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City of Escanaba, Michigan

THE ESCANABA EXPRESS

SPECIAL EDITION

FINAL BUDGET MESSAGE FROM THE CITY MANAGER

James V. O'Toole
City Manager

410 Ludington Street
Escanaba, Michigan 49829
Phone (906)786-0240

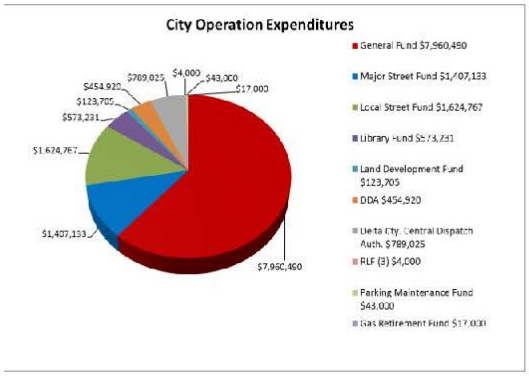
To the Honorable Mayor and City Council
City of Escanaba
Escanaba, Michigan

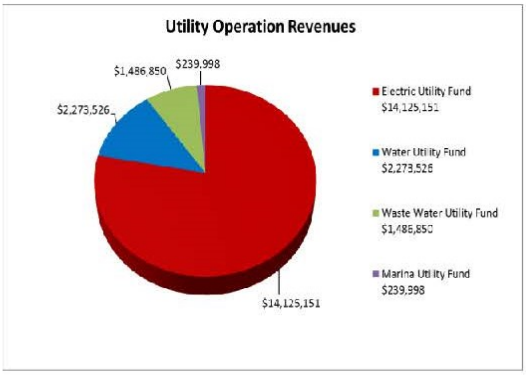
April 22, 2016

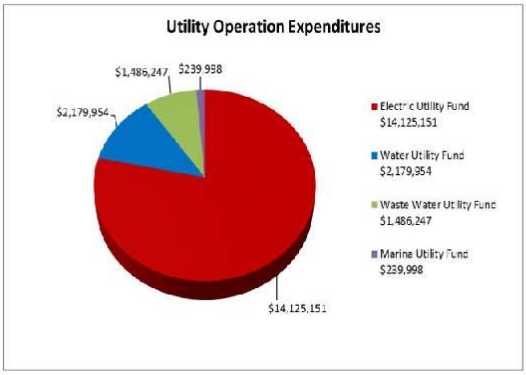
CITY MANAGER'S FINAL BUDGET OVERVIEW – FY 2016-17

Pursuant to the Escanaba City Charter and relevant state laws, I hereby submit for City Council and community review the final FY 2016-17 Budget. A copy of this document has been placed on file with the City Clerk and at the Escanaba Public Library, where the public may review it during normal hours of operation. An electronic version is also available on the City's website, www.escanaba.org, and on the City of Escanaba's Facebook page. This document serves as a daily guide for City Administration in receiving and allocating resources in the most effective way for the good of the community.

This budget, with over $31 million in expenditures, reflects our commitment in providing core services to our community and was developed using the best available information and most current revenue projections.







Mission Statement:
Enhancing the enjoyment and livability of our community by providing quality municipal services to our citizens.

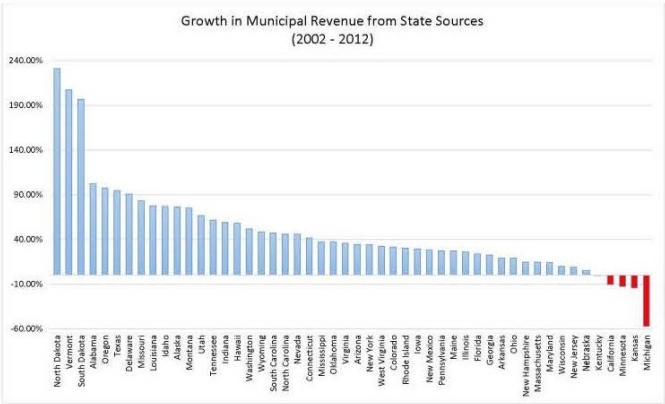
City Millage Rate/Tax Rate and Tax Roll. The final budget is based on a property tax rate of 17 mills, which will not require any tax increase in the upcoming fiscal year.

For homeowners in the City, 41.5% of the total property tax bill is kept by the City of Escanaba to pay for all General Fund services provided. The remaining 58.5% of a homeowner's tax bill is remitted to Delta County, the State of Michigan, the Escanaba School District, the Delta Schoolcraft Intermediate School District, the Delta County Sheriff Department, 911 Operations, the Delta Area Transit Authority and Community Action Agency.

WHERE YOU'RE TAX DOLLAR GOES AS A HOMEOWNER

General Fund. The General Fund budget, which supports many of the day-to-day activities of the City, is $7,960,490 (including transfers in from other funds), representing an increase of .61% from the previous year's budget. At the end of FY 2014-15, the General Fund balance was $3,876,457, with a long-term debt obligation of $1,125,000. At the end of FY 2015-16, projections show an estimated fund balance of $3,815,142, with a long-term debt obligation of $1,000,000. In the FY 2016-17 Budget, a projected fund balance of $3,502,791, with a long-term debt obligation of $875,000, is being proposed. The budget also includes a specific electric utility transfer of $765,796 (up from $463,624). Similar to most public utilities, this contribution, likened to property-like taxes or payments of lieu of taxes and the like have been made on an annual basis in Escanaba since 1956 so as to provide a direct benefit to the community including those properties that ae exempt from paying property taxes. Using the latest available American Public Power Association data (2014) public power utilities contributed 5.6% of electric operating revenue back to the communities they serve.

