



April 2, 2010

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

CITY MANAGER'S BUDGET MESSAGE

It is my pleasure to forward to the City Council and community our proposed FY2010-2011 Budget pursuant to the Escanaba City Charter and other relevant state laws. 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 web site: www.escanaba.org.

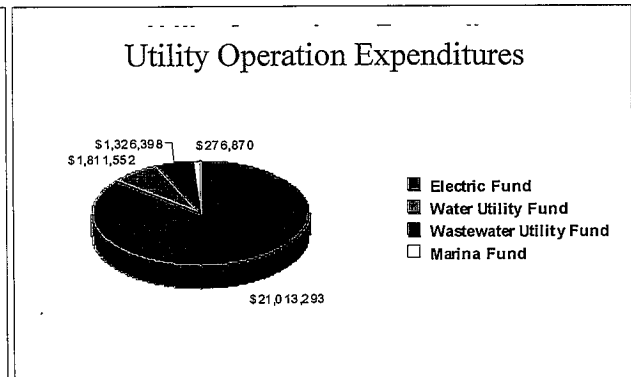
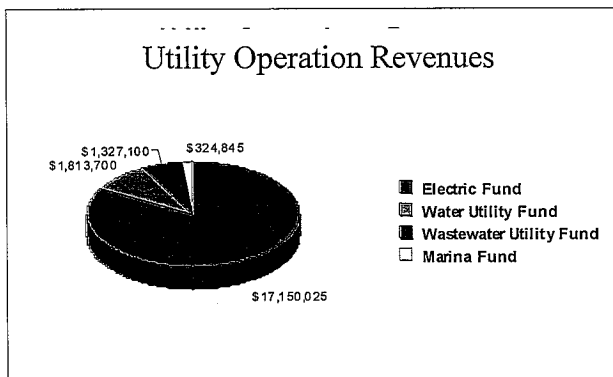
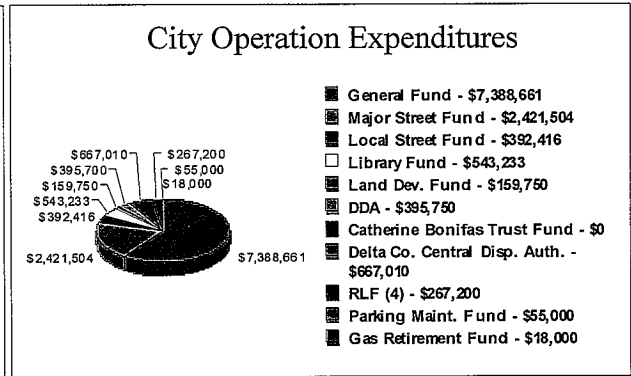
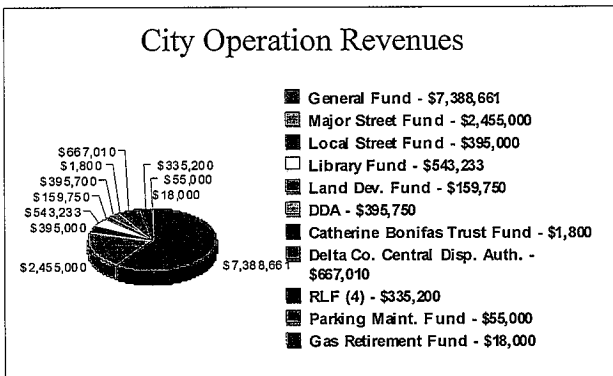
During the internal review process, I, along with staff, made significant efforts to hold the line on governmental growth and spending and, where possible, reduced the budget in light of the current economic downturn and the impact it may have on our future finances. There is no doubt the economic situation in the State of Michigan will challenge our ability to maintain the level of core functions and services that our citizens have been accustomed to. In developing this year's budget, each department was instructed to:

- Operate their department as conservatively as possible and keep spending down.
- Constantly examine each position to ensure human resources are aligned with current needs.
- Reduce the number of new vehicles needed by their department and move to more fuel efficient vehicles, reduce the number of miles driven, and extend the life of vehicles.
- Continue to pursue all available grants to fund public services and capital projects.
- Curtail travel that is not necessary for required training.
- Set a positive example for the department on spending and set the pace for cost saving compliance.

