

# FY19 FINANCIAL PLANNING OVERVIEW

City Council Workshop – December 11, 2017



# Agenda

- Introduction H Lazarus
- Update on Council Initiatives H Lazarus
  - Strategic Initiatives
- Financial Overview T Crawford
  - FY2019 Budget Process
  - Current Year Analysis
- Changes to Plan/Horizon Issues Chiefs/SAAAs/H Lazarus
- Council Questions and Discussion



# Update on FY18-19 Council Initiatives

SUSTAINABILITY FRAMEWORK	INITIATIVE	PROBLEM/OPPORTUNITY	STATUS
Community	Hire a consultant to review the Ann Arbor Police Department's community engagement practices.	Build public trust and reinforce best practices.	The City hired Hillard Heintze to perform an independent review. The Final Report was presented on 11/16. The schedule and resource requirements are being prepared.
Resource Management	Find a recycling company that will operate our MRF.	Adapt to changes in the recycling market and find a financially viable solution.	RAA has been hired to operate the MRF on a restricted basis. The City is collaborating with the County to investigate the feasibility of a regional approach. Staff is recommending outsourcing of collection beginning in FY19.



# Update on FY18-19 Council Initiatives

SUSTAINABILITY FRAMEWORK	INITIATIVE	PROBLEM/OPPORTUNITY	STATUS
Resource Management	Revise and update the 2009 income tax feasibility report.	Educate Council and the public regarding income tax and a shift in tax base from primarily property owners exclusively to a share with commuters who work in and utilize Ann Arbor infrastructure and services.	Staff provided a presentation to Council at its September 2017 Work Session. Council has not provided further direction on the initiative.
Land Use and Access	Establish order of priorities, implementation plan, develop an implementation plan, and identify funding sources for implementing the recommendations of the Affordable Housing Needs assessment.	Address the increasing cost of housing in Ann Arbor as market demands and costs continue to grow with no obvious opportunities to provide relief.	Council has designed 40% (~\$1MM/year) of the funds returned from the County Public Safety/ Community Mental millage to be used for affordable housing. Staff has submitted a grant application under the Bloomberg Mayor's Challenge program.



