plan

- 2024 Public Engagement
- 2025 Plan Development, Review, Adoption
- Implementation
 - Zoning Re-write
 - Comprehensive Plan recommendations
 - Previously identified process improvements
 - Infrastructure Prioritization
 - Commitment to ongoing Planning – Future corridor studies

Development Review and Customer Service

- Site Plan Coordinator
 - Dedicated position to coordinate with multiple departments to facilitate development
- Zoning Coordinator Part-Time to Full Time
 - Improved capacity for customer service for small scale projects
 - Capacity for zoning permit follow up/inspections
 - Pro-active enforcement opportunity



Parks Impact Asks – General Fund

FY 26 Ongoing – covered by increase in revenue due to demand and usage

- Increases in temp staffing items (pay, overtime, uniforms) to meet demands and wage increase
- Increase in supplies to meet usage
- Increase in bank fees to match payment preferences
- Increase in software to better serve community

FY 26 One-time – Partially Covered

- Fleet contribution for new vehicles

FY 27 Ongoing – covered by increase in revenue due to demand and usage

- Same items as FY26
- New Recreation Coordinator

FY 27 One-time – Not covered

- Fleet contribution for new vehicles



Parks Impact Asks – Millages



FY 26 One-time

- Fleet contribution for new vehicles

FY 27 Ongoing

- New Planning Coordinator

Building & Rental FY 2025

FY 2025 General Fund Impacts

- 4.0 FTEs for Development Services inspectors and associated costs – recurring
- Increased revenue for housing inspections and short-term rental registrations – recurring
- Costs associated with purchasing 4 new vehicles – one-time and recurring
- Vaccine mandate lawsuit costs – one-time
- Charging stations – one time
- Reconfiguration of the first floor – one-time

Horizon Issues

- Attracting the skilled talent needed in the inspection industry.
- Restructuring the Development Inspector pay scale and union progressions to attract qualified talent for the mechanical, electrical, and plan review positions.
- Working with the State of Michigan to develop a method of certifying new talent in the construction field with less than six years of experience as required by the State.
- Hiring adequate rental housing inspectors to keep pace with the increasing number of rental units entering the rental housing program annually.



Questions?

Ann Arbor Housing Commission (AAHC)

Budget Impacts and Horizon Issues

Jennifer Hall, Executive Director

4 FTE's FY26 & 5 FTE's FY27

- All positions paid for with AAHC revenue
 - From rent and grants
- As properties are developed by the AAHC
 - Property managers
 - Maintenance technicians
 - Waitlist Management
 - Finance
 - Administration
- AAHC administering grants and loans to other developers
- Dunbar Tower community center manager
- Pay increase to recruit Housing & Economic Development Director

FY26

\$459,874 expenditures

\$459,874 new revenue

FY27

\$1,029,674 expenditures

\$1,029,674 revenue





- Projects to be completed by June 30, 2026 Millage funded
 - Dunbar Tower – 121 E Catherine AAHC & Avalon 63 units
 - The Grove at Veridian – 2260 Platt Road Avalon 50 units
 - The Union @ A2 - 2050 Commerce Drive The Annex Group phased move-in 250 units

- Effect of new Federal policies on low-income residents
 - FY25 Continuing Resolution \$3.6B increase tenant rental assistance
 - Uncertainty HUD voucher funding FY26 (~\$28 Million AAHC Budget)
 - 50% cut in HUD staff – likely closing of Detroit HUD office
 - Nutrition programs
 - Social security
 - Education - public schools
 - VA services
- Effect of new Federal policies on housing development
 - Impact of tariffs on construction costs and availability of materials
 - Volatility of the financial markets – interest rates, LIHTC equity
 - Loss of IRA credits for sustainability investments
- Horizon Issues
 - Evictions due to job losses
 - Loss of rent revenue to local landlords – economic impact
 - Follow-up to “Beyond the Bridge” – A Solution to Homelessness



Questions?



PUBLIC SERVICES AREA

Budget Impacts and Horizon Issues

Jordan Roberts, Public Services Area Administrator



Overview of Budget Priorities



- Gain a better understanding of our current infrastructure needs.
- Plan for our future infrastructure demands
- Maintain and optimize our high-quality services.
- Align with the City's transportation and sustainability goals.

Federal Mandates

- Superior and Barton Dams
 - Security improvements
 - Repairs
- \$193,000 from Gen Fund



Utility Infrastructure Needs

Assessments and Planning

- Sanitary modeling, comp plan, and capacity analysis
- Water main condition assessments and improvements
- Water distribution and sourcing models/studies
- Gravel roads drainage study

Critical System Maint. And Repair

- Increased routine and preventative maintenance due to aging
- Replacement of various pumps, valves, and pipes

Transportation and Safety



- Transportation planning and studies
- Sign replacements on local streets (multi-year)
- Ford Lightening to support bike lane maintenance.
- Additional support to replace road cuts

Delivering High Quality Services

- Enhance water and air quality with equipment upgrades
- Developing solid waste goals and looking for opportunities.
- Proactive and reliable system monitoring



Delivering High Quality Services

FTEs

- Solid Waste Supervisor
- Compost Coordinator
- Forestry Outreach
- Water Utility Supv.
- Site Compliance Coord.
 - 0.5 FTE shared w/ CS

Vehicles

- \$1,433,488 in vehicle replacement shortages
- \$527,171 in vehicle additions or upgrades
 - Swap-body trucks
 - EV for bike lane maint.
 - Flail arm mower

Horizon Issues

- Water Treatment Plant 1 replacement
- Increasing demands on infrastructure and services
- Dam rehabilitation or decommissioning
 - Dixboro Bridge





Questions?

Human Resources


Budget Impacts and Horizon Issues

**Monica Boote, Human Resources &
Labor Relations Director
Eli Boddy, Deputy Director**

DEVELOPMENT AND IMPLEMENTATION OF A PERFORMANCE MANAGEMENT SYSTEM


FY26 \$100,000, FY27 \$50,000


 Enhanced Employee Engagement


 Clear goal alignment

 Improved communication

 Identify development needs

 Fair performance evaluations

 Boost productivity

 Attract and retain talent

Develop and Implement Employee Engagement Program



FY26 \$75,000, FY27 \$50,000

Horizon Issues for Human Resources



Attraction and Retention of Talent



Managing Employee Well-being and Work Environment



Navigating Potential Federal Funding Cuts



Continued alignment with Values, Principles and Culture



Questions?

Budget Question Process

WRAP-UP AND QUESTIONS

- Please hold questions until after the April 21 City Administrator's Recommended FY26-7 Budget Presentation.
- Please send any FY26-7 budget questions to **Sara Higgins**, copying Milton Dohoney Jr., Marti Praschan, and Kim Buselmeier. Responses will be organized by topic and responded to throughout the budget season.



THANK YOU