This budget, which exceeds \$36 million, reflects our commitment in providing core services to our community. This budget is an appropriate spending plan for the professional delivery of exceptional municipal services, which features ongoing dedication to improving services and accountability for performance. We will continue to evaluate the City's operations and explore opportunities to ensure the delivery of services to our citizens is as "cost-effective" as possible. The decisions made today will affect us for many years to come. Like all units of government in Michigan facing forecasts of declining revenues, and uncertainty regarding State revenue sharing and the belief that economic growth in Michigan will remain slow for the next several years, all City operations will have to be critically

reviewed. In some cases changes to the City organization may be necessary with the goal of producing lasting savings over the course of the next several years. However, in developing this year's budget, we are faced with some realities that are beyond our control and include:

- Employee salaries and wages are expected to raise an average of 2% due to multi-year labor agreements.
- Health insurance benefits have been uniformly reorganized across all departments but are expected to rise.
- Interest earnings are projected to substantially decrease in all funds.
- Decreases in water, waste water and electric sales are expected.
- Library funding from the State of Michigan and collected from the Delta County penal fines are projected to decline dramatically.
- State of Michigan Gas and Weight Taxes are expected to decline.
- Energy costs and fleet fuel costs are projected to increase, although at moderate levels.
- Pension costs are expected to rise as pension funds seek to recover assets lost in the market decline.
- Loss of funding from the Project Safe Neighborhood Grant.
- Forfeiture of funds normally contributed by Delta County for County Emergency Planning.
- State/Federal Emergency Planning that funds have been eliminated and recaptured by Delta County.
- Funding from the state for fire protection services is expected to decrease.



NOTABLE FUND(S) OVERVIEW

General Fund. The General Fund budget, which supports many of the day-to-day activities of the City, is \$7,388,661, representing a decrease of 1.3% from the previous year's budget. Further, the proposed budget does not include an increase in the existing millage rate.

We have all seen or heard, over the past few months, how property values and assessments across the State of Michigan are decreasing dramatically. In Escanaba, we have been somewhat isolated from these extreme changes, but we are now starting to see an impact. We have also fallen victim to major cuts in our State of Michigan revenue sharing amount. Together, the property taxes based on taxable value and state revenue sharing represent 82% of our total revenues. Revenues from investments are also a key revenue component for the General Fund are projected to be down. At the end of FY2008-09, the General Fund fund balance was \$4,409,493, with a long-term debt obligation of \$3,100,000. At the end of FY2009-10, projections show an estimated fund balance of \$4,198,000 with a long-term debt obligation of \$2,940,000. In the FY2010-11 Budget, a projected fund balance of \$3,849,400 with a long-term debt obligation of \$2,770,000 is being budgeted. The long-term debt includes only bonded debt for which no specific fund is responsible. Additionally, the Electric Utility will provide \$463,624 of financial support to the General Fund. It is important to remember that this assistance allows us to maintain a very high level of general government services without having to increase taxes or eliminate services.

Electric Fund. The Electric Fund budget, which supports the day-to-day activities of the electrical operations (generation and distribution), is \$21,013,293, representing an increase of 15.6% over the previous year's budget. As of June 30, 2009, the overall City Electric Fund net assets exceed \$27.6 million. The current cash balance is approximately \$10.1 million.

In an effort to stabilize rates to our customers in these volatile economic times and in light of a potential Power Plant sale, last year the City Council passed a resolution to maintain a 4.7% electrical rate increase in the upcoming FY2010-11 Budget. However, if the true costs were to be passed on to the electric customer an additional 28% rate increase would be needed to balance the revenue and expenditure components of the electrical budget.

Table I. Estimated Electric Rates - Case Studies (Including State Mandated Charges)

	2009/10 Current Rate	2010/11 Rates w/4.7% Increase	2010 /11 "True Cost Based" Rate (28%Increase)	2009 Energy Optimization Charge	2010 Energy Optimization Charge	Monthly Increase Effective July 1, 2010	Renewable Energy Charge	Monthly All- In Costs (July 1, 2010)
Residential 500k Wh/mo	\$53.27	\$55.77	\$71.78	\$0.38	\$0.50	\$2.62	\$2.90	\$59.17
Commercial 4000k Wh/mo	\$396.78	\$415.43	\$534.66	\$2.86	\$3.84	\$19.63	\$16.25	\$435.52
Large Power 200,000k Wh/mo	\$16,361.98	\$17,130.99	\$22,047.58	\$90.74	\$110.70	\$788.97	\$187.50	\$17,429.19

NOTES:

(1)Effective July 1, 2009, P.A. 295, of Public Acts 2008, commonly referred to as the "Clean, Renewable, and Efficient Energy Act", mandates that the City of Escanaba implement an Energy Optimization Plan (EOP) which charges a volumetric based rate for residential consumers, and a per meter, per month rate for commercial and large (industrial) power users.

(2)Effective January 1, 2010, P. A. 295, of Public Acts 2008, commonly referred to as the "Clean, Renewable, and Efficient Energy Act," mandates that the City of Escanaba implement a Renewable Energy Plan (REP) which charges consumers the costs associated with the generation of renewable energy.