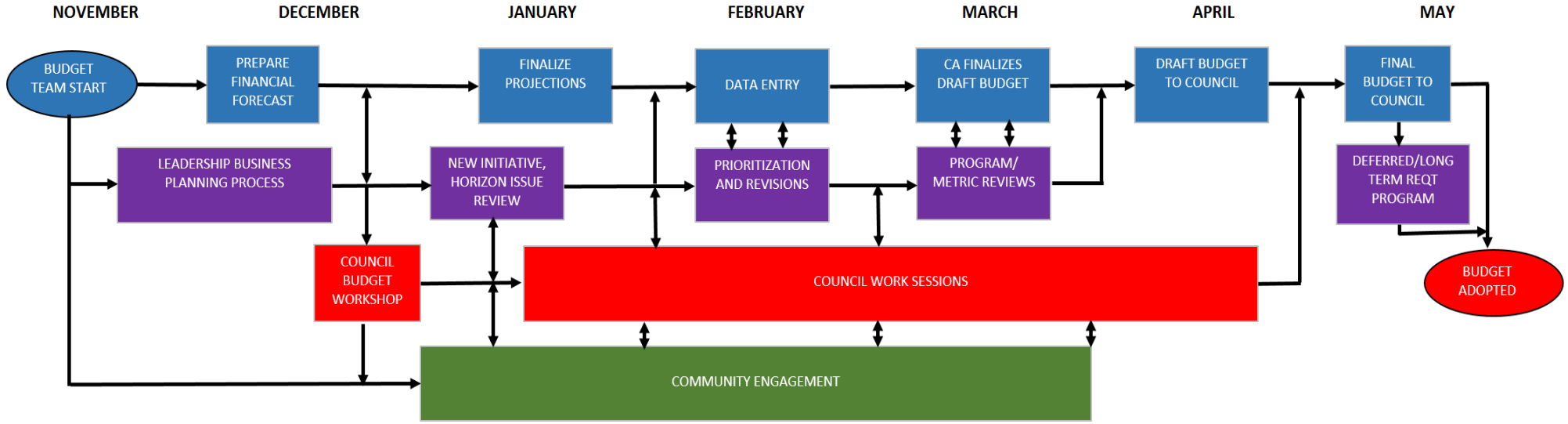
# Update on FY18-19 Council Initiatives

SUSTAINABILITY FRAMEWORK	INITIATIVE	PROBLEM/OPPORTUNITY	STATUS
Land Use and Access	Develop a plan for City owned properties in line with sustainability goals.	Current properties are underutilized for goals such as affordable housing, cultural opportunities, and economic development.	Staff is working with multiple entities to develop plans for City owned properties. Council will consider a resolution at its December 18 <sup>th</sup> meeting to reconvene an Economic Development Task Force to make recommendations on potential uses of City-owned properties.
Climate and Energy	Put in place staff time and funding to augment the County's weatherization program in Ann Arbor and include weatherization and energy efficient appliances as an element of the rental inspection program.	Create energy and financial security for lower income households. Reduce greenhouse gas emissions. Create job training.	The conversion of temporary positions to full time is in progress. Staff worked with the Energy Commission to develop a resolution on Clean and Renewable Energy that Council adopted at its December 4 <sup>th</sup> meeting.



# Overview of Budget Process

BUDGET PROCESS SCHEMATIC



- FINANCIAL STAFF
- SSA/DIRECTOR TEAM
- CITY COUNCIL
- COMMUNITY

**Key Dates:**  
 12/11/17-Council Offsite  
 2/26/18-Council Work Session  
 4/16/18-City Administrator Recommended Budget  
 5/7/18-Public Hearing  
 5/21/18-Council Consideration



***Economic Updates to Plan*** are the updated projections of revenues and expenditures required to implement the FY2019 fiscal plan.

***Changes to Plan*** are circumstances that have arisen throughout the year since the two-year budget plan was adopted and have a real or potential resource impact.

***Horizon Issues*** are those circumstances, both known and reasonably anticipated, that may occur beyond the two-year budget cycle that will impact the long term allocations of resources and levels/types of services the City government can provide to the community.



# FY2019 Financial Outlook

(General Fund- \$MM)

	FY2018 Budget (Mils.)	FY2019				FY2020 Projected (Mils.)	FY2021 Projected (Mils.)
		Plan (Mils.)	Economics (Mils.)	Changes (Mils.)	Projected (Mils.)		
<u>Recurring</u>							
Revenues	\$ 102.7	\$ 104.5	\$ 0.4	\$ -	\$ 104.9	\$ 103.7	\$ 105.2
Expenditures	(102.0)	(104.5)	(0.6)	(0.4)	(105.5)	(105.4)	(108.1)
Net Surplus/(Deficit)	\$ 0.7	\$ -	\$ (0.2)	\$ (0.4)	\$ (0.6)	\$ (1.7)	\$ (2.9)
<u>One-time</u>							
Revenues	\$ 1.9	\$ 0.9	\$ -	\$ -	\$ 0.9	\$ -	\$ -
Expenditures	(2.6)	(0.9)	-	-	(0.9)	(1.6)	(1.4)
Net Surplus/(Deficit)	\$ (0.7)	\$ -	\$ -	\$ -	\$ -	\$ (1.6)	\$ (1.4)
Net Surplus/(Deficit)	\$ 0.0	\$ -	\$ (0.2)	\$ (0.4)	\$ (0.6)	\$ (3.3)	\$ (4.3)
Unassigned Fund Balance	\$ 16.0	\$ 15.1				\$ 13.4	\$ 10.50

**Memo:**

Significant Unquantified Horizon Issues (recurring & one-time)

- Supplemental Pension Contribution tbd
- Hillard Heintze report tbd
- Treeline Trail tbd
- Annexations tbd
- Library Lot Debt Service tbd
- Train Station tbd
- Medical Marijuana tbd
- Parking Fine levels re-evaluated tbd

**Note:**

Projections do not include revenues or projected expenditures for the new county mental health millage. This will be budgeted in a separate fund in FY2020.





