

June 4, 2008

Mayor and City Council
City of Midland
333 W. Ellsworth
Michigan, MI 48640

Dear Mayor and Councilmen:

Attached to this letter is the City of Midland's approved budget for the fiscal year ending June 30, 2009.

The proposed 2008-09 budget was submitted to the City Council on April 14, 2008, accompanied by the City Manager's annual budget message. For approximately six weeks following that date, the budget process provided for public examination and input, as well as Council study and discussion regarding the various revenues and expenditures included in the proposed budget. This letter is intended to serve as an addendum to the April 14, 2008 budget message.

The attached budget was modified from the budget as submitted on April 14, 2008 to increase expenditures for the Local Street Fund by \$60,000 to reflect additional construction costs for Rockwell Road. Total road construction increased from \$1,339,000 to \$1,399,000.

There were no other changes made to the proposed 2008-09 budget submitted on April 14, 2008.

Respectfully submitted,



Jon Lynch
City Manager

April 9, 2008

Mayor and City Council
City of Midland
333 W. Ellsworth
Michigan, MI 48640

Dear Mayor and Councilmen:

In accordance with the City Charter I present to you the City budget for the fiscal year 2008-09. We are pleased to offer the budget in a new format that integrates mission, resource, and performance data for each aspect of the City's operations. This new budget format also presents this information to users in a manner that is more understandable than the traditional line item document.

The 2008-09 fiscal year will present many new challenges to the community, including absorbing a 17% reduction in property tax revenue resulting from pending settlement of a tax appeal by the Midland Cogeneration Venture for years 2001-2008. This budget proposes meeting that challenge by balancing a .75 mill property tax increase against budget reductions equivalent to .68 mills of property tax.

While the City of Midland and the Midland Cogeneration Venture (MCV) have reached an agreement with respect to the tax appeal, the State of Michigan has petitioned the Michigan Tax Tribunal to delay its approval. At this time it appears that the State of Michigan intends to become a party in the appeal with the intention of invalidating the pending settlement. This action presents the additional challenge of burdening the City with interest charges accumulating at the rate of \$5,000 per day as well as requiring the City to budget for a costly trial that it had worked to avoid.

It is important to note that in spite of these challenges the administration proposes a budget that will allow for continued pursuit of the City Council's goals without disrupting major services delivered to Midland residents. To that end this budget message is comprised of three sections. The first section is organized to highlight how the City budget continues supporting the following City Council goals:

- Ensure economic sustainability,
- Provide outstanding quality of life via excellent services and amenities, and
- Provide effective stewardship of community resources.

The second section will present financial trends that are impacting some of the significant operations of the City. Finally, the third section will provide highlights of other areas of this budget document.

City Council Goals

I. Ensure economic sustainability

A. Support economic development

1. Support creation and retention of high quality jobs

a. Provide support to Midland Tomorrow

Midland Tomorrow is one of many organizations that the City partners with on projects for betterment of the community. *Midland Tomorrow* is an economic development organization serving the County of Midland, and all of its municipalities. This organization has been very successful in helping maintain existing businesses while attracting new economic investment in the community. The City has historically supported the organization with an annual appropriation. Similarly, the 2008-09 recommended budget includes continued support of *Midland Tomorrow* in the amount \$150,000.

b. Utilize available incentives to attract investment

During fiscal year 2007-08 the City employed Industrial Facilities Tax Exemptions, Brownfield Redevelopment Plans, and Tax Increment Financing to attract \$2.2 billion in new investments that, if implemented, will produce 197 new jobs and retain 138 existing jobs. Such incentives will be utilized in the future when job producing and retaining investments can be encouraged.

2. Support diversification of retail and entertainment options in the community

This year marks the end of a three year financial commitment to the Midland Area Chamber of Commerce Service Sector Development Program. In light of program benefits such as "Be a Tourist in Your Town" and the "Midland-A Million Brilliant Possibilities" marketing campaign, this budget proposes an additional year of support at \$30,000.

a. Support investment in Downtown and Circle areas

During fiscal year 2008-09 we will be in the second year of a three year partnership with the Entranceways Initiative Taskforce to provide a horticulturist. The horticulturist provides design services and directs care of plant materials throughout the community, particularly in the downtown.

City Council has also begun formal consideration of a Corridor Improvement Authority at the Circle and along South Saginaw Road as petitioned by the Center City Initiative. At this time the request has not come before Council for required public hearings.