Figure 1

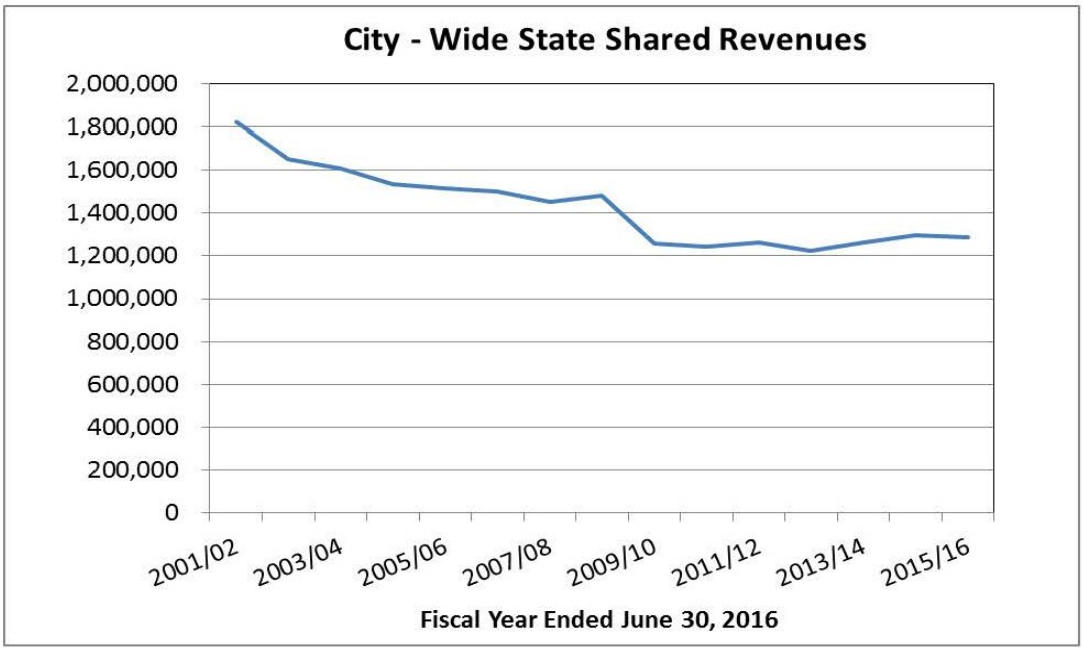


Source: U.S. Census Bureau, 2002 Census of Governments and 2012 Census of Governments: Finance - Surveys of State and Local Government Finances.

The U.S. Census Bureau has conducted a survey of local government finance by type of government every five years, beginning in 2002. The survey collects revenue and expenditure totals of all local governments in each of five classes – county, municipal, township, special district, and school district. One of the categories of general revenue that is recorded by the survey is intergovernmental revenue from state sources (all revenue that is raised by state taxes and fees and is sent to municipalities)

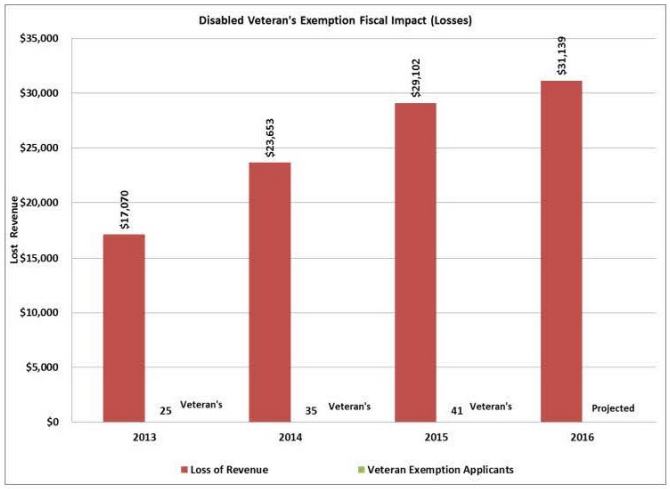
Figure 1 shows the percent by which municipal revenue from *state sources* for all municipalities in each state increased from 2002 to 2012.

