Financial Update FY2021

Economic Environment

Metropolitan Statistical Area (MSA)

- Employment levels strong (2019 = 188k)
- Unemployment – 3.3% for Ann Arbor area (August)

City

- Population – mild long-term growth (1970 = 100k | 2019 (est) = 121k)
- Building permits valued at $223 mil. in 2019 are down slightly from $271 mil. in 2018, but still above historical levels.
- Employment is concentrated in education & healthcare
- CPI (Consumer Price Index, which drives increase in tax revenues) continues in the 1.5% to 2% range. 1.9% in FY2020.
- Taxable values – $5.8 billion for FY2019 versus $5.1 billion in FY2016, reflecting the strong level of new construction.

Take-aways:
- The population continues to grow at a moderate pace.
- Taxable value growth has been strong given the pace of new construction.
- The local economy remains concentrated in education and healthcare and therefore susceptible to downturns in these areas.
- State tax and fiscal policies restrain City revenue.

Financial Performance Measures

	FY2018	FY2019
Independent Assessments		
1. Financial Audit - 0 material weaknesses & 0 significant deficiencies	0 / 0	0 / 0
2. Bond Rating (S&P) - LTGO is AA+, Water is AA, Waste Water is AA+	AA+/AA/AA+	AA+/AA/AA+
Fiscal Control		
3. General Fund structural deficit (recurring revenues - expenditures)	Balanced	Balanced
4. General Fund unassigned fund balance	12%	19%
Debt/Liability Management		
5. Pension funded ratio	86%	86%
6. VEBA (retiree healthcare) funded ratio	66%	64%
7. Funding General Fund Capital Maintenance	tbd	tbd

General Fund Projections

|	FY2020 Budget	FY2021				FY2022 Projected
		Initial	**Economics**	**Changes**	**Projected**	
	(Mils.)	(Mils.)	(Mils.)	(Mils.)	(Mils.)	(Mils.)
Recurring						
Revenues	$ 108.7	$ 111.1	$ (0.1)	$ -	$ 111.0	$ 112.8
Expenditures	(108.6)	(110.9)	0.1	(0.1)	(110.9)	(114.5)
Net Surplus/(Deficit)	$ 0.1	$ 0.2	$ (0.0)	$ (0.1)	$ 0.1	$ (1.7)
One-time						
Revenues	$ 2.3	$ 0.3	$ 1.0	$ -	$ 1.3	$ 1.4
Expenditures	(3.1)	(0.5)	-	(1.0)	(1.5)	(1.0)
Net Surplus/(Deficit)	$ (0.8)	$ (0.2)	$ 1.0	$ (1.0)	$ (0.2)	$ 0.4
Net Surplus/(Deficit)	$ (0.7)	$ (0.0)	$ 1.0	$ (1.1)	$ (0.1)	$ (1.4)
Unassigned Fund Balance	$ 17.6				$ 17.5	$ 16.2
Policy range (15% to 20%)	16.7%				16.3%	14.5%

General Fund Opportunities / (Challenges)

Opportunities / (Risks) Not Included in Projections	Amount
Marijuana Sales Tax Receipts	Tbd
PILOT Agreements with UM/AAPS/Other	Tbd
Energy Improvements	(Tbd)
Climate Action Initiatives	(Tbd)
Affordable Housing Investments	(Tbd)
Enhanced Community Policing	(Tbd)
Pedestrian Safety Improvements	(Tbd)
Treeline Trail Improvements	(Tbd)
Fire Station Renovations/Replacements	(Tbd)
Green Fleets Implementation	(Tbd)
City Funded Gelman Clean-up	(Tbd)
Center of the City	(Tbd)
Sidewalk Gaps	(Tbd)
Accelerate Road Repair	(Tbd)

