



April 18, 2011

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

CITY MANAGER'S BUDGET MESSAGE

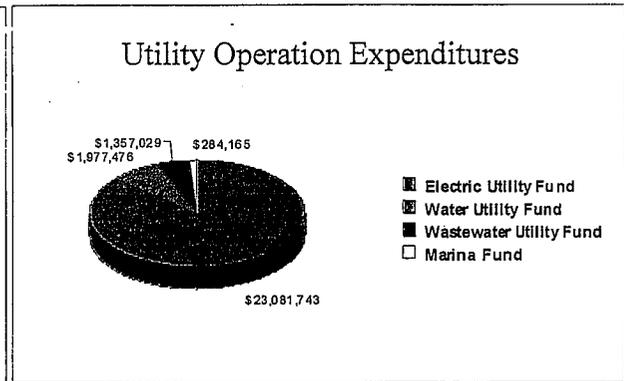
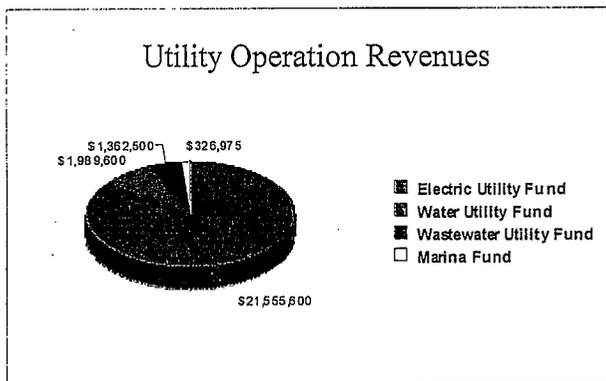
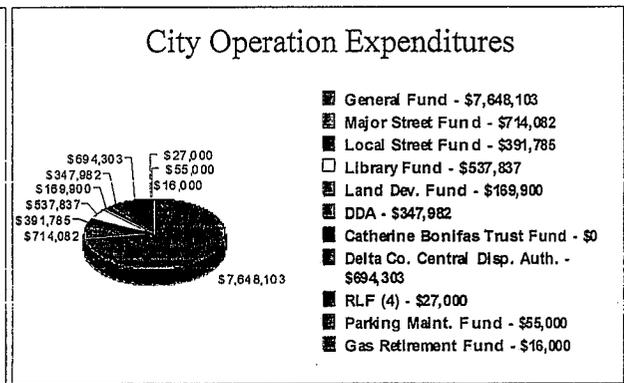
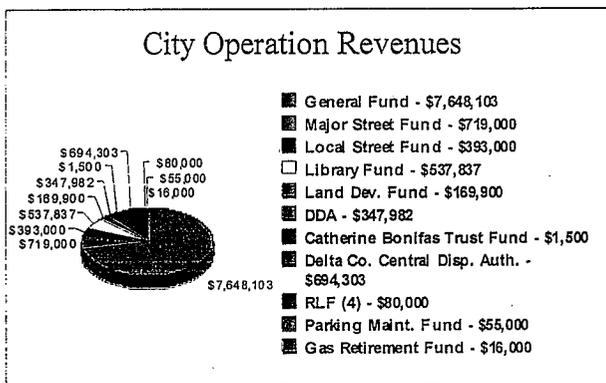
Pursuant to the Escanaba City Charter and other relevant state laws, I hereby submit for City Council and community review the FY2011-2012 Budget as modified by the Escanaba City Council during the April 12 and 13, 2011, budget work sessions. A copy of this document has been placed on file with the City 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 and on the City of Escanaba's Facebook page at www.facebook.com/pages/city-of-escanaba/330443348794.

During the Administrative review process, City staff and I made significant efforts to cut budget expenditures and hold the line on spending in light of the current economic downturn and the impact it has on our finances. There is no doubt the economic situation in the State of Michigan has challenged 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 asked to:

- Stretch every dollar and operate the department as conservatively as possible by making cuts and curtailing spending just as every citizen and business owner in Escanaba has had to do.
- Take a fresh look at the priorities and make hard decisions about what we as a community can afford by finding better, less expensive, ways to deliver essential services.
- Continually examine each position to ensure human resources are aligned with current needs.
- Continue to pursue all available grants to fund public services and capital projects.
- Frequently remind themselves that as a community, we cannot afford to increase taxes to balance our budget entirely on the backs of property owners and businesses that are already paying more taxes than some of them can afford, while facing foreclosures and unemployment.
- Set a positive example for the department on spending and set the pace for cost saving compliance.