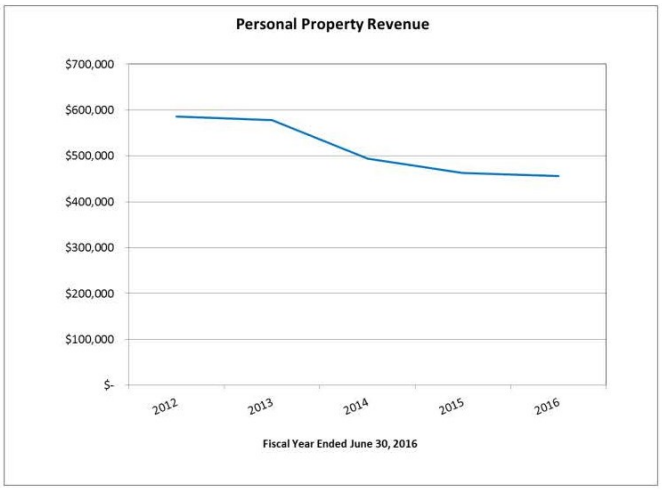
As detailed and outlined in the proposed FY 2016-17 budget message published on March 24, 2016, and as discussed in the City Council Budget Work Sessions on April 11-12, 2016 I, as do others, believe we do not have what is considered to be a reliable, stable and sufficient system of municipal finance in how the State of Michigan provides revenue sharing to local units of government. Also, I am of the opinion that further cuts in our operation cannot be made without severely impacting the services the residents have come to expect. If you recall, one of our major sources of revenue to the General Fund is through the State Revenue Sharing System. Historically, the State Revenue Sharing distribution formula was designed to appropriately compensate communities such as ours for the costs we bear in providing service to our residents. Recently, a former State House Fiscal Agency Director and Lansing Economist, using information from the U.S. Census Bureau, reported that municipal revenue from State of Michigan sources has declined 56.9% from 2002 to 2012, the worst by far in the Country. To put that into perspective, the State of Kansas had the next largest decline at 14.3%. That same report further points out that State funding to local units of government in 45 other states increased by an average of 48.1%. Since the 2001-02 fiscal year, the City of Escanaba's General Fund has had State Revenue Shares reduced by an average of $397,475 annually, which translates to a commutative loss of revenue to the City of approximately $5,962,123. To make matters worse, Governor Rick Snyder is recommending in his FY 2017 Budget to further cut State Revenue Sharing payments to local units of government by an additional $5.8m. Unless this trend is reversed by the State Legislative and Executive branches, the severity of the continued cuts in State Shared Revenues will continue to have a direct negative impact on the basic community services we are able to provide.



In addition to the loss of State Shared Revenue, the City has also incurred and continues to incur expenses related to Tax Tribunal "Big Box" cases for such things as attorney and appraisal fees ($64,618.94 +/- to date) and refunds to property owners ($170,064.07) including interest payments. Our current liability of the Michigan Tax Tribunal docket for 2015 and older tax revenues is a projected loss of approximately $188,000+/-. This figure represents possible refunds that we will have to make should we lose any of the other cases currently under appeal before the Michigan Tax Tribunal and the Michigan Court of Appeals. This figure does not include interest payments or attorney/appraiser fees.

Additionally, we are experiencing revenue cuts on an annual basis at the hands of the State which are attributed to the Disabled Veteran Property Tax exemptions (projected to be $31,000 +/- in the upcoming fiscal year) and decreases in revenue as a result of the Michigan Personal Property Tax Reform initiative which was signed into law in 2012. The projected PPT losses are estimated to be $122,000 +/- in the upcoming fiscal year (with the promise of partial reimbursement by the State in the future). Clearly, this too negatively impacts the basic community services that we can support.





Since 2002, the City has made deep cuts which included the elimination of 36 full-time City employee positions, the consolidation of departments and their management team, early retirements, major changes to the City pension system and major changes to City/employee cost sharing in how medical insurance is paid for with the employee now paying 20% of the policy costs. Additionally, a change was negotiated in the Collective Bargaining Agreements that changed the way vacation, personal days, sick leave and funeral leave are earned for newly hired employees.

Major/Local Street Funds. Street improvement funding continues to be a major concern. Administration remains proactive in identifying funds to address shortfalls such as applying for competitive grants. The City of Escanaba maintains 28.22 miles of major streets. Major Street Fund expenditures, which support the day-to-day activities such as maintenance and snow plowing, are proposed to be $1,407,133. At the end of FY 2015-16, projections show an estimated fund balance of $1,860,054.

Additionally, the City of Escanaba maintains 55.05 miles of local streets. Local Street Fund expenditures, which support the day-to-day activities such as maintenance and snow plowing, are proposed to be $1,624,767. At the end of FY 2015-16, projections show an estimated fund balance of $946,161.

Each spring, the City Engineering Department conducts "Pavement Surface Evaluation and Rating (PASER)" inspections of all paved City streets. Using the PASER system, each street is scored a rating of 1 through 10 to evaluate the pavement surface condition. Each street is then entered into a condition category (failed, poor, fair, good and excellent) and is assigned a treatment option. From that list, street projects are prioritized and selected based on surface condition, curbing condition, traffic volume, opinion of cost to repair and funds availability. Currently, approximately 65% of our street surfaces are considered to be substandard and in need of repair and upgrade.

Late in 2015, the Governor signed into law nine (9) bills as part of his new transportation revenue package. It is unknown what impact, if any, this package will have on any new road revenue in that it all appears to be in a state of flux. Administration will continue to monitor the actions of the Michigan Legislature and Governor Rick Snyder on road funding initiatives to determine how street funding projections will be impacted either positively or negatively.