# Changes to Plan – Finance

AREA	ISSUES
Succession Planning	<ul style="list-style-type: none"> <li>• Current Assessor is eligible to retire and is an MIA certified appraiser.</li> <li>• \$100K in recurring General Fund expenditure to engage appraiser services for tax appeals on an “as-needed” basis.</li> </ul>

# Horizon Issues – Finance

AREA	ISSUES
Succession Planning	<ul style="list-style-type: none"> <li>• Three finance managers are eligible to retire within the next few years.</li> </ul>
Pension Funding	<ul style="list-style-type: none"> <li>• Consider resetting the existing expenditure for funding the pension system (\$13MM/year) to a higher level before returning to the 2% annual increase.</li> <li>• Recently amended funding policy and Act 312 binding arbitration ruling on AAPD pension will increase financial market risk to the General Fund.</li> </ul>
Asset Management, Repair, and Replacement	<ul style="list-style-type: none"> <li>• Adopt capital financing policy and develop funding strategies for the City.</li> </ul>
LDFA Strategic Plan	<ul style="list-style-type: none"> <li>• Complete development of a 15-year strategy for how to best utilize the State’s funds.</li> </ul>
Parking	<ul style="list-style-type: none"> <li>• Amend the DDA parking agreement to extend 20% parking revenue share after FY19.</li> <li>• Parking fines need to be re-evaluated for consistency with parking deck permit fees and on-street hourly rate changes.</li> </ul>



# Horizon Issues – Finance (IT)

AREA	ISSUES
IT – Network Security	<ul style="list-style-type: none"><li>• Increasingly complex and challenging environment. Need to stay up-to-date.</li></ul>
IT – Big Data Strategy	<ul style="list-style-type: none"><li>• Quality of data varies across the organization. Increased consistency will provide improve decision-making.</li></ul>
IT – Legacy Software Applications	<ul style="list-style-type: none"><li>• Legacy systems increase complexity /reduce flexibility. Develop plan to replace.</li></ul>
A2 I-Net	<ul style="list-style-type: none"><li>• Opportunity exists to utilize excess capacity.</li></ul>
Smart City Strategy/Plan	<ul style="list-style-type: none"><li>• Opportunity to leverage city resources/assets to increase services to residents and the effectiveness of government operations.</li></ul>



# Changes to Plan – Police

AREA	ISSUES
Implement Recommendations from Independent Review	<ul style="list-style-type: none"> <li>• CPPC development and integration will require additional resources.</li> <li>• Staffing level evaluation required to implement Hillard Heintze recommendations.</li> </ul>
Staffing	<ul style="list-style-type: none"> <li>• Add 2.0 FTEs patrol to replace staff pulled off for training and FOIA.</li> </ul>

# Horizon Issues – Police

AREA	ISSUES
Succession Planning & Recruitment Challenges	<ul style="list-style-type: none"> <li>• Balance the rate of retirements vs. replacement timeframe.</li> <li>• Hiring capacity is 12/year (sworn).</li> </ul>
CALEA	<ul style="list-style-type: none"> <li>• Pursue and sustain CALEA accreditation.</li> <li>• Final on site assessment scheduled for March 2018.</li> </ul>



# Changes to Plan – Fire

AREA	ISSUES
Staffing/Personnel	<ul style="list-style-type: none"> <li>• Provide for 3<sup>rd</sup> Assistant Chief to address restructuring and succession planning.</li> </ul>
	<ul style="list-style-type: none"> <li>• Technology and personnel needs for reorganization of Fire Prevention Bureau.</li> <li>• Address fire inspection fee structure and revenue/expense structure.</li> </ul>
	<ul style="list-style-type: none"> <li>• Measures to address diversity and recruitment challenges.</li> </ul>
	<ul style="list-style-type: none"> <li>• New labor agreement.</li> </ul>