3. Support area tourism

a. Support activities of the Midland Area Marketing Partnership

The Midland Area Marketing Partnership (MAMP) is a forum for businesses and organizations of the greater Midland area to partner, promote and cross-promote Midland as a destination for commerce, visitors and residence. As a proud partner in MAMP the City of Midland attends monthly meetings to learn about various programs, activities and offerings taking place throughout our community. The City has been able to cross promote its community offerings through MAMP's promotional efforts like the MAMP camp signup that helped educate the community about the city's Parks and Recreation Summer Supervised Play program along with other summer camp opportunities around Midland. The city has had the opportunity to introduce the Library and Midland Civic Arena to visitors through Tourist In Your Own Town that was coordinated by the Chamber, largely through participation of MAMP members. And, most recently, the mayor was able to lend his support through a letter of recognition for the Midland Speed Skating Club, also a member of MAMP, and its efforts to bring the 2009 Olympic Speed Skating tryouts to Midland.

B. Maintain strong financial position

1. Seek resolution to Midland Cogeneration Venture tax appeal

In July of 2007 the City of Midland and the Midland Cogeneration Venture (MCV) reached a settlement of disputed property valuations for the years 1997 through 2000. Results of this settlement included a \$180.3 million reduction of the City's taxable value, a \$50.9 million refund to MCV from affected taxing jurisdictions, net of a \$1.4 million donation by MCV to affected educational institutions.

In February of 2008 the City of Midland and MCV reached a settlement of disputed property valuations for years 2001 through 2007. The settlement agreement is currently pending before the Michigan Tax Tribunal. Results of the proposed settlement included a \$425 million reduction of the City's taxable value, a \$127 million refund to MCV from affected taxing jurisdictions, net of an \$8.3 million donation by MCV to affected educational institutions, and a \$1.7 million waiver of interest to all taxing jurisdictions.

2. Reduce costs to produce and provide municipal services

a. Reduce energy consumption

Each City-operated building will be considered for participating in an energy audit to determine if there are cost effective ways of increasing the efficiency of that building's energy consumption.

During the current year the City has included an ethanol blend (E-10) as well as pure unleaded gasoline in its competitive bidding process for gasoline. The ethanol blend has proven to be less expensive on numerous occasions. As such, the City will continue to utilize it as a cost effective alternative to pure unleaded gasoline.

b. Update personnel cost benchmarks

The City compares our salaries and fringe benefits on an ongoing basis with local employers, our neighboring cities of Bay City, Mt. Pleasant and Saginaw, and communities in Michigan that are comparable in size and population. Comparisons are made for managerial, professional, clerical and mechanical/streets positions. In 2008-09, our focus will be on salaries, cost of living adjustments and fringe benefits.

In 2007, the City participated in a health insurance benchmarking study conducted by McGraw Wentworth, Inc. Over 400 private, public and educational sector employers in Michigan participated. The purpose was to compare employee participation in the cost of their health care plan in terms of deductibles, co-payments and monthly contributions to premiums. The benchmarking study showed that City of Midland employees make a strong contribution to their health care, equaling Michigan employees in all sectors.

c. Control legacy costs

The City provides post-employment health care coverage under a traditional insured plan to retired employees, their qualified spouses and other dependents as mandated by collective bargaining agreements. Historically the City has recognized the cost of this benefit on a "pay-as-you-go" basis for those current recipients of the benefit, as well as pre-funding a portion of these future benefits. The Governmental Accounting Standards Board, which is the regulatory body responsible for establishing the financial reporting requirements with which municipalities must comply, has changed the reporting standards for post-employment health benefits. Beginning in 2008-09 the City is *required* to recognize a portion of this unfunded liability annually.

This budget provides for the second phase of a two-year plan to allocate these additional costs into the various funds of the City so that the City will be funding 100% of the annual required contribution. The fiscal year 2007-08 budget accounted for approximately half of the \$1.6 million liability as additional expenditures in budgets and financial plans of the various City funds. The remaining half of this additional cost is included in the 2008-09 budget.

II. Provide outstanding quality of life via excellent services and amenities

The community of Midland enjoys an outstanding quality of life. For the second consecutive year Midland was selected as "One of the 100 Best Communities for Young People in America". Such honors are indicative of the City's favorable quality of life.

The City Council aspires to continue to provide this outstanding quality of life via excellent services and amenities, which are supported in the 2008-09 recommended budget as described in the following paragraphs.

A. Maintain & improve quality of life

1. Examine and plan for future delivery of fire protection services

During fiscal year 2007-08 the City funded an independent analysis of local fire protection service delivery. It is anticipated that the analysis will be completed by the end of the fiscal year. While the proposed fiscal year 2008-09 budget does not include funding to implement currently unknown recommendations stemming from the analysis, future financial planning to undertake recommendations will be necessary.

2. Support community beautification efforts

The City has acquired numerous horticultural assets including downtown streetscape improvements and entranceway landscape improvements at the Eastman and US10 interchange along with Business Route 10, along the Grand Curve.