Major and Local Street Projects in the budget include:

Activity	Amount
Installation of North 26th Street between 3rd Avenue North and 6th Avenue North	$1,200,000
Ludington Street Resurfacing, Ramps and Curb Repair – 3rd to 9th Street	$ 475,000
Ludington Street Driving Lane Resurfacing – 9th to Stephenson Avenue	$ 305,000
General Street Paving – Major Streets	$ 80,000
North 30th Street Turn Lane Installation at 3rd Avenue North	$ 70,000
20th Avenue South at Lakeshore Drive Chip Seal	$ 21,400

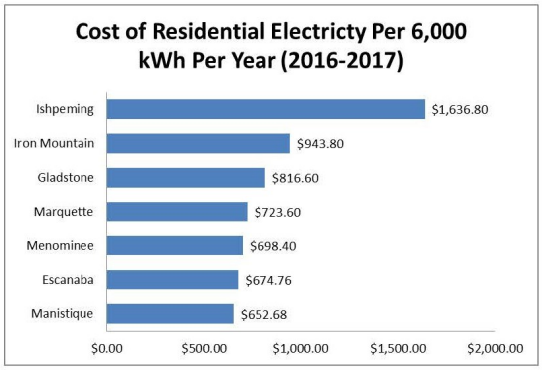
South 22nd Street at 18th Avenue South Chip Seal	$ 15,700

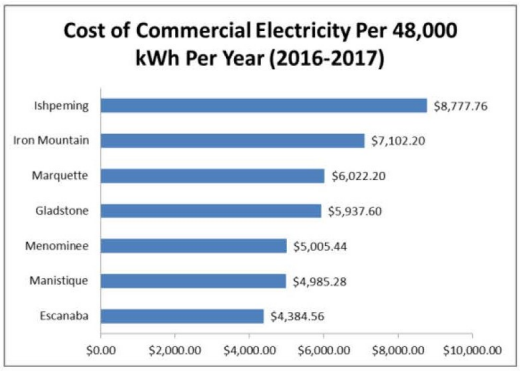
Electric Fund. The Electric Fund budget, which supports the day-to-day activities of the electrical operation, is $14,125,151, representing an increase of 2.8% from the previous year's budget. As of June 30, 2015, the overall City Electric Fund net assets exceed $15.7 million. The current cash balance is approximately $11.8 million.

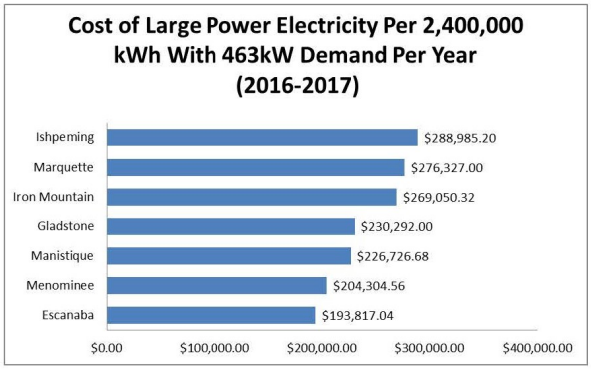
Of notable interest, the Electric Fund budget includes funding for:

Activity	Amount
Substation Improvement – New Substation (20th Avenue North)	$2,500,000
Electrical Meter Replacement and Upgrade	$1,000,000
Purchase of Electrical Line Truck	$ 250,000
Distribution System – Power Pole Replacement	$ 250,000
Substation Improvement – Power Plant	$ 200,000
Substation Improvement – West Side Substation	$ 150,000
Street Light Replacement	$ 100,000
Purchase of Mini-Excavator	$ 60,000
Distribution System Maintenance – System Wide Tree Trimming	$ 25,000

No (0%) electrical rate increases are included in the upcoming FY 2016-17 Budget.





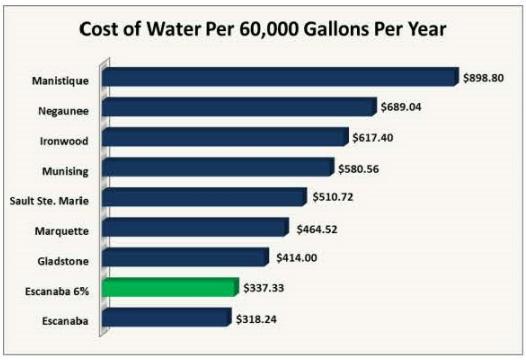


Water Fund. The Water Fund budget, which supports the day-to-day activities of the Water Treatment Plant, is $2,179,954, representing an increase of 4.1% from the previous year's budget. As of June 30, 2015, the overall City Water Fund net assets exceed $5.96 million. The current cash balance is approximately $786,000.

Of notable interest, the Water Fund budget includes funding for:

Activity	Amount
Replacement, Repair and Improvement Fund ($151,000 from fund balance/$121,000 from rate increase)	$ 272,000
Distribution System – Water Service Meter Replacement	$ 150,000
Installation of two (2) Water Tower Mixer Systems	$ 80,000
Distribution System – Water Service Line Replacement	$ 35,000
Leak Detection Testing	$ 30,000
Facility Improvement	$ 15,000

Due to the need to upgrade such things as our water meters as part of a water loss reduction initiative and an upcoming State requirement that the City of Escanaba create and fund a "Replacement, Repair and Improvement Fund" for future system upgrades, a water rate increase of six percent (6%) is included in the budget. With this increase, a typical residential customer using 60,000 gallons of water annually would experience a $19.09 increase in their annual billing beginning July 1, 2016.