General Fund Projections
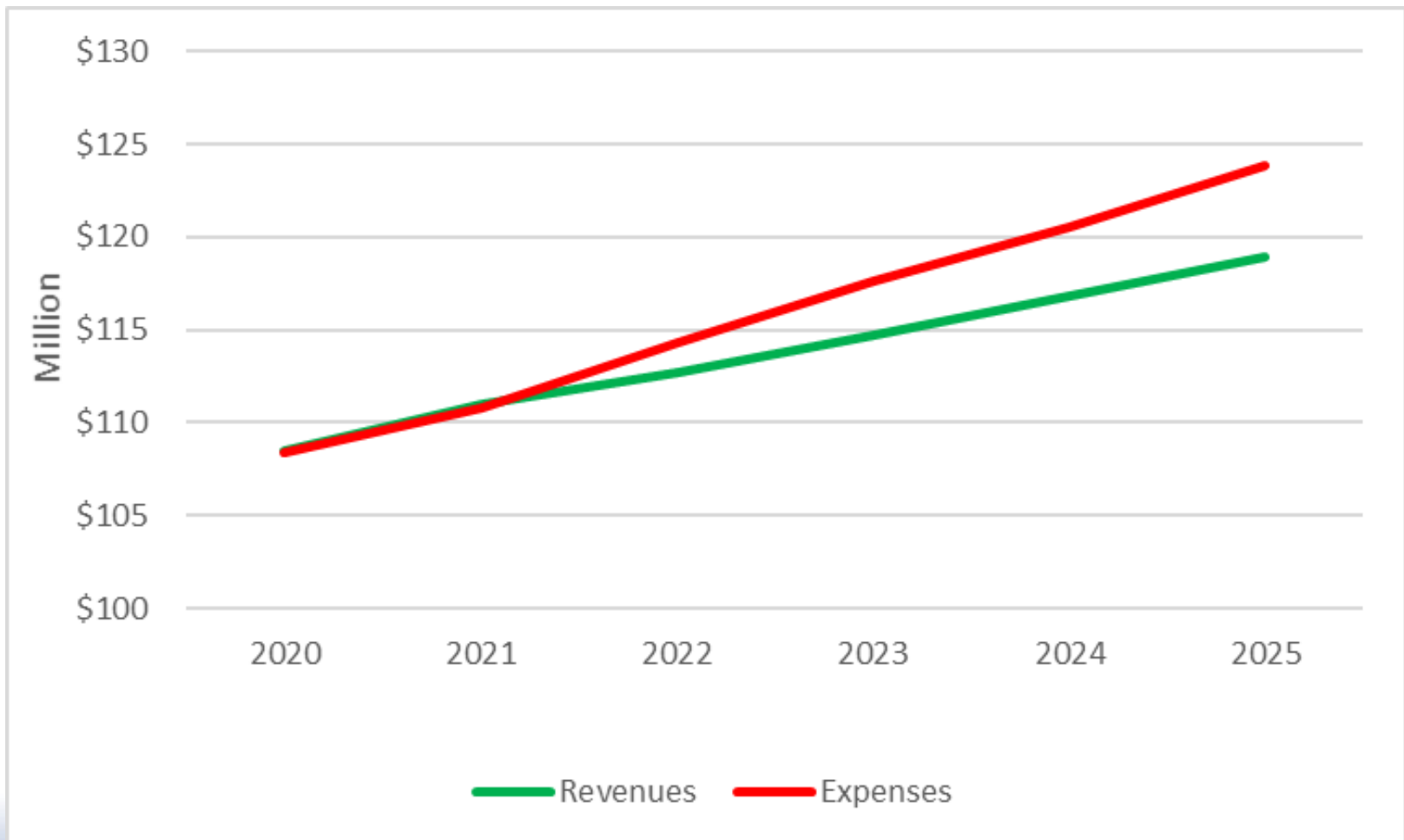
General Fund Projections
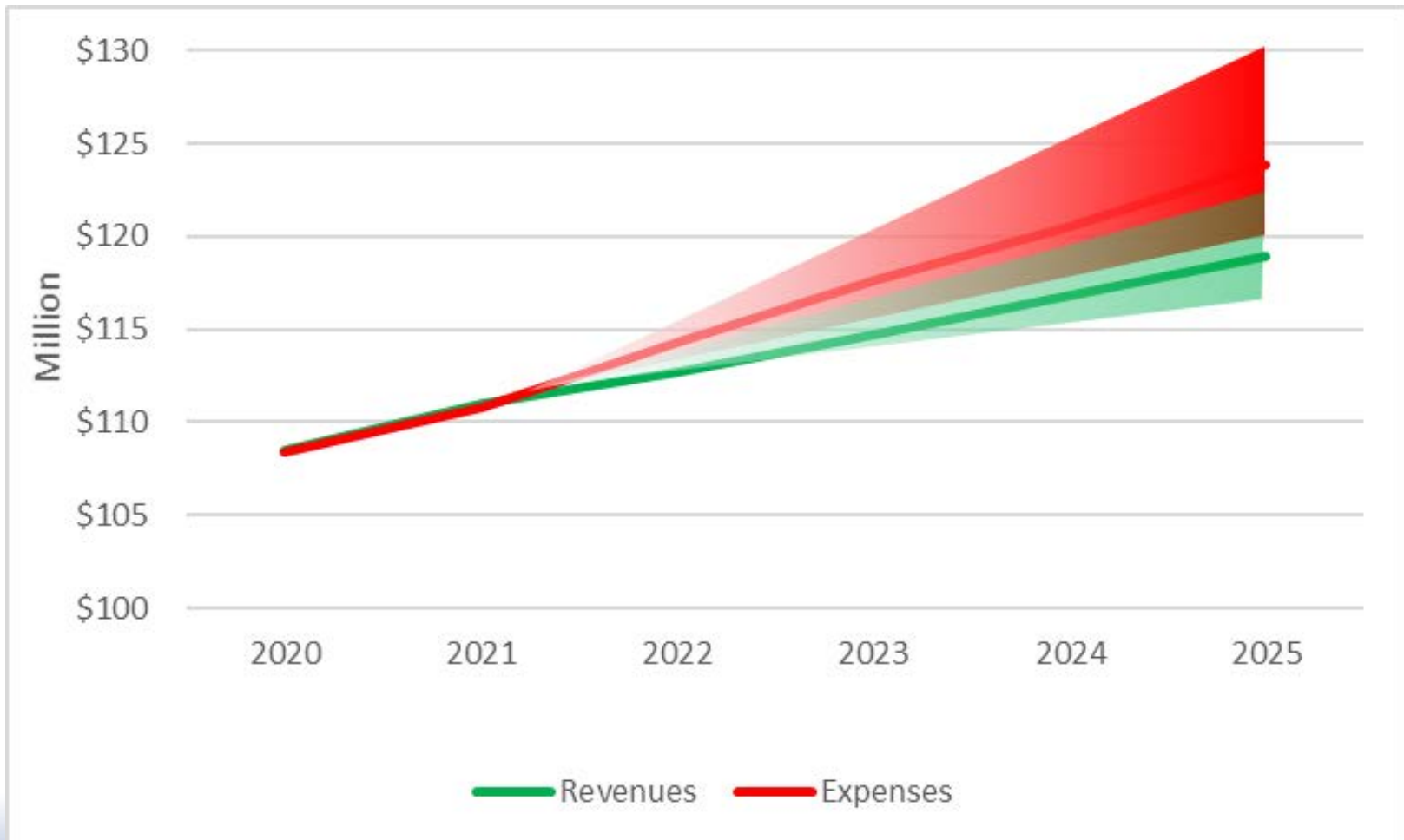
Other Funds