## Horizon Issues - Fire

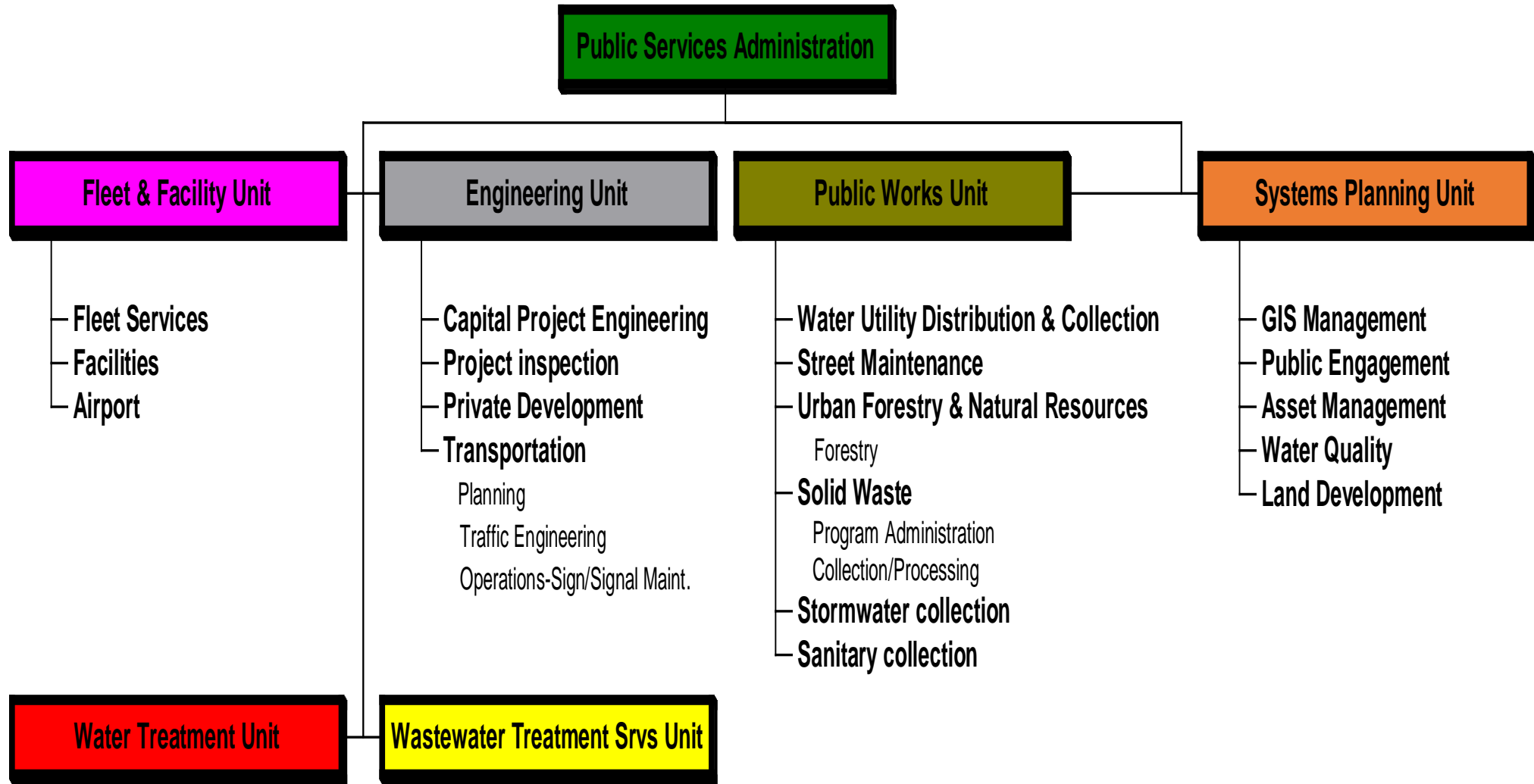
AREA	ISSUES
AAFD Strategic Vision	<ul style="list-style-type: none"> <li>• Plan for new and upgraded facilities – Fire Station Master Plan.</li> </ul>
	<ul style="list-style-type: none"> <li>• Acquisition of new technology and software; use data to address staffing needs and service delivery risks.</li> </ul>
	<ul style="list-style-type: none"> <li>• Pursue and sustain organizational accreditation.</li> </ul>
	<ul style="list-style-type: none"> <li>• Outfitting personnel with ballistic gear for active shooter situations.</li> </ul>



# Changes to Plan – Public Services

AREA	ISSUES
Staffing/Personnel	<ul style="list-style-type: none"> <li>• Convert temporary energy staff to permanent FTE with minimal additional cost.</li> </ul>
Water & Sewer Cost-of-Service	<ul style="list-style-type: none"> <li>• Complete evaluation of rate structure and provide recommendations.</li> <li>• Provide for public engagement on rate structure and affordability impacts.</li> <li>• Adopt new rates effective 07/01/18.</li> </ul>
Organizational Re-alignment	<ul style="list-style-type: none"> <li>• Align structure to efficiently deliver service.</li> <li>• Align structure for effective decision making.               <ul style="list-style-type: none"> <li>○ Move Park Operations from Public Works to Parks &amp; Recreation.</li> <li>○ Move Signs &amp; Signals from Public Works to Engineering.</li> <li>○ Move Cemetery from Public Works to City Clerk.</li> <li>○ Move Sustainability Office from Systems Planning to City Administration.</li> <li>○ Move Forestry Planning from Systems Planning to Public Works.</li> <li>○ Move Transportation Planning from Systems Planning to Engineering.</li> <li>○ Move Solid Waste Planning and Program Management from Systems Planning to Public Works.</li> </ul> </li> </ul>





Significant Changes:

- Sustainability Group moved to City Administrator’s Office.
- Parks maintenance operations moved to Community Services.
- Consolidation of transportation planning and engineering in Engineering Unit.