Wastewater Fund. The Wastewater Fund budget, which supports the day-to-day activities of the Wastewater Treatment Plant, is $1,486,247, representing an increase of 3.6% from the previous year's budget. As of June 30, 2015, the overall City Wastewater Fund net assets exceed $7.05 million. The current cash balance is approximately $3 million.

Of notable interest, the Wastewater Fund budget includes funding for:

Activity	Amount
Facility Blower and Motor Replacement	$60,000
Raw Sewage Pump and Motor Replacement	$37,000
Collection System Infiltration Study	$30,000
Lift Station Upgrades	$30,000

Due to increases in operating costs, a wastewater rate increase of three percent (3%) is included in the budget. With this increase, a typical residential customer using 60,000 gallons of water annually would experience a $7.03 increase in their annual billing beginning July 1, 2016.

Solid Waste Collection. No (0%) garbage/recycling collection rate increases are proposed in the upcoming FY 2016-17 Budget. However, landfill and recycling operations and the funding of those operations remain a concern of the Administration given the recent news related to increased operations cost within the Delta County Solid Waste Management Authority Landfill and Recycling Center.

Motor Vehicle/Motorized Equipment. Within the budget is a Motor Vehicle/Motorized Equipment Fund. The purpose of the fund is to pay for salaries, wages and operations required for the repair and replacement, purchase and operation of motor vehicle equipment and motorized equipment, and for the purchase of equipment, materials and supplies to be used in the administration and operation of the fund. This fund is primarily funded by each department under a rental and replacement fee schedule. Like most funds being funded with General Fund dollars, this fund is also one that is being closely monitored by the Administration so that it is adequately funded for future needs.

The Motor Vehicle/Motorized Equipment budget is $1,001,916, representing a decrease of 6% over the current fiscal year. At the end of FY 2015-16, the Motor Vehicle/ Motorized Equipment net asset balance was $292,323. At the end of FY 2015-16, projections show an estimated net asset balance of $263,651. In the FY 2016-17 Budget a projected net asset balance of $262,381 is being proposed.

The budget includes the purchase or upgrade of the following pieces of equipment:

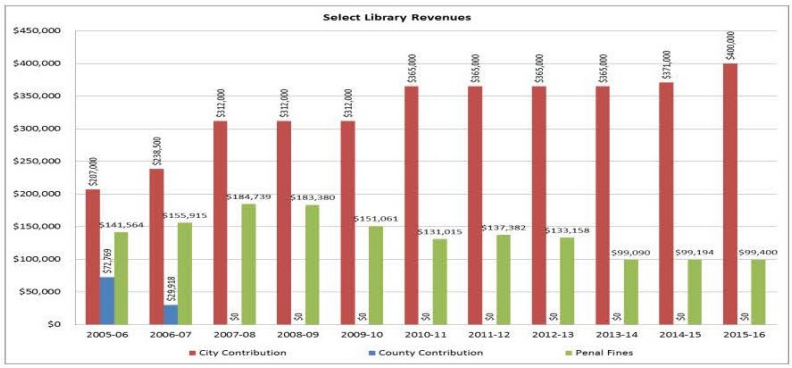
Activity	Amount
Department of Public Safety – 1 Patrol Car	$30,000
Department of Public Works – Leaf Vacuum	$30,000
Department of Public Works – Slide In Tank/Spreader Bar – Brining	$10,000
Department of Engineering – HVAC Replacement	$ 6,000
Department of Public Works – Brine Storage Tanks	$ 5,000
Department of Public Works – Copy Machine	$ 5,000
Department of Public Works – Computer Updates, Tablets and Misc. Tools	$ 4,500

Library Fund.

The Library Fund budget, which supports the day-to-day activities of the Library, is $573,231. As of June 30, 2016, the Library Fund balance is projected to equal $81,834. The Escanaba Public Library is a community hub, offering essential early literacy programs for children and families, cultural enrichment and lifelong learning opportunities for all and the resources and expertise our citizens need to stay current in a digital world.

For FY 2016-17, the library will continue progress on implementing the partnerships and initiatives outlined in its strategic plan, with renewed emphasis on identifying alternative means of sustainable funding.

The City's General Fund appropriation for FY 2016-17 is proposed to remain at $400,000. General Fund support continues to be the primary funding source for the Escanaba Public Library and could be impacted unless and until the State of Michigan adopts a more stable and sufficient system of municipal finance or amends current laws related to how penal fines are distributed amongst public libraries.



Department of Public Safety. As reported in the proposed budget which was published on March 25, 2016 and discussed during the City Council Budget Work sessions on April 11-12, 2016, the Escanaba Department of Public Safety was created in the mid-1970's, at which time the police and fire departments were merged. In the budget, the Department of Public Safety represents 55% of the City's General Fund appropriation. In dollars, this translates to $4.4m in the upcoming fiscal year. This figure does not include the costs associated with Dispatching Operations. In the 2007-08 fiscal year budget, the department had 34 sworn officers including Officers, Command Staff, Detectives, a Captain and the Director. At that time our sworn officer (all ranks) to citizen ratio was approximately 1 to 362. In this budget, the sworn officer head count is 31 including Officers, Command Staff, Detectives, a Captain and the Director. Currently our sworn officer (all ranks) to citizen ratio is approximately 1 to 405.