- **Water** – Revenues need to increase approx. 6.5% (instead of 6%) next year in order to accumulate funding for upcoming water system reinvestment projects, support higher operating costs related to PFAS, the new lead and copper rule, meter replacements, etc. Increases will remain as system reinvestment is underway. The rate increase plan will be considered by Council in early 2020.

- **Wastewater** – Revenues need to increase approx. 6.5% (instead of 7%) next year to support the debt service related to the wastewater treatment plant renovations. Revenue increases are planned to decrease steadily for the next 3-4 years. The annual rate increase is being considered by Council in early 2020.

- **Stormwater** – Revenues need to increase 11%, 5%, and 4%, respectively over the next three fiscal years to fund the level of service and rate plan adopted by Council in FY18.

- **Solid Waste** – Primarily funded from property taxes. Regional services continue to be explored. The Solid Waste Master Plan update will be considered by Council in the upcoming months.

- **Streets** – Funded from a variety of sources, including the Street, Bridge and Sidewalk millage and ACT 51 fund (weight and gas taxes). Current pavement condition ratings are anticipated by early December. Funding, staff resources & contractor availability remain the primary limiting factors. Additionally, staff has long-term concerns about the sufficiency of ACT 51 as a funding source electrification of vehicles increases.

Challenges on the Horizon

- Economic Downturn
  - General Economy, which affects sales taxes/State resources
  - Financial Markets, which may increase required pension contributions
- State Budget
  - Legislative Risks – roads (effect of electric vehicles on funding), state shared revenue, further deterioration in local control, etc.
- Federal Policy
  - Changes in policies for affordable housing, infrastructure, ROW, Environment related, CTN funding, etc.
- Capital Investment Needs
  - Roads, capital repairs/replacement of fire stations, water treatment plant, recycling/solid waste contracts, parks facilities.
- Debt Management
  - Retirement System funding / management of market risk
  - Higher interest costs
- Labor Contracts (Police/Fire Costs)
  - Long-term impact to the General Fund for the cost of police/fire pension benefits & wage costs.

