

April 13, 2009

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 fiscal year 2009-10. This document serves not only as a planning guide, but also outlines the level of service provided to residents, businesses, and visitors during the fiscal year. The budget also provides a view of each municipal department and activity fund that highlights organizational structure, service goals, historic funding and employment levels, and performance indicators.

The 2008-09 fiscal year presented many new challenges to the community, including absorbing a 17% reduction in property tax revenue resulting from settlement of a tax appeal by the Midland Cogeneration Venture. That specific challenge was met by cutting General Fund spending by \$1.4 million, spending \$2.7 million from sources that would otherwise have been dedicated to litigating the tax appeal, and increasing the millage rate by 0.75 mill to produce \$1.6 million of additional revenue.

Fiscal year 2009-10 will be equally challenging in that for the second consecutive year a significant General Fund shortfall must be confronted. This budget addresses that challenge by again reducing spending by \$2.2 million and recommending a 0.95 mill property tax increase that will generate \$2.1 million of additional revenue.

This year the budget message is organized into the following distinct components: background on development of parameters utilized to formulate this budget, financial trends affecting the City, major budget initiatives, and the budget recommendation.

BUDGET PARAMETERS

Immediately after adoption of the FY 2008-09 budget, the administration turned its attention to FY 2009-10 knowing that another challenging year would be in store. To effectively ascertain how the community wished to confront another major shortfall, the City Council took steps to proactively engage residents.

In August and September 2008, a statistically valid telephone survey of 401 residents was conducted. Quantitative data was collected from Midland residents regarding their opinions about important issues, the City's financial position, the value of City services, and the interrelationship between fees and taxes and public services. Tolerance for service reductions as well as fee and tax increases was tested.

Also conducted during the month of August were a series of municipal employee roundtables. These sessions solicited employees' experience and ideas regarding the City's financial position, opportunities to reduce costs and increase efficiency, and processes that could be utilized to implement those ideas.

During the month of October, 178 residents engaged in a series of seven roundtables sessions from which we gathered qualitative data. The goal was to present participants with information about the City's financial position and gather residents' judgment about service delivery, fee & tax increases, and general approaches to solving budget challenges.

Community Input Results

In December 2008, the City Council received results of all three community input methods during a presentation by Kezziah Watkins, the firm that conducted the studies. Generally, the residents of Midland expect the following:

Midland is a special place, due in part to its high service levels

- A safe and clean city are fundamental expectations
- Service modifications are preferred over service elimination

Efficiency is mandatory

- Workforce size should not exceed service demand
- Ensure labor costs are consistent with other private and public entities
- Collaborate with other public agencies
- Consider privatization and outsourcing
- Use longer equipment replacement schedules

Managing local impacts of the national economic crisis requires difficult choices

- Utilize a combination of spending cuts and tax increases
- Implement user fees for narrowly consumed services