To supervise the ongoing maintenance of these assets the City has hired a full time horticulturist. Initially the cost of this position will be shared between the DDA, the Entranceways Initiative Task Force, and the General Fund.

3. Support efforts to produce housing in diverse markets

a. Create conditions that ensure housing opportunity for all citizens

The City participates in and provides support to a number of programs to promote housing opportunities within the City including the Affordable Housing Alliance (AHA), Creating Housing Options in Challenging Economies (CHOICE), Community Development Block Grant funded housing rehabilitation, and the Midland Public Schools Building Trades Program. These programs are ongoing and are recommended within the 2008-09 proposed budget.

b. Ensure continued viability of Riverside Place and Washington Woods

The City of Midland owns and operates 364 units of senior housing. These units are occupied by both market based renters and income based renters. Conceptually, revenue derived from market rents underwrites income based rents which are below market. This budget anticipates establishing fixed ratio goals of market to income based renter occupied units to ensure viability of the operations.

Other measures taken include:

- Incremental increase in resident meal charge to offset meal subsidy
- Increases in calculating unit rent for discounted tenants from 31% of annual income to 32% of annual income
- Elimination of an outside facility maintenance contract (Arnold Center)
- Reduction in staff hours (nursing hours in both facilities)
- Planned reduction of staff hours as a result of departures and retirements
- Annual increase in unit rent for discounted units of 1% per year (as outlined in 5 year plan)
- Annual increase in unit rent for market rate units of 5% per year (as outlined in 5 year plan)
- Re-bidding the annual maintenance contract of the two facilities (boilers, heating, cooling etc.) resulting in a cost savings

4. Maintain & support an excellent workforce

a. Promote employee development

This proposed budget continues to emphasize the importance of employee development by funding participation in professional training and continuing education.

b. Enhance employee productivity

The major goals and objectives set forth in the May 2005 three-year implementation plan for the City's Geographic Information System (GIS) will be completed as of June 30, 2008. During its brief existence the GIS program has provided city staff with an indispensable resource to help improve efficiency and enhance customer service.

Over the last three years, the GIS program has accomplished the following goals:

- Implemented GIS hardware/software infrastructure
- Developed geographic data and information serving the entire organization
- Deployed custom GIS applications to serve the entire organization
- Integrated GIS into existing business procedures to save time, lives, and money
- Train staff in the basic utilization of and to better leverage GIS technology
- Enhance customer service through the deployment of an internet-based GIS application

Going forward, the GIS program will maintain the data and applications that will continuously improve efficiency, increase productivity, and enhance customer service for our community. Feedback from City departments and the public will help determine future GIS projects that will grow the system to meet customer needs. Funding for the GIS program will be based on consumption with each department being charged an appropriate usage fee.

5. Ensure access to public transportation in a cost-effective manner

Major users of the Dial-A-Ride service include school-age children, mobility challenged persons or those with a disability, and senior citizens. The program is substantially funded through Federal and State operating and capital grants; however, the General Fund annually makes a contribution as well. The 2008-09 recommended budget includes a \$770,295 contribution from the General Fund, which represents 37% of the cost of providing this service. It should be noted that during the past several years the General Fund has made increasingly larger proportionate contributions to provide this service.

6. Provide Family Activities

a. Offer public recreation opportunities to all age groups

Midland citizens have an array of family activities available to them including 72 parks that provide programs throughout the year, pedestrian trails through newly landscaped areas of the City, a three-rink indoor ice arena, a BMX bike track, a skateboard park, spray ground water parks, and a public library just to name a few. The recommended 2008-09 budget includes appropriations for the ongoing operation and support of all of these activities.

b. Ensure long-term sustainability of the Currie Golf complex

While Currie Municipal Golf Course, a 45 hole public golf complex, continues to face financial challenges in the face of declining play on an industry wide basis, the fiscal year 2008-09 budget sets forth a plan that puts the course in a financially neutral position. Numerous customer service improvements were implemented at the beginning of the 2008 golf season that will produce positive results in the coming years.

7. Leverage technology to enhance convenience of citizen transactions

While the GIS system previously mentioned is expected to greatly enhance City employee productivity, it will also be available to Citizens to simplify and expedite their search for information. In addition, the 2008-09 recommended budget provides ongoing support for communication and electronic payment options that the City currently provides or will be implementing during the 2008-09 fiscal year. These services include:

- Autopay: allows citizens to have their taxes and water/wastewater bills automatically deducted from their bank account on the date due.
- Internet payments: allows citizens to pay for certain charges by credit card or electronic check via the Internet.
- Credit card / debit card: allows citizens to pay for certain charges by credit or debit card at City Hall, the Civic Arena, and the Golf Course with the Parks and Recreation Office and Landfill to be added soon.
- Service request system: allows citizens to bring to the attention of appropriate City staff deficiencies in services or facilities that require corrective action. Each service request can be tracked by both the citizen and staff to final resolution of the issue.