Financial Planning

December 2019

Planning Process

Dec. 9, 2019 (Council Retreat) - Today
- Review Financial Projections
- Establish Council Priorities

Feb - Mar 2020 (Council Work Sessions)
- Staff Presents Budget Requests to Deliver Council Priorities within Financial Constraints

Apr 20, 2020 (Council Presentation)
- City Administrator Presents Recommended Budget (2nd year of 2- Year Plan)

May 4, 2020 (Public Hearing)
- Public Hearings Held on Recommended Budget and Fee Changes

May 18, 2020 (Council Consideration)
- Council Considers and Adopts FY21 Budget

Development of City 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:

  - Sustainability framework

  - Fund balance policy

  - Pension & OPEB funding policy

  - Capital Improvement program policies

  - Capital repair/replacement policy

  - Enterprise capital repair/replacement policy

  - Parks "fairness" resolution

- Priority based budgeting is a decision making tool to prioritize staff efforts to achieve City Council's desired results.

Priority Based Budgeting Timeline and Assumptions
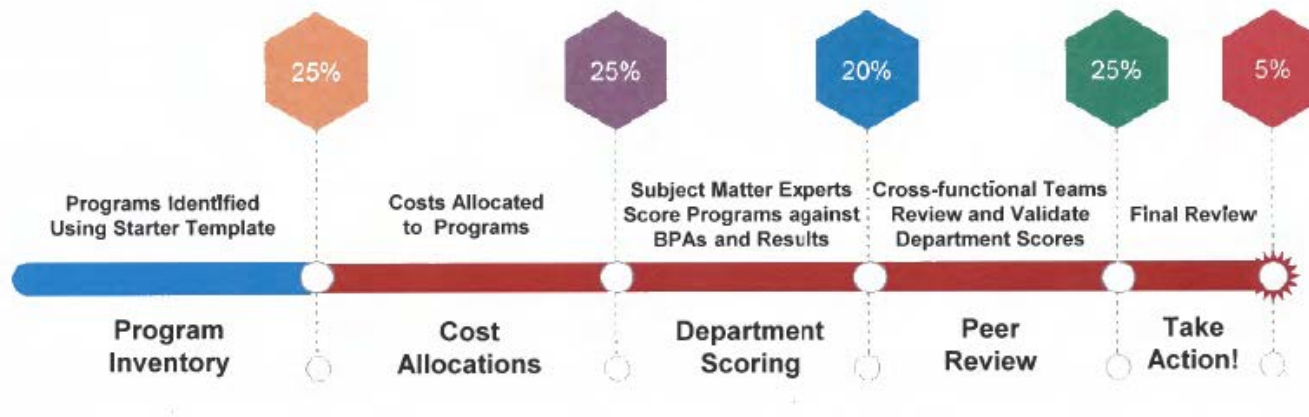
Assumptions:

Scope: All City funds. Excludes DDA, Housing Commission, SmartZone, and Retirement System.

Program Inventory: Utilize the existing detail available in the budget to identify A2 programs (services).

Cost Allocations: Utilize latest available adopted budget to determine program costs.
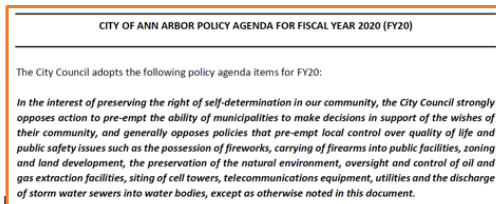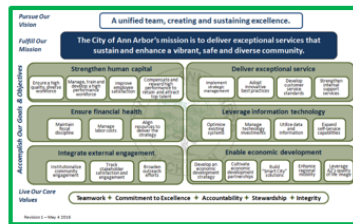
Department Scoring: Managers will initially score how well their programs contribute to achieving priorities.

Peer Review: Cross-functional team will Peer Review the Department Scoring.

Action: Results will be available for FY2022, with some information possibly available for FY2021.

Existing Policy Guidance

Over the past 5 – 6 years, Council has adopted, received, or obtained input from residents, staff, and evolving policy documents. These are encapsulated by the National Citizen Survey, other resident surveys, Legislative Policy Agenda, the Sustainability Framework, and the Organizations Strategic Plan.

Bringing these items together to articulate a short list of priorities is necessary for Priority Based Budgeting to work and achieve alignment.