Changes must establish a solid foundation for the future

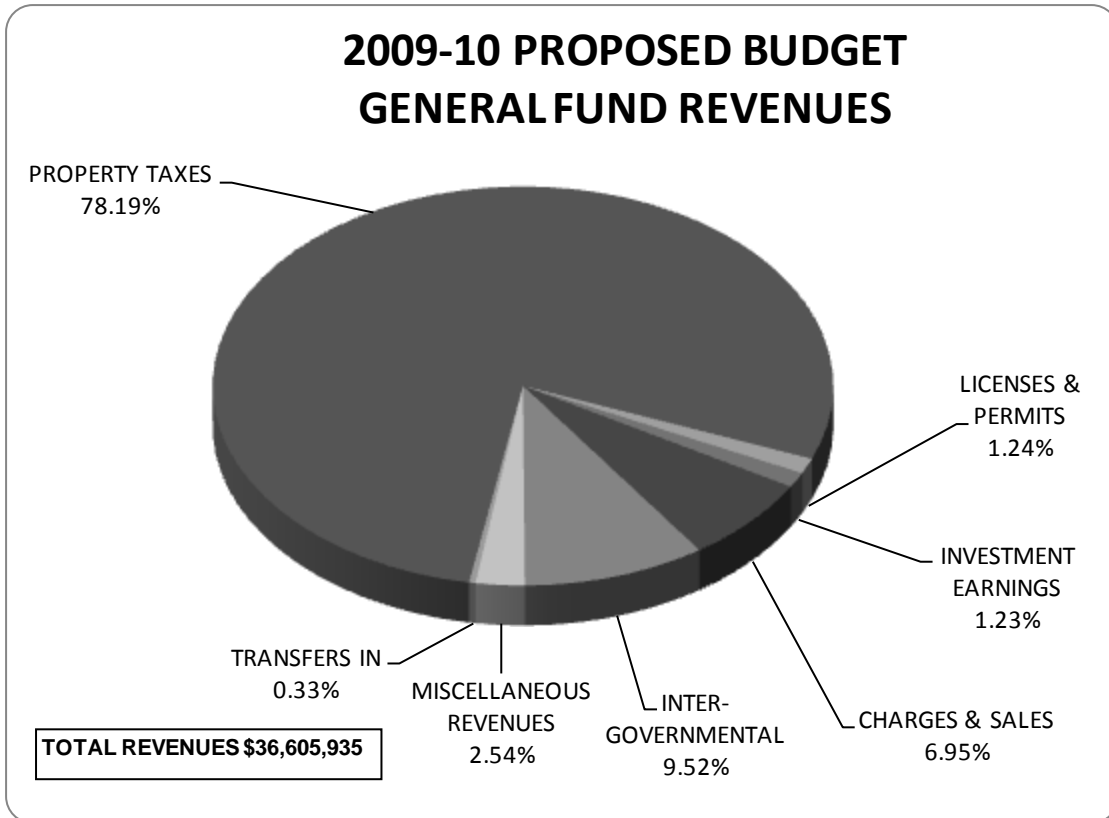
- Reduce costs now to mitigate the need for additional tax increases next year
- Preserve services to the disadvantaged and consider impacts on all

During its annual strategic planning session conducted in January of 2009, the City Council articulated its expectation that it would receive a proposed budget that takes all of these directives into account. Provided herein is a proposed budget that acts on each one of these recommendations from the community while simultaneously meeting goals established by the City Council.

FINANCIAL TRENDS

General Fund Revenues

The following chart indicates the various General Fund revenue sources for 2009-10 and the proposed relative percentage supplied by each.



Property Taxes: The City Council has authority for the 2009-10 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 constitution (Headlee Amendment) to 17.87 mills.*

The total millage rate proposed for 2009-10 is 13.94 mills, including 0.27 of a mill for voter-approved debt service. This represents an increase of .95 mills from the 2008-09 total rate of 12.99 mills, which included 0.29 of a mill for debt.

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

<u>Charter Operating Millage</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Operations	11.68	10.09	9.49	11.49	12.54
Tax Appeal Reserve	(2.63)	1.70	1.34	-	-
Storm Water Management	<u>0.12</u>	<u>0.08</u>	<u>0.17</u>	<u>.21</u>	<u>.13</u>
Subtotal	9.17	11.87	11.00	11.70	12.67
Library Operations - statutory			1.00	1.00	1.00
<u>Voter Approved Debt Millage</u>					
Sanitary Sewer Improvement	<u>0.62</u>	<u>0.23</u>	<u>0.24</u>	<u>0.29</u>	<u>0.27</u>
TOTAL CITY MILLAGE	9.79	12.10	12.24	12.99	13.94

Rate of Growth of Property Tax Base: Data from the City Assessor indicate that industrial and utility property values increased 5.5%, while commercial and residential property values increased 4.7% and less than 1%, 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 2009 tax year the Proposal A cap is 4.4%. As a result of all these factors, the net taxable value increased by 2.75% from \$2,119,303,850 to \$2,177,623,591.