III. Provide effective stewardship of community resources

A. Provide orderly planned growth of the community

1. Implement the City's Master Plan

In 2005 the Midland Planning Commission, at the direction of the City Council, engaged in developing a new and more comprehensive Master Plan and future land use map for the City of Midland. These two documents, which were adopted by the City Council in 2007, will guide zoning and land use decisions by the Commission and Council for the next five to twenty years through strategic development of targeted utility extensions, orderly property annexations, and appropriately zoned parcels within the city and surrounding Midland Urban Growth Area (MUGA).

2. Maintain and extend water service agreements with surrounding jurisdictions

To facilitate the orderly planned growth of the City of Midland and to accommodate increasing demands from townships outside the MUGA area, the Water Department has developed plans to increase water capacities both within the City of Midland and to serve additional township customers.

The City of Midland is fortunate to have a generous supply of raw water and a treatment plant with excess capacity of about 8 million gallons per day (1 million gallons per day will serve 4,000 customers). Within the 2008-09 budget the capital plan will allow the City to continue to serve all of its existing customers and new City customers as well as providing water for growth to the township customers.

B. Improve citizen outreach, participation, & communication

1. Recruit & retain high quality board & commission members

For each of the past two years the City of Midland has conducted an annual Citizens Academy to educate residents about their local unit of government. A key focal point of the Academy is highlighting for participants the numerous opportunities for direct involvement, including participation on various boards and commissions. This budget provides for continuation of that effort.

2. Expand citizen communication and input opportunities

Citizen communication and outreach remain high priorities within the fiscal year 2008-09 spending plan. Tools such as Midland Government Television (MGTV) live, replay, and web based streaming video of all of its City Council meetings and eight additional board and commission meetings; a monthly program called City in 15 which informs residents of the programs and services provided by the City of Midland; and Community Question, another MGTV program that takes a more in-depth look at current issues in the community, will continue to be funded. These tools help citizens conveniently stay in touch with issues that affect the City of Midland the city utilizes.

3. Promote civil discourse in public policy debate by example

The Midland City Council makes a proactive and conscious commitment to civil discourse in the public policy arena by entertaining supportive and critical comments alike. Citizens are encouraged to participate in their local government with the knowledge that they will be treated respectfully when doing so. The City Council demands that citizens are treated respectfully by its Boards and Commissions as well.

C. Develop & maintain infrastructure to meet current and future needs

1. Public Utilities

a. Develop financing plans that enable maintenance programs ensuring long-term viability of public utility systems

Included with this document is a Capital Purchase and Project Schedule which details approximately \$11.3 million in recommended 2008-09 capital expenditures. This schedule includes major building improvements, equipment, vehicle, computer, and software purchases.

To support the City Council Goal of developing and maintaining infrastructure, the schedule also includes improvements summarized below:

- Major streets \$ 2,141,000
- Local streets 1,399,000
- Sidewalks 80,000
- Water system 1,252,000
- Sanitary sewer system 1,232,500
- Storm sewer system 90,000

These improvements are scheduled in conjunction with the City's long-range master plan, data from the City's pavement management system, and citizen requests.

b. Implement plans to correct sanitary sewer system capacity deficiencies

In 2008 the City of Midland completed its analysis of sanitary sewer system capacity deficiencies resulting in recommended system improvements valued at over 6.8 million dollars. While the fiscal year 2008-09 budget does not include expenditures on these improvements, a financing strategy for their implementation will be developed during the fiscal year.

2. Transportation (system capacity)

a. Develop financing plans that enable maintenance programs ensuring long-term viability of public street systems

This recommended budget includes \$1,539,217 for local streets maintenance as well as \$1,905,395 for major streets maintenance.

b. Pursue renewal of the County Road Millage

For the past 36 years residents of Midland County have provided a 1 mill road millage for transportation system maintenance, the proceeds of which are shared by the City of Coleman, the City of Midland, the Village of Sanford, and the Midland County Road Commission. The current millage authorization period expires during the City's 2008-09 fiscal year. It is anticipated that the City will work with the Midland County Road Commission toward reauthorization of the county levied millage.

3. Implement plans for capacity enhancements on Eastman Ave.

This budget continues to implement recommendations of the Eastman Avenue Design Series approved by the City Council in 2006. During the past year the City worked to secure right-of-way necessary to support improvements at the Eastman Avenue / Airport Road intersection. In addition, right-of-way has been acquired along Joe Mann Boulevard that will make capacity improvements possible. Included in the 2008-09 budget is \$340,000 in preparation for construction in 2010.