# Horizon Issues – Public Services

AREA	ISSUES
Treeline Trail	<ul style="list-style-type: none"><li>• Council consideration of the Adoption as an element of City’s Master Plan</li><li>• Develop work group to manage the implementation steps including funding and preliminary design.</li><li>• Coordinate with parallel projects in the CIP.</li><li>• Collaborate with the Treeline Conservancy to address their business plan components.</li><li>• Work with outside agencies to coordinate complimentary projects.</li></ul>
Solid Waste Program	<ul style="list-style-type: none"><li>• Analyze operating model for solid waste collection services.</li><li>• Complete potential for regional approach with County and other entities.</li><li>• Analyze service model to accommodate additional programs.</li></ul>
Succession Planning	<ul style="list-style-type: none"><li>• Numerous key personnel are eligible for retirement.</li><li>• Difficulty in finding technical staff for plant operations.</li><li>• Provide adequate training of existing and new staff.</li></ul>



# Horizon Issues – Public Services

AREA	ISSUES
Infrastructure	<ul style="list-style-type: none"> <li>• Address embankment integrity at Barton Dam.</li> <li>• Prepare 415 W Washington property for redevelopment with Treeline Conservancy.               <ul style="list-style-type: none"> <li>○ Pending Historic District Commission notice to proceed.</li> <li>○ Perform site environmental assessments and remediation.</li> </ul> </li> <li>• Address WWTP odor study and improvements.</li> <li>• Develop asset management approach and address aging facilities (Fire Stations).</li> </ul>
Legislative Changes	<ul style="list-style-type: none"> <li>• Assess/ address impacts of proposed State lead and copper rule legislation.</li> <li>• Assess/address impacts of long term surface water treatment rule requirements.</li> <li>• Assess/address proposed compost/stormwater runoff regulations.</li> <li>• Assess/address pending Perfluorooctane (PFO’s) Regulation (WWTP).</li> <li>• Assess/address potential nitrogen discharge regulations (WWTP).</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>• Integrate electric vehicles into the City Fleet.</li> <li>• Assess/address path for implementation of clean and renewable energy, including Solar Power Generation Policy.</li> </ul>





# Horizon Issues – Public Services

AREA	ISSUES
Ann Arbor Station	<ul style="list-style-type: none"><li>• Draft Environmental Assessment Document completed including Public Review period.</li><li>• Awaiting Federal Railroad Administration (FRA) comments on response document.</li><li>• Upcoming Steps:<ul style="list-style-type: none"><li>○ Complete Preliminary Engineering (PE) process for Preferred Site (May 2018).</li><li>○ Obtain FRA formal Finding of No Significant Impact (FONSI) (June 2018).</li><li>○ Gain FRA concurrence that preliminary engineering meets grant requirements (June 2018).</li><li>○ Coordinate with MDOT and FRA for Final Design and Construction Resources (Fall 2018).</li></ul></li></ul>



# Changes to Plan – Community Services

AREA	ISSUES
Organizational Re-alignment	<ul style="list-style-type: none"> <li>Align structure to efficiently deliver service.                             <ul style="list-style-type: none"> <li>Move Park Operations from Public Works to Parks &amp; Recreation</li> </ul> </li> </ul>

# Horizon Issues – Community Services

AREA	ISSUES
Permitting/Plan Review	<ul style="list-style-type: none"> <li>Pursue MEDC Redevelopment Ready certification.</li> <li>Pursue update/replacement of City’s permitting software (TRAKiT).</li> <li>International Accreditation Service review of Building and Rental Services Unit.</li> <li>Adopt International Property Maintenance Code.</li> </ul>
Parks & Recreation	<ul style="list-style-type: none"> <li>Obtain approval of parks millage renewal.</li> <li>Pursue funding for B2B Trail Enhancements.</li> <li>Work with Finance to develop capital financing plan to provide annual funding for future replacement costs.</li> </ul>
Planning	<ul style="list-style-type: none"> <li>Continued update of the Master Land Use Plan.</li> <li>Identify funding for annexation program.</li> <li>Transit Oriented Development overlay districts.</li> </ul>