This budget, which exceeds \$37 million, reflects our commitment in providing core services to our community. The budget increases spending on operations and will require continuous review of City operations throughout the year. 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. These changes could include additional reductions in workforce through attrition and lay-off, reduction in staff working hours and modification to how current services are delivered. In developing this year's budget, we are faced with some realities, many that are beyond our control. They include:

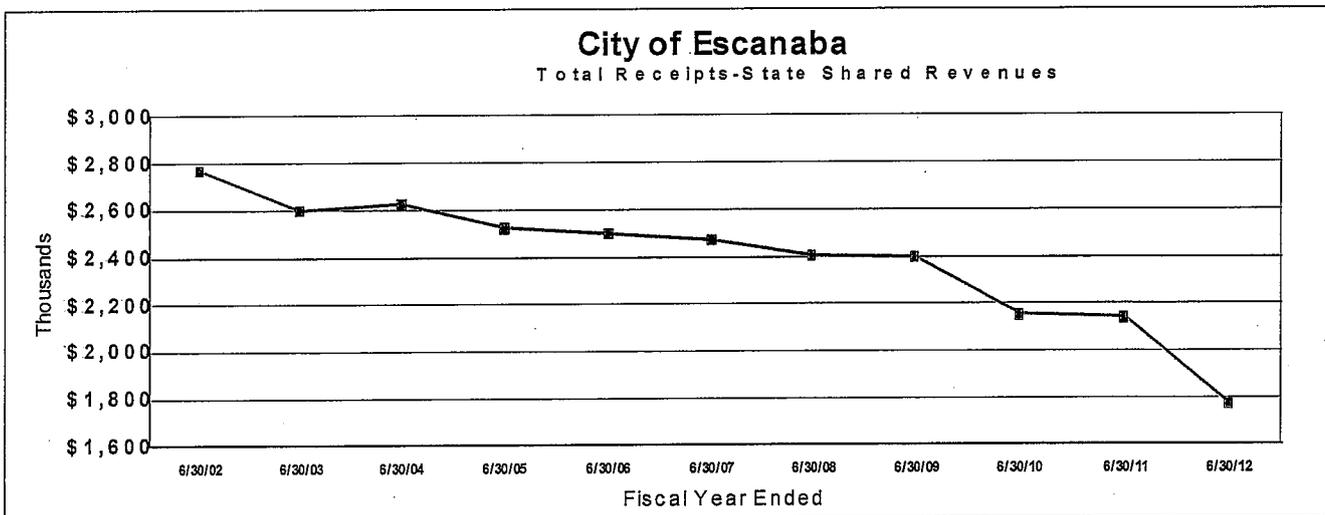
- Health insurance benefits have been uniformly reorganized across all departments but premium rates have risen by approximately 23% over last year's budget.
- Annual pension costs have risen by over \$675,000 in just four (4) years, representing an increase of nearly 60%.
- Total receipts for State shared revenue have decreased by \$369,000 over last year's funding level and by \$995,000 over the last 10 years.
- Interest earnings continue to be soft.
- Significant decreases in water and waste water sales have been incurred and are expected to continue.
- Library funding from the State of Michigan and collected from the Delta County penal fines has declined dramatically.
- Energy costs and fleet fuel costs are projected to increase.



NOTABLE FUND(S) OVERVIEW

General Fund. The General Fund budget, which supports many of the day-to-day activities of the City, is \$7,648,103, representing an increase of 3.51% from the previous year's budget. It is important to note, the proposed budget does not include an increase in the existing millage rate but does take money from the General Fund rainy day account.

We have all heard how property values and assessments across the State of Michigan are decreasing dramatically. In Escanaba, we have begun 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 81% of our total revenues. Revenues from investments are also a key revenue component for the General Fund and are projected to be down. At the end of FY2009-10, the General Fund fund balance was \$4,502,949, with a long-term debt obligation of \$2,940,000. At the end of FY2010-11, projections show an estimated fund balance of \$4,121,803 with a long-term debt obligation of \$2,770,000. In the FY2011-12 Budget, a projected fund balance of \$3,233,974 with a long-term debt obligation of \$2,595,000 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 our level of general governmental 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/distribution), is \$23,081,743, representing an increase of 9.8% over the previous year's budget. As of June 30, 2010, the overall City Electric Fund net assets exceed \$25,000,000. The current cash balance is approximately \$13,500,000.