4. Pursue network enhancements recommended by the Master Plan

During this fiscal year the Planning Commission will offer recommendations regarding access management and other network improvements.

5. Maintain viability of MBS Airport by understanding the causes of, and working to eliminate, the decline of passenger traffic

While this spending plan does not include expenditures related to MBS Airport, the City of Midland remains one of three entities that own the facility. During the upcoming fiscal year the City Council plans to dedicate time in order to develop a more thorough understanding of the challenges confronting MBS Airport.

6. Pursue development of non-motorized transportation network plan

During the upcoming fiscal year the City of Midland will seek funding from external sources to fund this effort.

D. Landfill

1. Implement methane gas recovery system

There have been several steps toward the creation of a landfill gas to energy program. The first of these was an engineering feasibility study, performed in 2006 and confirming a potential for great benefits to the City.

The next three phases were initiated shortly thereafter, beginning with the design modification to Cell 16. Cell 16's design was altered to handle future liquid reintroduction, which will encourage waste decomposition and enhance gas generation. Cell 16 was completed and approved by MDEQ for operation in March of 2008.

The second phase is the development of a Type III CDD (construction and demolition debris) cell, where inert waste which does not generate landfill gas will be disposed. Initial hydrogeologic studies are being performed as part of this development. Site investigation will take up to 18 months.

The third phase is the development of an active gas collection system on Cells 14-19 (includes future). A design of the gas collection system has been submitted to MDEQ for review. We are estimating 12 months for approval of the design and installation of the equipment.

Following installation of the gas collection system in Cell 14 and subsequent cells, the gas would initially be analyzed for quantity and quality (% methane) and sent to a flare. Once quality and quantity are sufficient to support a gas to energy generation system, an appropriate design will be installed.

E. Protect Natural Features

1. Maintain high quality public open spaces meeting current and future needs

Significant public discussion, led by the Parks and Recreation Commission, has led to future development plans for two Midland parks, Central Park and Plymouth Park. Central Park, which is located between the downtown area and the circle business district area, had been home to the Midland Civic Arena for several years. With the opening of a new arena in the fall of 2005, a ballot proposal in November 2006 led to the decision to demolish the old facility and return the land to outdoor park use. The demolition project is complete, and plans have been created for future development of the green space. Community partnerships and outside funding sources will be sought to complete park improvements.

Plymouth Park is a community park located on the City's northeast side. For several years, the park has been home to the swimming pool, the Fun Zone, three picnic shelters, two little league fields, and an adult softball field. In 2006, the Little League proposed converting the softball field into two additional little league fields. Supported by a local initiative to develop public spaces, a plan was developed through a public process that included two little league fields, paved walking paths, an Ultimate Frisbee field, and a reconfiguration of the roadway system within the park. To date, the two little league fields have been completed with funding from the Northeast Little League, the Dow Foundation and the Gerstacker Foundation, the roadway system has been reconfigured and the Ultimate Frisbee field is in place. Additional funds will be sought from outside sources for the installation of paved walking paths.

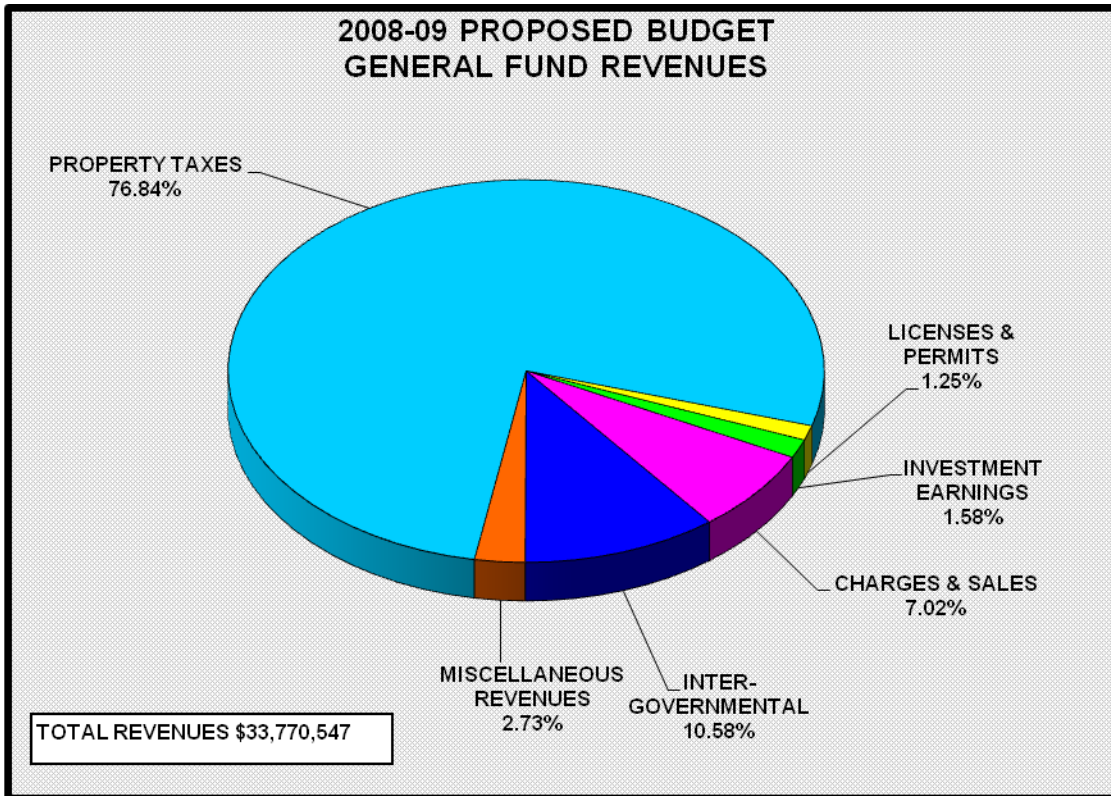
2. Monitor dioxin investigations & report progress to community