# Changes to Plan – City Administrator/Mayor’s Office

AREA	ISSUES
Assistant City Administrator Position	<ul style="list-style-type: none"> <li>• Added position to increase capacity for support of new initiatives and provide support operational needs</li> <li>• \$60k increase in recurring General Fund expenditure</li> </ul>
Sister Cities	<ul style="list-style-type: none"> <li>• Need to establish some minimal level of financial support for this program</li> </ul>
Workforce Planning (Overhire) Program	<ul style="list-style-type: none"> <li>• Staff believes this is a meaningful program which that supports succession planning.</li> <li>• Projected one-time, unspent balance at year-end (\$263k) will return to fund balance unless rolled-over into FY2019.</li> </ul>
Governance Plans	<ul style="list-style-type: none"> <li>• Portion of funds allocated to update governance documents are not yet programmed</li> <li>• Projected one-time, unspent balance at year-end (\$167k) will return to fund balance unless rolled-over into FY2019.</li> </ul>
City Hall Security	<ul style="list-style-type: none"> <li>• Additional measures are necessary to meet building code and appropriately secure the building (\$125K).</li> </ul>



# Changes to Plan – City Administrator’s Office

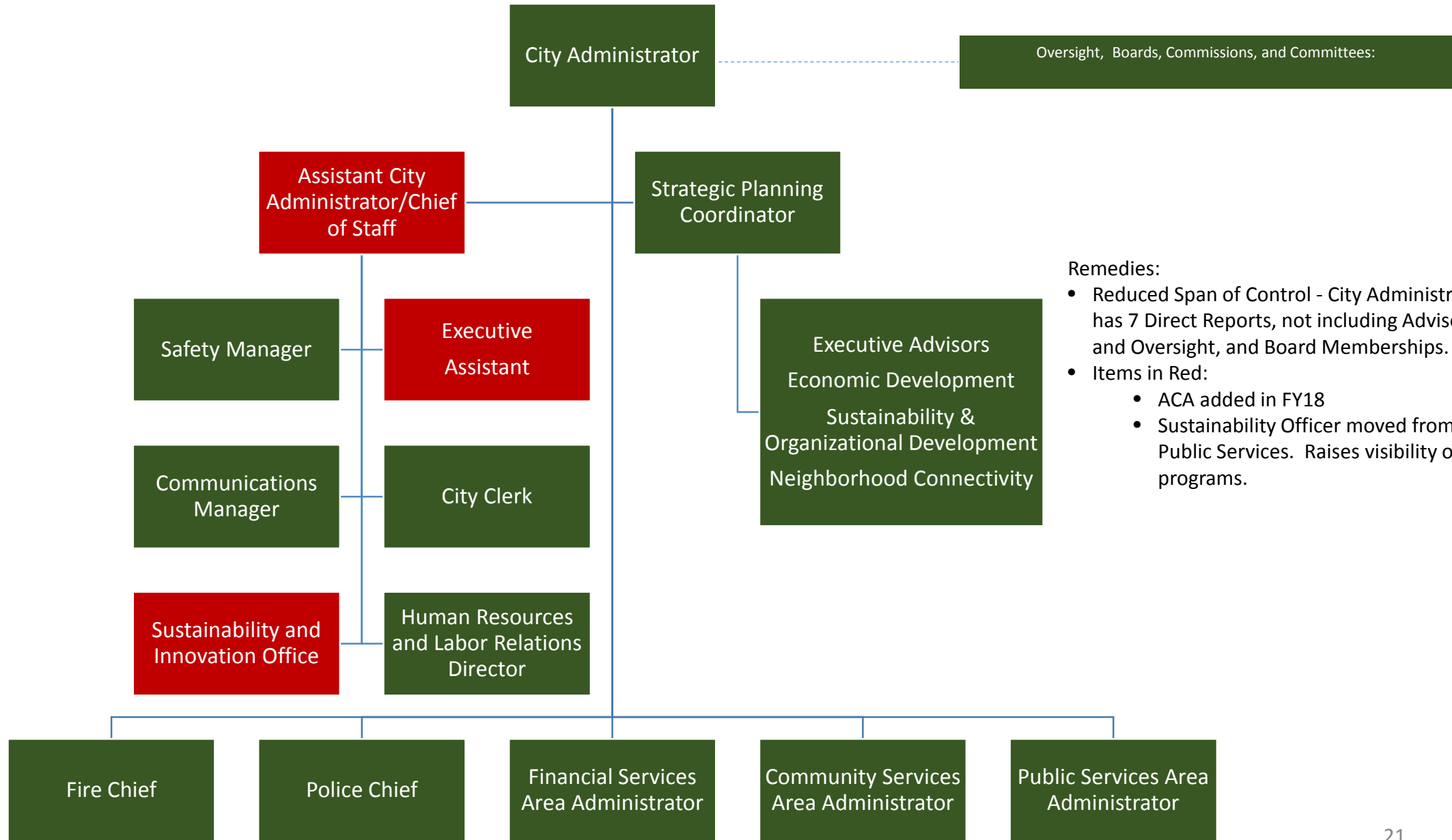
## CURRENT CITY GOVERNMENT STRUCTURE

**Concerns:**

- Span of Control - City Administrator has 10 Direct Reports, not including Advisors and Oversight, and Board Memberships .
- Lacks coordination of internal functions.
- No concentration on strategic development at City Administrator level.
- Cost orientation.



# REVISED CITY GOVERNMENT STRUCTURE



- Remedies:
- Reduced Span of Control - City Administrator has 7 Direct Reports, not including Advisors and Oversight, and Board Memberships.
  - Items in Red:
    - ACA added in FY18
    - Sustainability Officer moved from Public Services. Raises visibility of programs.



# Risks to Plan – City Administrator/Mayor’s Office

AREA	ISSUES
Co-Produced Policing (HH)	<ul style="list-style-type: none"> <li>• Recurring and one-time impact is not yet known.</li> </ul>
Treeline Trail	<ul style="list-style-type: none"> <li>• Recurring and one-time impact is not yet known.</li> </ul>
DDA	<ul style="list-style-type: none"> <li>• Challenges to traditional downtown parking business model.</li> <li>• Short term loss of parking spaces and resulting revenues.</li> </ul>
Events and Festivals	<ul style="list-style-type: none"> <li>• Costs of security and related expenses are adversely impacting events.</li> </ul>



# Horizon Issues – Administration

AREA	ISSUES