Evolution of Priority Discussion

Climate and Energy	Community	Land Use and Access	Resource Management
Improve access to and increase use of renewable energy by all members of our community	Ensure our community is strongly connected through outreach, opportunities for engagement, and stewardship of community	Establish a physical and culture environment that supports and encourages safe, comfortable and efficient ways of pedestrians, bicyclists, and transit users to travel throughout the city and region	Eliminate pollutants in our air and water systems
Reduce energy consumption and eliminate net greenhouse gas emissions in our community	Provide high quality, safe, efficient, and affordable housing choices to meet the current and future needs of our community, particularly for homeless and low-income households	Plan for and manage constructed and natural infrastructure systems to meet the current and future needs of our community	Conserve, protect, enhance and restore our aquatic and terrestrial ecosystems
Reduce new and existing buildings' energy use, carbon impact and construction waste, while respecting community context	Provide services that meet basic human needs of impoverished and disenfranchised residents to maximize the health and well-being of the community	Encourage a compact patter of diverse development that maintains our unique sense of place, preserves our natural systems, and strengthens our neighborhoods, corridors, and downtown	Produce zero waste and optimize the use and reuse of resources in our community
	Minimize risk to public health and property from manmade and natural hazards		Conserve, protect, enhance, and restore our local agriculture resources
	Improve quality of life by providing diverse cultural, recreational, and educational opportunities for all members of our community Develop a prosperous, resilient local economy that provides opportunity by creating jobs, retaining and attracting talent, supporting a diversity of businesses across all sectors, and rewarding investment in our community		

Sustainability Framework

The Sustainability Framework was

put in a matrix with the Goals under

each of the 4 key categories.

Environmental Stewardship	Safety	Diversity and Inclusion	Land Use and Access	Healthy Economy	Good Governance
Improve access to and increase use of renewable energy by all members of our community	Minimize risk to public health and property from manmade and natural hazards	Ensure our community is strongly connected through outreach, opportunities for engagement, and stewardship of community	Establish a physical and culture environment that supports and encourages safe, comfortable and efficient ways of pedestrians, bicyclists, and transit users to travel throughout the city and region	Develop a prosperous, resilient local economy that provides opportunity by creating jobs, retaining and attracting talent, supporting a diversity of businesses across all sectors, and rewarding investment in our community	Deliver exceptional service to the public
Reduce energy consumption and eliminate net greenhouse gas emissions in our community	Establishes and sufficiently enforces codes and regulations to ensure the community is clean, healthy, visually appealing and free from blight	Provide high quality, safe, efficient, and affordable housing choices to meet the current and future needs of our community, particularly for homeless and low-income households	Plan for and manage constructed and natural infrastructure systems to meet the current and future needs of our community	Support and enable sustainable economic development	Protect and ensure the financial health of City assets
Eliminate pollutants in our air and water systems	Instills a sense of shared responsibility for personal safety and focuses on educating, involving and engaging the community in identifying and addressing safety concerns	Provide services that meet basic human needs of impoverished and disenfranchised residents to maximize the health and well-being of the community	Encourage a compact patter of diverse development that maintains our unique sense of place, preserves our natural systems, and strengthens our neighborhoods, corridors, and downtown	Promotes well-regulated, strategically planned and future-focused development	Integrate external engagement - operating openly and transparently
Conserve, protect, enhance, and restore our local agriculture resources and aquatic and terrestrial ecosystems	Provides for a well-maintained transportation network that enhances traffic flow, and offers safe mobility for all modes of travelers	Improve quality of life by providing diverse cultural, recreational, and educational opportunities for all members of our community	Creates and preserves access to open space, green space, shorelines, parks and recreational opportunities	Supports a vibrant and accessible downtown that attracts residents and visitors	Leverage information technology to increase efficiencies and effectiveness
Produce zero waste and optimize the use and reuse of resources in our community					Strengthen human capital by recruiting, developing, and retaining exceptional City staff

Organizational Strategic Plan & Further Breakout

The Organizational Strategic Plan was added under the category of

Good Governance. Community was separated into Safety and Diversity

& Inclusion. Also modified wording for other categories.