While the fiscal year 2008-09 budget does not include expenditures specifically related to resolution of local dioxin issues, it is anticipated that staff will continue to spend a significant amount of time monitoring activity of the U.S. Environmental Protection Agency, Michigan Department of Environmental Quality, and The Dow Chemical Company with the goal of bringing resolution to the matter.

Financial Trends

General Fund Revenues

The following chart indicates the various General Fund revenue sources for 2008-09 and the proposed relative percentage supplied by each.



Property Taxes: The City Council has authority for the 2008-09 fiscal year to levy a tax rate of up to 21.87 mills without a vote of the citizens, as indicated below:

<u>Authority</u>	<u>Millage Rate</u>
City Charter	17.87 mills *
Library Statutory	1.00 mills
Solid Waste Authority	<u>3.00 mills</u>
TOTAL	21.87 mills

*18 mills authorized by Charter have been reduced by the State of Michigan Constitution (Headlee Amendment) to 17.87 mills.

The total millage rate proposed for 2008-09 is 12.99 mills, including 0.29 of a mill for voter-approved debt service. This represents an increase of .75 mills from last year's total rate of 12.24 mills, which included 0.24 of a mill for debt.

The following table presents comparisons of the proposed property tax rate with those of preceding years:

Charter Operating Millage	2004-05	2005-06	2006-07	2007-08	2008-09
General Operations	9.35	11.68	10.09	9.49	11.49
Tax Appeal Reserve	(0.68)	(2.63)	1.70	1.34	-
Storm Water Management	<u>0.56</u>	<u>0.12</u>	<u>0.08</u>	<u>0.17</u>	<u>.21</u>
Subtotal	9.23	9.17	11.87	11.00	11.70
Library Operations - statutory				1.00	1.00
Voter Approved Debt Millage					
Sanitary Sewer Improvement	<u>0.64</u>	<u>0.62</u>	<u>0.23</u>	<u>0.24</u>	<u>0.29</u>
TOTAL CITY MILLAGE	9.87	9.79	12.10	12.24	12.99

Rate of Growth of Property Tax Base: Data from the City Assessor indicate that industrial property values decreased 34.68%, while commercial and residential property values decreased 1.13% and 1.42%, respectively. Proposal A (a 1994 amendment to the state constitution) requires that the increase in taxable value be capped at the Consumer Price Index or 5%, whichever is less. For the 2008 tax year the Proposal A cap is 2.3%. As a result of all these factors, the net taxable value decreased by 16.84% from \$2,548,540,350 to \$2,119,381,200. It is important to note that this figure reflects a 64.23% reduction of value, as compared to their 2007 values, attributed to a negotiated settlement of the Midland Cogeneration Venture tax appeal.