The current Director of the Department of Public Safety will be retiring in June 2016. With this vacancy, there will be an opportunity to have the new Director complete a fresh departmental assessment to determine if there is a potential and/or opportunity to restructure the department in effort to reduce overall departmental costs. In addition to completing a restructuring evaluation, the new Director will also be charged with the task of creating formal internal purchasing and expenditure controls and establishing specific minimum performance training standards for departmental personnel that meet appropriate national, state, and local standards and certifications in the most cost effective way. Lastly, the new Director will be charged with the task of developing an overtime reduction plan in an effort to reduce those costs.

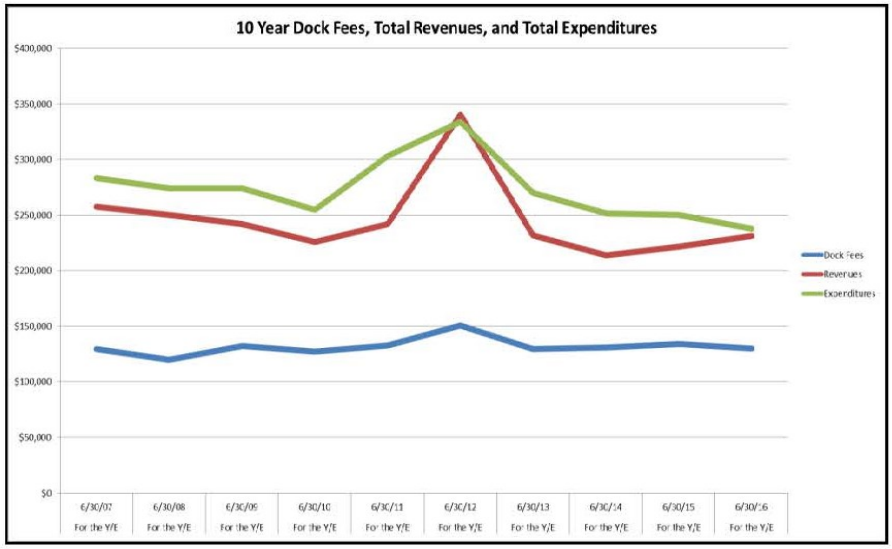
PERFORMANCE MATTERS			
PUBLIC SAFETY - CRIME, TRAFFIC, AND FIRE			
	2013	2014	2015
Violent Crimes Per 1,000	2.06	2.9	2.47
Property Crimes Per 1,000	50.4	41.7	35.3
Traffic Injuries / Fatalities	65	73	64
Traffic Tickets - City Infraction	593	773	783
Traffic Tickets - Misdemeanor	324	185	160
Call Volume - Incident	7,600	7,512	8,455
Call Volume - Quick Call	13,803	14,557	15,527
Fire Calls	145	99	140
Escanaba Public Safety Case Clearance Rate	48%	52%	56%
Statewide Case Clearance Rate (Averages)	34.1%	36%	36%

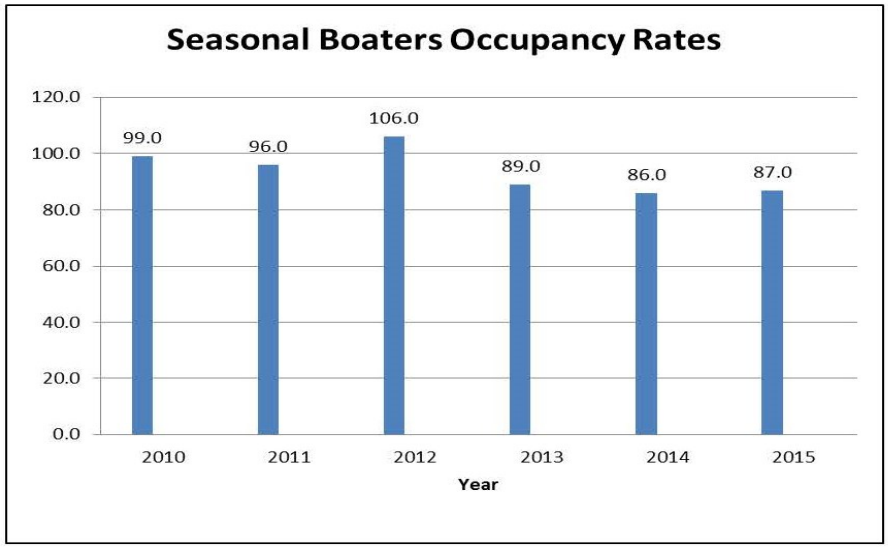
Additionally, as in any emergency response profession, there are critical needs that should be addressed for the sake of public safety. One of those needs exists within the Department of Public Safety with regards to their 1992 Pierce fire truck. As defined by industry standards, this critical piece of equipment is rated to have a normal service life of 20 years. The current fire truck has been in service since 1992. Equipment such as the fire truck will continue to become aged and in need of replacement. The concern is that the existing fire truck will become increasingly unreliable and costly to repair. In an effort to address the replacement of this specialized piece of equipment, departmental personnel have been successful in securing a financial commitment from Wells Township in the amount of $108,000 towards the replacement of the unit as part of our mutual aid agreement. The department has also been successful in obtaining $25,000 in grants and donations towards the replacement of the unit. This however leaves a funding gap of approximately $280,000. Because of that gap, the department has been pursuing a grant through the Department of Homeland Security (FEMA) Assistance to Firefighters Grant Program over the last several funding cycles. This program is in place to provide financial assistance for critically needed resources, such as a new fire truck, which will enhance operations efficiencies, foster interoperability, and support community resilience. Needless to say, there is more demand for the funds from around the country then there are funds available. Although not included in the budget, the City of Escanaba does have an application submitted to the Department of Homeland Security (FEMA) for the current funding cycle. If the application is not approved or approved in part, we will likely be looking for ways to finance our portion of the replacement truck. Options could include taking funds from the General Fund reserves, an inter-fund City loan, or a possible loan from the U.S. Department of Agriculture under their Community Facilities Guaranteed Loan Program.