Evolution of Priority Discussion

	Lower<------------------Quality----------------->Higher	
Higher (Importance →)	**Utility infrastructure** **Transportation system** **Diversity and inclusion**	Safety Clean and attractive Healthy economy
Lower (← Importance)	Environmental stewardship Community design	Vibrant downtown Engaged and connected Recreational opportunities Cultural opportunities

Legislative Policy Agenda	Community Value
Enable a safe, welcoming, and inclusive community.	Diverse and Inclusive
Protect the environment as responsible stewards of natural resources.	Environmental Stewards
Build and maintain a sustainable infrastructure.	Quality Infrastructure
Promote responsible economic development.	Healthy Economy
Provide for a financially stable local government.	
Support workplace safety, job security, and the right of employees to organize.	
	Livable Community
	Good Governance

Resident Survey

The results of the resident survey needed to be incorporated, reflecting a higher priority for items that were of high importance but low quality.

Legislative Policy Agenda

When Council approved its Legislative Policy Agenda, it defined some of the key community values. City priorities need to also reflect these values.

Recommended Matrix of Desired Results and Descriptions

Livable Community	Diversity, Equity, Inclusion	Environmental Stewards	Sustainable Infrastructure	Healthy Economy	Good Governance
Provides for a well-maintained transportation network that supports and encourages safe, comfortable, and efficient movement of people and goods throughout the city and region	Provide high quality, safe, efficient, and inclusionary housing choices to meet the current and future needs of our community, particularly for homeless and low-income households	Improve access to and increase use of renewable energy by all members of our community	Improve the quality of the transportation and utility infrastructure across the city and region	Develop a prosperous, resilient local economy that provides opportunity by creating jobs, retaining and attracting talent, supporting a diversity of businesses across all sectors, and rewarding investment in our community	Deliver exceptional service to the public
Improve quality of life by providing diverse cultural, recreational, and educational opportunities for all members of our community	Provide services that meet basic human needs of impoverished and disenfranchised residents to maximize the health and well-being of the community	Reduce energy consumption and eliminate net greenhouse gas emissions in our community	Plan for and manage constructed and natural infrastructure systems to meet the current and future needs of our community	Support an Economic Development Strategy that contributes to community prosperity	Strengthen human capital by recruiting, developing, and retaining exceptional City staff
Minimize risk to public health and property from manmade and natural hazards	Ensure our community is strongly connected through outreach, opportunities for engagement and stewardship	Manage pollutants in our air and water to ensure resilient systems	Reduce new and existing buildings' energy use, carbon impact, and construction waste, while respecting community context	Cultivate economic development partnerships	Ensure the financial health of the City
Establish and sufficiently enforce laws and regulations to ensure the community is safe, clean, engaged and healthy	Instill a sense of shared responsibility for personal safety and focus on involving and engaging the community in identifying and addressing concerns	Conserve, protect, enhance, and restore our local agriculture resources and aquatic and terrestrial ecosystems	Encourage a compact pattern of diverse development that maintains our unique sense of place, preserves our natural systems, and strengthens our neighborhoods, corridors, and downtown	Support a culture of innovation, including "Smart City" Solutions	Integrate external engagement into City processes

LEGEND:

from Community Priority Based on **Resident Survey**
from Council Approved **Sustainability Framework**
from City **Organizational Strategic Plan**
from both the **Resident Survey** and **Sustainability Framework**
from PBB consultant/staff.

Vision of Desired Results and

Safe, Engaged, Vibrant Community & Strong Neighborhoods	Diversity, Equity, Inclusion	Environmental Stewards	Updated, Quality, Sustainable Infrastructure	Infrastructure balanced with employment growth	Responsive Government – Good Governance	Basic Services and Essential Infrastructure
or	✓	✓	or	or	or	
Livable Community	**Diversity, Equity, Inclusion**	**Environmental Stewards**	**Sustainable Infrastructure**	**Healthy Economy**	**Good Governance**	
Provides for a well-maintained transportation network that supports and encourages safe, comfortable, and efficient movement of people and goods throughout the city and region	Provide high quality, safe, efficient, and inclusionary housing choices to meet the current and future needs of our community, particularly for homeless and low-income households	Improve access to and increase use of renewable energy by all members of our community	Improve the quality of the transportation and utility infrastructure across the city and region	Develop a prosperous, resilient local economy that provides opportunity by creating jobs, retaining and attracting talent, supporting a diversity of businesses across all sectors, and rewarding investment in our community	Deliver exceptional service to the public	
Improve quality of life by providing diverse cultural, recreational, and educational opportunities for all members of our community	Provide services that meet basic human needs of impoverished and disenfranchised residents to maximize the health and well-being of the community	Reduce energy consumption and eliminate net greenhouse gas emissions in our community	Plan for and manage constructed and natural infrastructure systems to meet the current and future needs of our community	Support an Economic Development Strategy that contributes to community prosperity	Strengthen human capital by recruiting, developing, and retaining exceptional City staff	
Minimize risk to public health and property from manmade and natural hazards	Ensure our community is strongly connected through outreach, opportunities for engagement and stewardship	Manage pollutants in our air and water to ensure resilient systems	Reduce new and existing buildings' energy use, carbon impact, and construction waste, while respecting community context	Cultivate economic development partnerships	Ensure the financial health of the City	
Establish and sufficiently enforce laws and regulations to ensure the community is safe, clean, engaged and healthy	Instill a sense of shared responsibility for personal safety and focus on involving and engaging the community in identifying and addressing concerns	Conserve, protect, enhance, and restore our local agriculture resources and aquatic and terrestrial ecosystems	Encourage a compact pattern of diverse development that maintains our unique sense of place, preserves our natural systems, and strengthens our neighborhoods, corridors, and downtown	Support a culture of innovation, including "Smart City" Solutions	Integrate external engagement into City processes	