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

Fiscal Year	Tax Year	Net Taxable Value	% + (-)
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	2,119,303,850	(16.84)
June 30, 2010	2009	2,177,623,591	2.75

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:

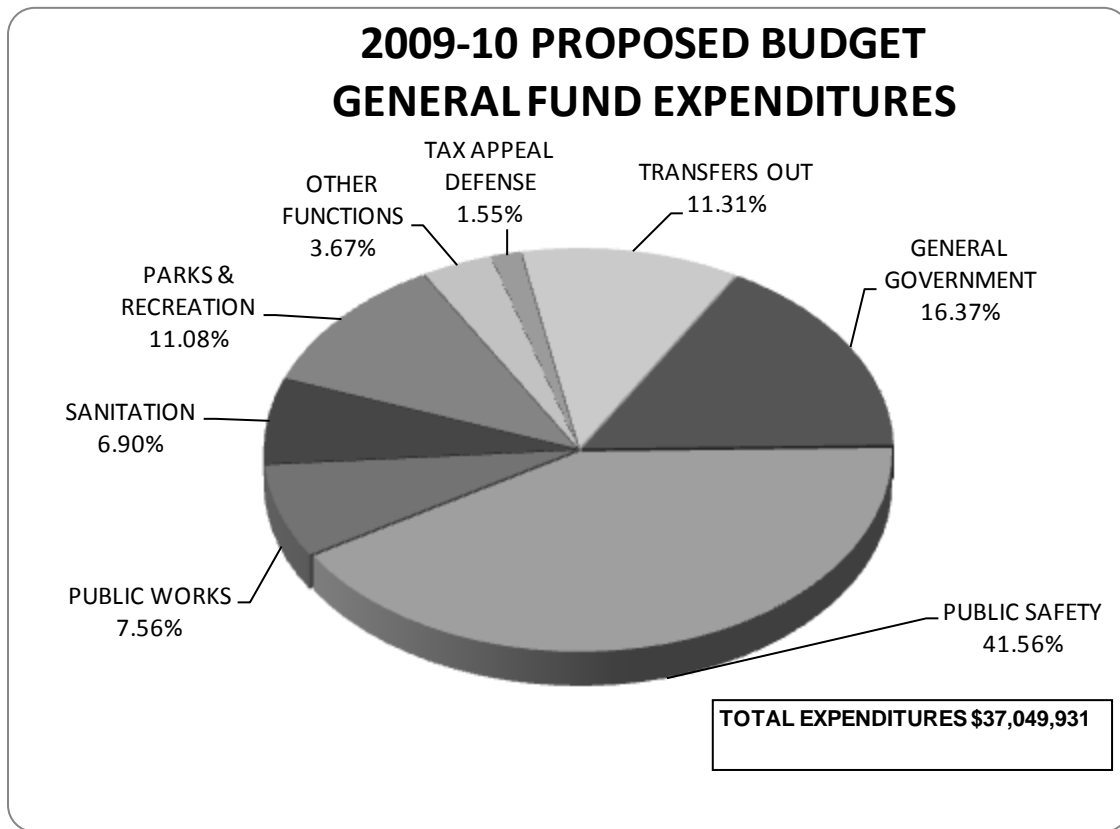
- Constitutional – 15% of the 4% gross collections of the state sales tax
- Statutory – 21.3% of the 4% gross collections of the state sales tax

The City expects to receive approximately \$3.3 million in state revenue sharing for 2009-10, which is about \$1 million less than it received in 2000-01.

Investment Earnings: For the second year in a row, economic conditions have negatively impacted the investment market, causing the City to downgrade its outlook for investment earnings for the upcoming year. The recommended 2009-10 budget uses an average rate of return of 1.5%.

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 2009-10 recommended budget must consider these same challenges. It includes a 3.7% increase in contributions to the defined benefit pension plan for non-police and fire employees, and a 19% increase in contributions to the police and fire defined benefit pension plan.

Health insurance costs for active employees decreased by 2%, while an updated actuarial study provided a 4.7% reduction to the annual required contribution for post employment health benefits. While these cost reductions are certainly welcomed and are a key component in allowing cost containment in 2009-10, they should not be assumed to continue in future years.

In July 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 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 impact of economic conditions on the City's largest taxpayer, the Dow Chemical Company.
- Michigan Legislature's ongoing plans to change the State property tax structure and the methods by which taxpayers are able to appeal their taxable values.

The general tax rate is annually established by the City Council when the budget is approved and may not be changed to accommodate unforeseen events until the following May. A reserve for contingencies of \$250,000 is recommended as a separate line item in the proposed General Fund budget and would be available for transfer without a budget amendment.