The following table presents the City's total taxable value for the recommended year, and previous five years:

Fiscal Year	Tax Year	Total Taxable Value	% + (-)
June 30, 2004	2003	\$2,468,416,250	0.68
June 30, 2005	2004	2,478,844,300	0.42
June 30, 2006	2005	2,475,543,800	(0.13)
June 30, 2007	2006	2,543,763,600	2.76
June 30, 2008	2007	2,548,540,350	0.19
June 30, 2009	2008	2,119,381,200	(16.84)

State Shared Revenue: The state revenue sharing program distributes sales tax collected by the State of Michigan to local governments as unrestricted revenues. Funding for the program consists of the following dedicated tax revenues:

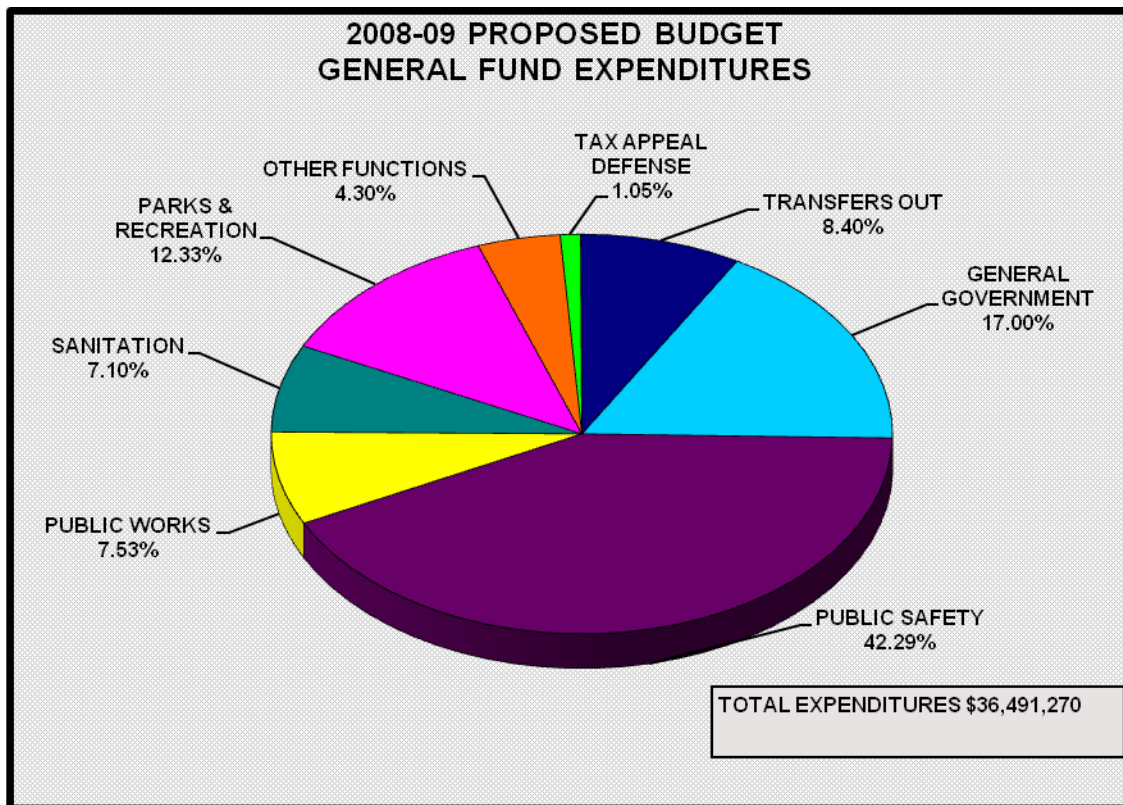
- Constitutional – 15% of the 4% gross collections of the state sales tax
- Statutory – 21.3% of the 4% gross collections of the state sales tax

The City expects to receive approximately \$3.35 million in state revenue sharing for the 2008-09, which is about \$1 million less than it received in 2000-01.

Investment Earnings: The City’s rate of return on its investments had climbed steadily over the past four years. However, the recent market conditions have caused it to drop once again. The recommended 2008-09 budget uses an average rate of return of 2.75%.

General Fund Expenditures

The following chart illustrates the various proposed General Fund expenditure categories and the relative percentage of each.



The above pie chart categorizes each expense of the General Fund into the function, or service, it provides. Within each of these shaded areas of the pie chart expenses can be further classified into these sub-categories:

- Personal services: salaries, wages, and employee benefit costs
- Supplies: materials and other consumable products
- Other charges: purchased services and rental
- Capital outlay: large purchases or projects to be consumed over many years

Personal Services: Within the General Fund, the largest expense classification is personal services. Each year the City faces challenges during the budget process in searching for ways to control these costs through negotiating collective bargaining agreements, modifying benefit plans or exploring creative funding mechanisms. Like prior year budgets, the 2008-09 recommended budget must consider these same challenges. It includes a 3% increase in pension contributions and a 10% premium increase for health insurance.

In July of 2005 the City closed the defined benefit pension plan to all non police and fire new hires. This decision will generate little or no cost savings in the short term, but will provide substantial savings in the long term.