Water Fund. The Water Fund budget, which supports the day-to-day activities of the water treatment plant, is \$1,811,552, representing an increase of 4.9% over the previous year's budget. The overall City Water Fund net assets exceed \$6.6 million. The current cash balance is approximately \$250,000.

Due to an increase in chemical prices, coupled with reduced metered water sales, and the need to replace the City's water intake pipe and maintain the south water tower, a 9% rate increase is needed to balance the revenue and expenditure components of the water fund. Even with the increase, Escanaba is expected to have the 10th lowest water rate per thousand gallons out of 102 water utilities in the Upper Peninsula.

Table II. Estimated Water Rates – Case Studies

	Monthly Charge 09/10	Monthly Increase (9%) July 1, 2010	Proposed Monthly Charge 10/11 July 1, 2010
5,000 Gallons per month	\$19.25	\$1.71	\$20.96
10,000 Gallons per month	\$29.50	\$2.61	\$32.11
15,000 Gallons per month	\$37.65	\$3.36	\$41.01
20,000 Gallons per month	\$45.80	\$4.11	\$49.91

Wastewater Fund. The Wastewater Fund budget, which supports the day-to-day activities of the wastewater treatment plant, is \$1,326,398, representing a decrease of 1% over the previous year's budget. As of June 30, 2009, the overall City Wastewater Fund net assets exceed \$7.9 million. The current cash balance is approximately \$2.1 million.

Due to an increase in areas such as chemical prices, coupled with reduced metered water sales, a 5% rate increase is needed to balance the revenue and expenditure components of the wastewater fund. Even with the increase, Escanaba will have the 7th lowest wastewater rate per thousand gallons out of 89 wastewater utilities in the Upper Peninsula.

Table III. Estimated Wastewater Rates – Case Studies

	Monthly Charge 09/10	Monthly Increase (5%) July 1, 2010	Proposed Monthly Charge 10/11 July 1, 2010
5,000 Gallons per month	\$16.74	\$0.82	\$17.56
10,000 Gallons per month	\$28.09	\$1.37	\$29.46
15,000 Gallons per month	\$39.44	\$1.92	\$41.36
20,000 Gallons per month	\$50.79	\$2.47	\$53.26

RECOMMENDED CAPITAL IMPROVEMENTS

Annually, the Escanaba Planning Commission is required by State law to prepare a recommended Capital Improvement Plan with public input and to submit that plan to the City Council for budget consideration. A capital improvement is any improvement and direct engineering cost which involves the construction, purchase, renovation of a public way, space, building, structure, or utility. Major recommendations of the Planning Commission in this year's budget include:

<u>Project</u>	<u>Fund(s)</u>	<u>Recommended</u>
Escanaba Main Substation	Electric	\$3,000,000
Stephenson Avenue Reconstruction	Multiple	\$2,440,000
L-Dock (Bridge) Repair - Marina	Marina/MDNR	\$258,060
DDA District Curb Repair	DDA	\$25,000
Danforth Rd/N. Lincoln Rd Paving	Major/MDOT	\$11,800
DDA District Angle Park – 800/900 Blocks	DDA	\$10,000
South Water Tower Security Fencing	Water	\$10,000
Sheridan Rd – 1300-1700 – Street Benches	Land Development	\$5,000
Sidewalk Repair – Citywide	General	\$5,000

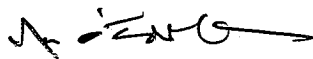
BUDGET SCHEDULE

Budget Schedule. The proposed 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 will take place:

April 2, 2010		Proposed budget released to the City Council
April 12, 2010	8:00 a.m.	Budget work sessions begin - City Hall
April 13, 2010	8:00 a.m.	Budget work sessions continue - City Hall
April 14, 2010	8:00 a.m.	Budget work sessions continue –City Hall – If needed.
April 15, 2010	7:00 p.m.	(Regular Council Meeting) The Council will be asked to pass a resolution setting May 6, 2010, as the fourth Public Hearing on the FY2010-11 City Budget.
May 6, 2010	7:00 p.m.	(Regular Council Meeting) Public hearing on FY2010-11 City Budget.
May 20, 2010	7:00 p.m.	Public hearing and adoption of City Budget.

While it is my privilege to author this budget message, thanks must go to all Department Heads, City employees, City Board, Commission and Committee Members, and community members who committed themselves to assisting in the budget process. I am fully confident that as a community we will make the necessary adjustments needed to meet our needs. As City Manager, I appreciate the community and Council support in providing the City 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