As a further precaution, the City Council has also adopted a policy of maintaining an additional \$1.5 million of unreserved General Fund balance in order to provide a cushion for more significant unbudgeted events. In addition, credit rating agencies as well as the City's independent auditors have recommended that the City begin building its unreserved fund balance to further provide the City protection against future unfavorable budgetary situations. The existence of these safeguards of the City's financial condition is also relied upon by credit rating agencies in upholding the City's favorable credit rating.

The proposed budget maintains an unreserved General Fund fund balance of \$1.5 million in compliance with the above mentioned policy, as well as increases unreserved fund balance to \$2.7 million to be available, if needed, for future unfavorable budgetary situations.

Other Activity

Water Fund: The 2009-10 recommended budget includes a 3% rate increase.

A summary of water rate increases over a five-year period is shown in the table below:

<u>Year ending June 30</u>	<u>% increase</u>
2006	None
2007	4%
2008	4%
2009	3.5%
2010	3%

Wastewater Fund: The 2009-10 Wastewater Fund budget includes a 5% rate increase.

A summary of wastewater rate increases over a five-year period is shown in the table below:

<u>Year ending June 30</u>	<u>% increase</u>
2006	6%
2007	4%
2008	5%
2009	5%
2010	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.

MAJOR BUDGET INITIATIVES

This proposed budget is intended to reflect community values. To that end, it preserves most public services by recommending a combination of spending reductions and a millage increase. Following is a summary of how this proposed budget falls within the community expectations previously described.

Midland is a special place, due in part to its high service levels

- A safe and clean city are fundamental expectations
 - No reductions of uniformed officers in the Midland Police Department are proposed.
 - No reductions of uniformed officers in the Midland Fire Department are proposed.
 - Municipal refuse collection, including monthly heavy item pick-up, will continue.

- Service modifications are preferred over service elimination

The following are some services and activities that are recommended to be reduced, modified or eliminated, producing savings listed:

– Elections, staffing, training & supplies	\$25,600
– Finance, contract services & supplies	\$8,500
– Assessing, level 4 reduction, BSA internet	\$29,200
– City Clerk, decisions midland ad, calendar format	\$31,200
– Human Resources, programming, services	\$104,000
– Public Safety Pension, actuary & legal	\$10,000
– Internal Computer Svcs., maintenance & supplies	\$88,000
– City Hall, grounds & maintenance	\$23,500
– Police, MDC fees, staff vehicle	\$39,000
– Fire, overtime, instrument calibration	\$23,200
– Sidewalk Maintenance	\$67,800
– Traffic Services	\$8,200
– Heavy Refuse, brush grinding contract	\$25,000
– Parks, flower crew	\$17,000
– Recreation, summer playground program	\$52,900
– Cemetery, services, improvements	\$10,000
– DART, close on City holidays	\$6,500
– DART, call center 8-5 from 6:30-6:00	\$11,000
– DART, Sunday services	\$14,300
– GADML, programming	\$8,000
– GADML, weekday hours reduced 1 hour	\$130,000
– MCTV, eliminate GF transfer	\$15,000
– City, administrative vehicle fleet	\$13,500
– City, vacation buy back	\$50,400
– City, out of state travel	\$14,000
– City, Contract Officials and Unclassified Employees wage freeze	\$120,000

Efficiency is mandatory

- Workforce size should not exceed service demand

The following positions are not funded in this budget:

- Building Department, Building Inspector (vacant)
- Dial-A-Ride Transportation, PT Office Assistant (vacant)
- Engineering Department, Engineering Aide III (layoff)
- GADML, PT Clerical Aide (vacant)
- GADML, PT Library Assistant (vacant)
- GADML, PT Office Assistant (vacant)
- GADML, Reference Librarian (vacant)
- Human Resources Department, PT Safety Manager (retirement)
- Parks & Recreation Department, Director (layoff)
- Parks & Recreation Department, Equipment Operator (vacant)
- Parks & Recreation Department, Equipment Operator (vacant)
- Planning Department, Deputy Director (vacant)

- Planning Department, Office Assistant (vacant)
- Public Services Department, Equipment Operator (vacant)
- Public Services Department, Equipment Operator (retirement)
- Public Services Department, General Supervisor (retirement)
- Public Services Department, Streets Div. Mechanic (retirement)
- Treasurer's Office, Account Clerk III (retirement)
- Treasurer's Office, Parking Violations Clerk (FT to PT)
- Wastewater Department, Wastewater Service Worker (layoff)
- Wastewater Department, Wastewater Service Person (vacant)
- Water Distribution, Water Service Person (vacant)