In 2007-08 the City implemented a self insured funding strategy, utilizing its existing carrier, Blue Cross Blue Shield of Michigan. The immediate savings are from reduced administrative costs and additional claims paid by stop loss coverage, rather than the plan. The long term effects are expected to be a stabilization reserve that will help smooth future rate changes while insured employees will not experience coverage changes.

The City strives to create a safe work environment for its employees. One way the City is rewarded for these efforts is through a favorable experience rating from the worker's compensation carrier. A rating below 1.0 generates premiums savings to the City. The City's rating has decreased in each of the past three years from .78 in 2006, to .69 in 2007, to .57 in 2008 resulting in a \$259,000 savings in worker's compensation insurance premiums.

In an effort to control the overall cost of personal services the City makes it a priority to keep the number of employees to the minimal level required to provide the level of service requested by Citizens. In addition, positions are regularly evaluated to determine whether the proper staffing should be full-time or part-time.

General Fund Contingency Balance: In the current economic climate there are a number of uncertainties that could result in significant unexpected expenditures and/or revenue shortfalls. Here are just a few:

- The impact of Michigan's economic struggles on State Shared Revenue
- The City's high concentration of tax base in a few entities
- The fluctuating performance of the investment market and its impact on the City's investments, and benefit plan contributions

It is good practice to maintain a General Fund fund balance of 15 to 20% of annual expenditures to allow the City time to react financially should a significant negative event occur. Credit rating agencies also look favorably upon fund balances as a sign of proper management and stability. Over the past several years the City's General Fund has had a significant fund balance, due to the tax appeal reserve. With the prospect of paying that reserve out the City should begin a plan to increase its fund balance to be within the range noted above.

The proposed budget includes maintaining the \$350,000 reserve for contingencies expenditure line item, as well as maintaining the \$1,500,000 fund balance reserved for contingencies, but also proposes increasing fund balance by approximately \$339,000 as the first step to building up the General Fund's fund balance.

Other Activity

Water Fund: In 2007-08 it was projected that water rates would need to increase by approximately 3.5% in 2008-09 in order to keep pace with operating costs while meeting debt service requirements on bonds and financing the City’s long range capital improvement schedule. At this time management believes that the Water Fund is on track with prior long range planning. Accordingly, the 2008-09 recommended budget includes a 3.5% rate increase.

A summary of water rate increases over the last five years is shown in the table below:

<u>Year ending June 30</u>	<u>% increase</u>
2005	2%
2006	None
2007	4%
2008	4%
2009	3.5%

Wastewater Fund: The Wastewater Fund faces many of the same financial challenges and commitments as the Water Fund: rising operating costs, debt service, and capital improvement projects. The prior year’s long range plan projected that a 5% rate increase would be necessary for the 2008-09 budget. Management feels that this fund is on track with those projections and is recommending a 5% increase in the 2008-09 budget.

A summary of wastewater rate increases over the last five years is shown in the table below:

<u>Year ending June 30</u>	<u>% increase</u>
2005	5%
2006	6%
2007	4%
2008	5%
2009	5%

As part of the City’s implementation of its Geographic Information System it is performing a neighborhood study to determine the capacity of neighborhood sanitary sewer systems. The results of the neighborhood study will help identify the most appropriate method of increasing capacity of the system. This could include further sewer lining, selective removal of footing drains, and other options. The Wastewater Fund’s long range financial plans do not include funding for neighborhood sanitary sewer improvements which could be financed on a pay-as-you-go basis or the sale of a bond issue.

RECOMMENDATION

It is recommended that copies of this proposed budget be placed on display in the City Clerk's Office at City Hall and at the Grace A. Dow Memorial Library for public examination.

We wish to remind Councilmen of the following public hearings and budget study work sessions that were set by Council on November 20, 2007. These hearings and sessions will be televised on MGTV, Cable Channel 5, to provide our citizens with as many opportunities as possible to view and participate in the City's budget process.

- Monday, April 21, 2008 – first Council budget work session (special meeting).
- Monday, April 28, 2008 – preliminary public hearing on proposed budget (regular meeting).
- Monday, May 5, 2008 – second Council budget work session (special meeting).
- Monday, May 12, 2008 – charter required public hearing on proposed budget (regular meeting).

The City Charter requires adoption of the budget no later than the fourth Monday in May, which this year is May 26. As this is the Memorial Day holiday, it is planned to present Council with a resolution to adopt the 2008-09 fiscal year budget on May 19, 2008, at Council's regular meeting.

It should also be pointed out that good fiscal management dictates that you wait to set the tax rate until the County Board of Commissioners meets to officially equalize property values for Midland County. This meeting is tentatively scheduled for April 15, 2008.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Jon J. Lynch".

Jon J. Lynch
City Manager