18

Vision of Desired Results and Descriptions

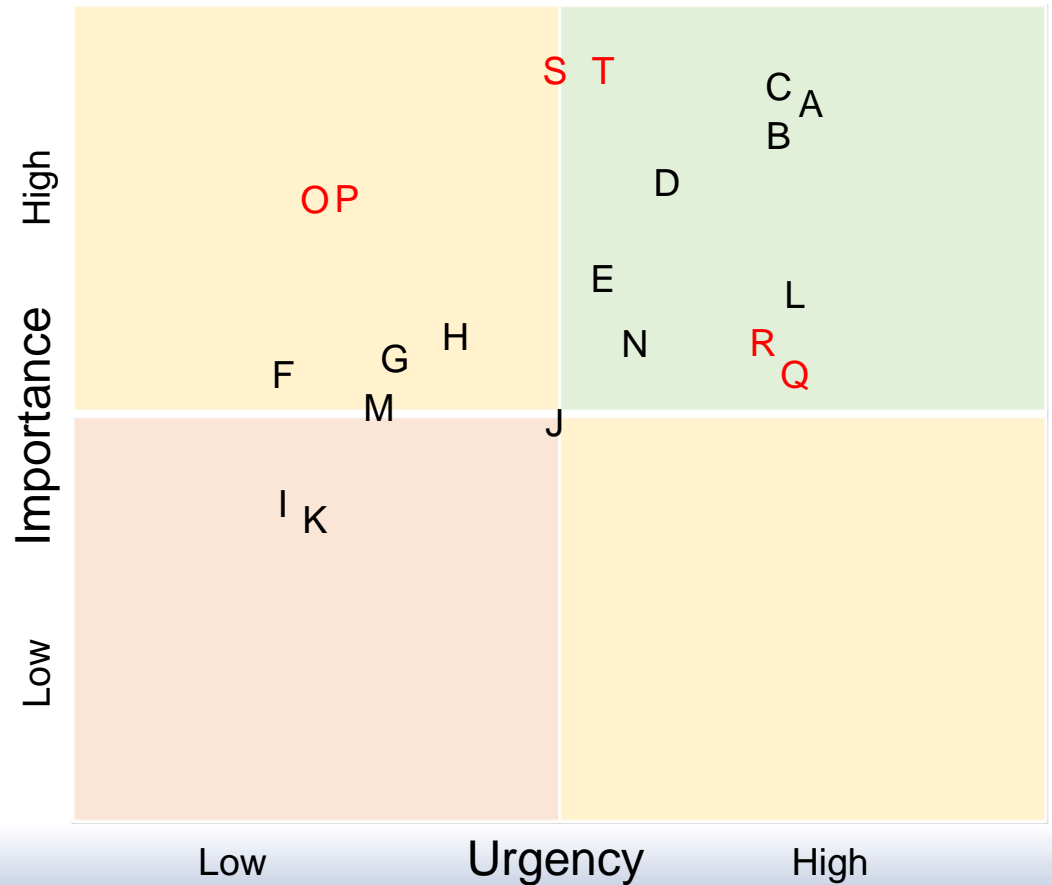| Livable Community	Diversity, Equity, Inclusion	Environmental Stewardship	Sustainable Infrastructure	Healthy Economy	Good Governance
Provides for a well-maintained transportation network that supports and encourages safe, comfortable, and efficient movement of people and goods throughout the city and region	Provide high quality, safe, efficient, and inclusionary housing choices to meet the current and future needs of our community, particularly for homeless and low-income households	Improve access to and increase use of renewable energy by all members of our community	Improve the quality of the transportation and utility infrastructure across the city and region	Develop a prosperous, resilient local economy that provides opportunity by creating jobs, retaining and attracting talent, supporting a diversity of businesses across all sectors, and rewarding investment in our community	Deliver exceptional service to the public
Improve quality of life by providing diverse cultural, recreational, and educational opportunities for all members of our community	Provide services that meet basic human needs of impoverished and disenfranchised residents to maximize the health and well-being of the community	Reduce energy consumption, carbon emissions, and reduce reliance upon fossil fuels to achieve goal of city-wide carbon neutrality. eliminate net greenhouse gas emissions in our community	Plan for and manage constructed and natural infrastructure systems to meet the current and future needs of our community	Support an Economic Development Strategy that contributes a return on successful investments to the city. contributes to community prosperity	Strengthen human capital by recruiting, developing, and retaining exceptional City staff
Minimize risk to public health and property from manmade and natural hazards	Ensure our community is strongly connected through outreach, opportunities for engagement and stewardship	Manage pollutants in our air and water and threats to our ecological balance to ensure resilient systems including safe drinking water and healthy natural areas. to ensure resilient systems	Reduce new and existing buildings' energy use, carbon impact, and construction waste, while respecting community context	Cultivate economic development partnerships	Ensure the financial health of the City and an equitable sharing of that responsblity amoung all residents and stakeholders
Establish and sufficiently enforce laws and regulations to ensure the community is safe, clean, engaged and healthy	Instill a sense of shared responsibility for personal safety and focus on involving and engaging the community in identifying and addressing concerns	Conserve, protect, enhance, and restore our local agriculture natural area resources and aquatic and terrestrial ecosystems		Support a culture of innovation, including "Smart City" Solutions	Integrate external engagement into City processes
Encourage a compact pattern of diverse development that maintains our unique sense of place, preserves our natural systems, and strengthens our neighborhoods, corridors, and downtown					