Municipal Marina Operations. The Marina Fund accounts for the activities of the Escanaba Municipal Marina. The publicly-owned Marina has 165 slips, including areas used to broadside tie against the basin seawall. The Municipal Marina offers a full array of services, including seasonal slip rental, transient slip rental, fuel, pump out services, bath facilities, water and electric hook up and laundry equipment.

The Marina Fund budget is $239,998, representing a decrease of 1.4% over the current fiscal year. At the end of FY 2014-15, the Marina Fund balance was $124,217, with a long-term debt obligation of $279,794. At the end of FY 2015-16, projections show an estimated fund balance of $144,027, with a long-term debt obligation of $260,314. In the FY 2016-17 budget, a projected fund balance of $130,029, with a long term debt obligation of $239,649 is being proposed.

No rate increases are included in the budget. However, the docks located within the Marina are reaching or have exceeded their recommended normal service life. To address these types of concerns, the Harbormaster has been tasked with completing a debt restructuring plan and putting together a replacement, repair and improvement plan for future upgrades. The implementation of this plan will likely result in the necessity to increase future rates.





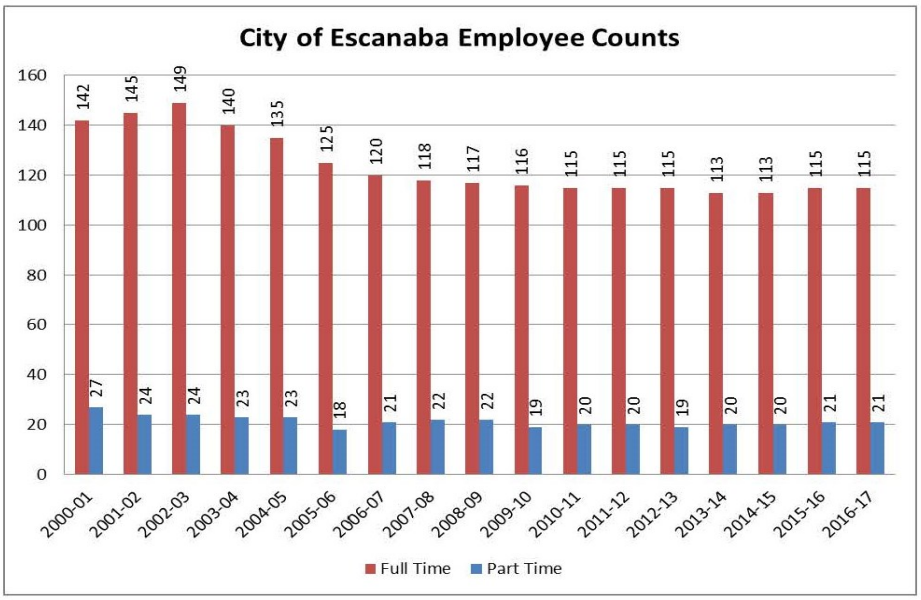
Downtown Development Authority Fund. The Downtown Development Authority Fund budget, which supports the day-to-day activities of the Downtown Development Authority, is $454,920, representing a decrease of 68.6% from the previous year's budget. The current cash balance is approximately $376,000.

Of notable interest, the Downtown Development Authority budget includes funding for:

Activity	Amount
Resurface Ludington Street driving lanes 14th Street to Stephenson Avenue	$160,000
Downtown Event Promotion and Marketing	$ 25,500
Downtown Façade Engineering Services	$ 25,000
Downtown Police Patrol	$ 20,000
Ludington Street Christmas Garland	$ 11,000
DDA Center Court Facility Repairs	$ 2,000

Escanaba Building Authority Fund. The Escanaba Building Authority Fund budget, which supports the day-to-day activities and maintenance cost associated with the City Hall/Library Complex , is $309,898, representing a decrease of .93% from the previous year's budget. The current cash balance is approximately $350,000.