The financial ramifications of these position reductions \$1.2 million

- Ensure labor costs are consistent with other private and public entities
 - This budget includes a wage freeze for employees in the City Council Staff and the Unclassified Service group.
 - Currently, the City of Midland is negotiating new labor agreements with three of its six bargaining groups. Discussions are underway with the Police, MMEA, and Steelworkers. Challenges meeting wage, benefit, and retirement obligations for employees remain a focal point of those discussions.
 - The City of Midland annually benchmarks wages and benefits against local, regional, and national data from both public and private sector employment. Midland continues to find its wages and benefits at average levels. Annual benchmarking will continue.
- Collaborate with other public agencies

The City of Midland currently partners with numerous public jurisdictions for the provision of services and intends to continue the following collaborations:

 - Law Enforcement Center (City and County of Midland)
 - Library agreements with Midland county townships
 - M.Co.Net (City, County, MCEA) fiber optic communications network
 - MBS International Airport
 - Midland County Central Dispatch Authority
 - Retail water service agreements (Homer, Larkin, Midland, & Mills townships)
 - Saginaw Midland Municipal Water Supply Corporation
 - Solid waste disposal agreements with all 16 Midland County townships, Coleman, and Sanford
 - Wholesale water service agreements with Water District No. 1 (serving Sanford and Jerome, Lincoln, Edenville, Hope, and Lee townships)

The City will continue efforts to identify additional opportunities for resource preserving partnerships.

- Consider privatization and outsourcing
 - This budget calls for the City to exit support of the Summer Playground Program in favor of existing community services and programs. Similar programs are provided by the Salvation Army, Campfire, and the Midland Community Center.
 - Recommended for FY09-10 is continuation of contract planning services in lieu of filling the Deputy Director of Planning and Community Development position.
- Use longer equipment replacement schedules
 - The administrative vehicle pool of three cars will be eliminated.
 - During FY08-09, the Department of Public Services commissioned a best practices assessment of the City's Equipment Revolving Fund (ERF). The ERF is responsible for the acquisition and maintenance of 287 of the 394 pieces of equipment and vehicles in the municipal fleet. Almost 60 recommendations came out of that assessment and they are currently being analyzed for implementation.

Managing local impacts of the national economic crisis requires difficult choices

- Utilize a combination of spending cuts and tax increases
 - Recommended expenditure reductions = \$2.2 million or 0.99 property tax mill equivalent
 - Recommended tax increase = \$2.1 million or 0.95 property tax mill
- Implement user fees for narrowly consumed services

Changes must establish a solid foundation for the future

- Reduce costs now to mitigate the need for additional tax increases next year
 - Should fiscal year 2009-2010 unfold as currently projected, and should the community avoid major economic setbacks, it is anticipated that service levels provided for in this budget will be sustainable in FY10-11 without the need to increase property tax millage beyond that recommended herein.
- Preserve services to the disadvantaged and consider impacts on all
 - You will find that the budget proposed for FY09-10 is not based on "across the board" spending cuts, but rather a careful analysis of spending and functions within each department. Proposed spending reductions are intended to mitigate, to the extent possible, impacts on Midland citizens.
 - While reducing the number of hours DART vehicles are on the road, weekday and Saturday service is maintained to ensure that those who rely on public transportation have access to employment opportunities and medical appointments.

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 17, 2008. 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 20, 2009 - first Council budget work session (special meeting).
- Monday, April 27, 2009 - preliminary public hearing on proposed budget (regular meeting).
- Monday, May 4, 2009 - second Council budget work session (special meeting).
- Monday, May 11, 2009 - charter required public hearing on proposed budget (regular meeting).
This will include a hearing required by the Truth in Taxation Act.

The City Charter requires adoption of the budget no later than the fourth Monday in May, which this year is May 25. As this is the Memorial Day holiday, it is planned to present Council with a resolution to adopt the 2009-10 fiscal year budget on May 18, 2009, 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 14, 2009.

Respectfully submitted,



Jon Lynch, AICP ICMA-CM
City Manager