Economic Development	<ul style="list-style-type: none"> <li>• Funding of strategic projects including the Train Station and Treeline Trail.</li> <li>• Development of City-held properties to support community values.</li> <li>• Enhance City’s image as a favorable place to do business.</li> <li>• Address imbalance of sources and uses of funds.</li> </ul>
Community Safety	<ul style="list-style-type: none"> <li>• Implement outcomes from Independent Police Review.</li> <li>• Complete the deer management program and transition deer management to maintenance level.</li> <li>• Enhance active transportation connections.</li> </ul>
Human Capital	<ul style="list-style-type: none"> <li>• Recruit in technical areas and encourage young workers to enter licensed trades.</li> <li>• Anticipate changes in the regulatory environment (e.g. health care/pensions).</li> <li>• Develop an environment of diversity and inclusion.</li> <li>• Plan for transition of staff and capture of knowledge/changing workplace dynamics.</li> <li>• Explore methods of benefits administration.</li> </ul>
City Clerk	<ul style="list-style-type: none"> <li>• Staffing Boards/Commissions/Committees.</li> <li>• Increase in FOIA burdens.</li> </ul>
Workplace Safety	<ul style="list-style-type: none"> <li>• Implement facilities capital improvements necessary for a safe workplace.</li> </ul>
Regionalization of Services	<ul style="list-style-type: none"> <li>• Explore alternative models for the Housing Commission, AAFD, and solid waste management.</li> </ul>



## Strategic Initiative - Sustainability

- Realignment of Sustainability Team under City Administrator
- 100% Clean and Renewable Energy Plan
- Environmentally Responsible Procurement
- Green Fleets Policy revision
- “Operationalize” Climate Action Plan
- Continue to pursue community/residential solar options





# Strategic Initiative – Development/Affordability

- Form an Economic Development Advisory Team
  - Recommend an approach to sustainable economic development
  - Identify and evaluate current and potential funding streams
  - Identify areas of opportunity involving government-owned/influenced lands and potential public-private ventures
  - Identify development obstacles, burdens, and barriers to sustainable development
  - Provide a suite of recommendations that will position the City government to be a better business and community partner
  - Recommend approaches for continual involvement of the Ann Arbor community in the development and implementation of economic development initiatives
- Housing Affordability Action Plan
- Cost of service reviews



# Council Questions and Discussion