Personnel and Staffing. Full-time staffing levels in the budget include 115 employees. Part-time staffing levels are at 21 employees. Seasonal employee levels will fluctuate throughout the year, depending on the operational needs of the various departments. Routinely, City Administration examines all job vacancies closely to ensure that our human resources are aligned with our operational needs and our financial means. All five (5) Collective Bargaining Units have agreements in place through June 30, 2017. Retirements of key personnel in the current fiscal year and into the next fiscal year are of concern. Any further loss of employees without replacement will most likely disrupt City operations and adversely affect current service levels.



Health Insurance. The budget takes into account a health premium increase of 4.4% to 9.6% up from 3.7% - 4.7% in the current fiscal year budget, depending on coverage, as a result of a contractual price increase from the Michigan Conference of Teamsters. In the budget, employee health insurance premium contributions will continue to be 20% of premium costs.

Pension Obligations. Employees of the City of Escanaba are in one of four retirement systems. Department of Public Safety Officers, Command Staff, Chief(s) and Captain(s) hired before July 1, 2014, are enrolled in the Act 345 Defined Benefit Plan. Officers, Command Staff, Chief(s) and Captain(s) hired on or after July 1, 2014, are enrolled in a 457

Defined Contribution Retirement Plan. In 2005, the City began transitioning its new hire non-Public Safety staff to a 401 (a) Defined Contribution Retire Plan. The transition was complete in 2007, and all such employees now participate in that plan. Employees hired before the transition remain in the MERS Defined Benefit Retirement Plan. Additionally, the City does not carry any retiree health care benefit obligations. It should also be noted that Defined Benefit Plan funding levels continue to be impacted by fluctuating conditions in the financial markets. There is significant diversity of opinion with respect to actuarial assumptions used to calculate those funding levels. Future changes in assumptions are likely to have a material impact on calculated funding levels and on required contributions. This is something that is being monitored very closely.

Master Fee Schedule. Included with the budget is a "Master Fee Schedule" for services that are provided to City of Escanaba residents and non-residents alike. The intent is to have the fees reviewed annually by the City Council and adopted by resolution (unless otherwise mandated by State or Federal law) as part of the budget approval process. While the primary mission of government is to satisfy community needs, many City services solely benefit specific individuals or businesses and are subject to separate fees. As a matter of practice, the City will continue the policy of not subsidizing activities of private interest through general tax and utility rate revenues. Fees that do not recover the cost of providing the service result in a subsidy, which shifts away from other critical and high priority programs that may not have similar cost recovery options.

Other Notable Recommended Improvements

Annually, the Escanaba Planning Commission is required by state law to prepare a recommended Capital Improvement Plan (included with budget) with public input and to submit that plan to the City Council. A capital improvement is any improvement and direct engineering cost which involves the construction, purchase, and/or renovation of a public way, space, building, structure or utility. Other than some of the improvements already stated, these notable improvements are also included in the upcoming fiscal year's Capital Improvement Plan and budget include:

Activity	Amount
Downtown Market Place Neighborhood Playground (Ludington Street and South 15th Street)	$46,000
Downtown Parking Lot Improvements	$27,500
Stephenson Park Tennis Court Resurfacing	$10,000
Rose Park Tennis Court Resurfacing	$10,000
Sidewalk Replacement	$ 5,000
West Side Cross Country, Snow Shoeing and Recreational Trail Upgrades	$ 5,000

Budget Schedule. The budget has been developed with input from the City employees, City Council, City Boards, Commissions, and Committees and the public. This input is invaluable in terms of identifying the needs and desires of the community. The following schedule of reviews/actions has or will take place:

~~March 25, 2016~~		~~Proposed Budget released to the City Council and to the public.~~
~~April 11, 2016~~	~~8:00 a.m.~~	~~Council Budget work sessions begin - City Hall.~~
~~April 12, 2016~~	~~8:00 a.m.~~	~~Council Budget work sessions continue - City Hall.~~
~~April 13, 2016~~	~~8:00 a.m.~~	~~Council Budget work sessions continue - City Hall - (If needed).~~
~~April 21, 2016~~	~~7:00 p.m.~~	~~(Regular Council Meeting) The Council will be asked to pass resolution setting May 5, 2016, as the fourth Public Hearing on the FY 2016-17 City Budget.~~
May 5, 2016	7:00 p.m.	(Regular Council Meeting) Public Hearing on FY 2016-17 City Budgets before the City Council.
May 19, 2016	7:00 p.m.	(Regular Council Meeting) Final Public Hearing and adoption on the FY 2016-17 City Budget.
May 26, 2016	8:00 a.m.	(Special Council Meeting) Second reading and adoption of the Tax Levy Ordinance and the Appropriations Ordinance will take place.
June 6, 2016	8:00 a.m.	(Special Council Meeting) Second reading and adoption of the Utility Ordinances will take place.

While it is my privilege to author this budget message, thanks must be given to the City Council, Department Heads, City employees, City Boards, Commission and Committee Members, and community members who committed themselves to assisting in this budget process. Collectively, as a team, I remain confident that we will continue to utilize our combined knowledge and experience in meeting the challenges that lay ahead in providing more efficient City services and growing the community economically. As City Manager, I appreciate and am fortunate to have a Council, community and dedicated employee support in providing the residents with the necessary resources, flexibility and funding which allows us all to live in a community that we can be proud of.

Respectfully Submitted,

James V. O'Toole
City Manager