Open space, trees, nature, community policing

Natural rights, Natural capital investments, refuse, reduce, reuse, recycle

No Smart City / 5G / surveillance state

19

How Do We Prioritize Our Challenges

A. Energy Improvements
B. Climate Action Initiatives
C. Affordable Housing Investments
D. Enhanced Community Policing
E. Pedestrian Safety Improvements
F. Treeline Trail Improvements
G. Fire Station Renovations/Replacements
H. Green Fleet Improvements
I. Center of the City
J. Sidewalk Gaps
K. Economic Development
L. Accelerate Pavement Condition Repairs
M. Gelman Clean-up
N. PILOT Agreements

Added

O. Traffic Congestion
P. Fire Staffing
Q. Natural Area Preservation
R. Storm water Improvements
S. Safe Drinking Water
T. Water / Sewer Infrastructure

20

How Do We Prioritize Our Challenges

Importance (High / Low) — vertical axis
Urgency (Low / High) — horizontal axis

High Importance, Low Urgency (top-left):
- Treeline Trail Improvements
- Fire Station Renovations/Replacements
- Green Fleet Improvements
- Gelman Clean-up
- ? Traffic Congestion
- ? Fire Staffing
- ? Safe Drinking Water

High Importance, High Urgency (top-right):
- Energy Improvements
- Climate Action Initiatives
- Affordable Housing Investments
- Enhanced Community Policing
- Pedestrian Safety
- Accelerate Pavement Condition Repair
- PILOT agreements
- ? Natural Area Preservation
- ? Storm Water Improvements
- ? Water / Sewer Infrastructure

- Sidewalk Gaps

Low Importance, Low Urgency (bottom-left):
- Center of the City
- Economic Development

Financial & Administrative Service Area

December 2019

Horizon Issues

AREA	ISSUES
Succession Planning	Completed transition of two significant finance managers. In process of Accounting Manager backfill.
Hiring / Retention	Significant time commitment to hiring (presently 5 vacant positions) and training / development.
Priority Based Decision Making	Substantial effort will be required to put in place for next fall.
Evaluate an Annuity to de-risk the pension system	Final report due in December.
Internal Controls	With so many staffing changes, some additional resources for internal control reviews may be needed
IT Staffing	Increased need given increasing security requirements, implementation of business intelligence (big data), fiber projects, replacement of eTrakit, Smart City planning, etc.

Questions?