In an effort to stabilize rates to our customers in these volatile economic times and in light of a potential Power Plant sale, we are entering into the third year of a rate stabilization plan whereby the Electric Fund is subsidizing rates in the upcoming fiscal year in an amount of approximately \$1,500,000. A 4.7% electrical rate increase has been programmed into the upcoming FY2011-12 Budget. However, if the true costs were to be passed on to the electric customer an additional 10% 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)

	2010/11 Current Rate	2011/12 Rates w/4.7% Increase	2011 /12 "True Cost Based" Rate (10%Increase)	2010 Energy Optimization Charge	2011 Energy Optimization Charge	Monthly Increase Effective July 1, 2011	Renewable Energy Charge	Monthly All- In Costs (July 1, 2011)
Residential 500k Wh/mo	\$55.78	\$58.40	\$64.24	\$0.50	\$.78	\$2.90	\$2.90	\$62.08
Commercial 4000k Wh/mo	\$415.43	\$434.95	\$478.45	\$3.84	\$5.34	\$21.02	\$16.25	\$456.54
Large Power 200,000k Wh/mo	\$17,131.48	\$17,936.66	\$19,730.33	\$110.70	\$155.21	\$849.69	\$187.50	\$18,279.37

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 \$1,977,476, representing an increase of 9.2% over the previous year's budget. The overall City Water Fund net assets exceed \$6,600,000. The current cash balance is approximately \$250,000.

Due to the installation of the new intake pipe, necessary water tower improvements, installation of a water main on South Lincoln Road and rising employee costs, coupled with reduced metered water sales, a 14% rate increase is needed to balance the revenue and expenditure components of the water fund.

Table II. Estimated Water Rates - Case Studies

	Monthly Charge 10/11	Monthly Increase (14%) July 1, 2011	Proposed Monthly Charge 11/12 July 1, 2011
5,000 Gallons per month	\$20.96	\$2.93	\$23.89
10,000 Gallons per month	\$32.11	\$4.50	\$36.61
15,000 Gallons per month	\$41.01	\$5.74	\$46.75
20,000 Gallons per month	\$49.91	\$6.99	\$56.90

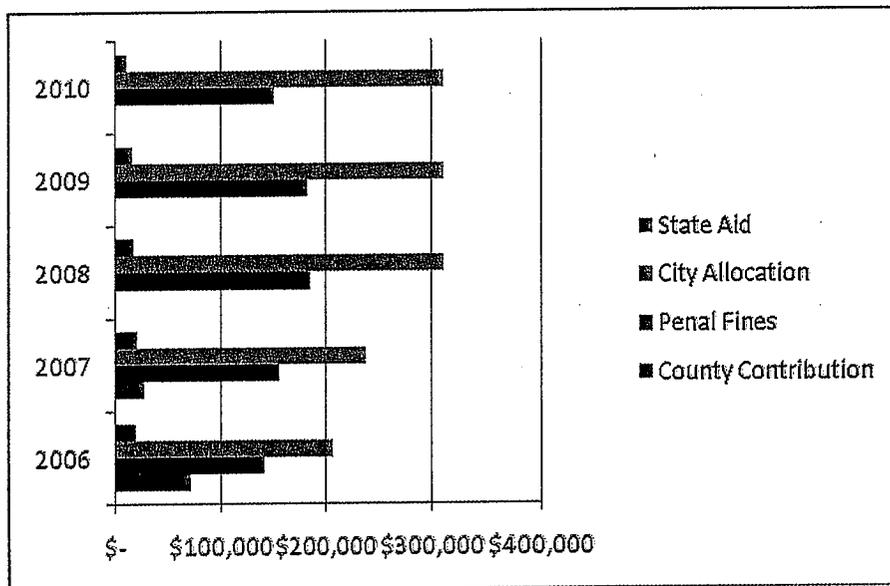
Wastewater Fund. The Wastewater Fund budget, which supports the day-to-day activities of the wastewater treatment plant, is \$1,357,029, representing an increase of 2.3% over the previous year's budget. As of June 30, 2010, the overall City Wastewater Fund net assets exceed \$8,000,000. The current cash balance is approximately \$2,300,000.

Due to an increase in areas such as employee costs and chemical prices, coupled with reduced metered water sales, a 6% rate increase is needed to balance the revenue and expenditure components of the wastewater fund.

Table III. Estimated Wastewater Rates – Case Studies

	Monthly Charge 10/11	Monthly Increase (6%) July 1, 2011	Proposed Monthly Charge 11/12 July 1, 2011
5,000 Gallons per month	\$17.56	\$1.05	\$18.61
10,000 Gallons per month	\$29.46	\$1.77	\$31.23
15,000 Gallons per month	\$41.36	\$2.48	\$43.84
20,000 Gallons per month	\$53.26	\$3.20	\$56.46

Library Fund. The Library Fund which supports the day-to-day activities of the Library is \$537,837, representing a decrease of 1% over the previous year’s budget. As of June 30, 2011, the overall City Library Fund net assets are projected to equal \$84,000. The Library continues to play a critical role for our community as the State of Michigan transitions to a knowledge-based economy dependent on technology. However, that dependency comes at a cost in excess of \$537,000 annually. The primary concern for the library budget continues to be declining revenues and the instability of existing revenues. Given the ongoing erosion of funding, it is increasingly important to put a long-term funding strategy into place that will align service areas with revenues. Without that strategy, further reductions in the Library will necessitate cuts to staffing and basic services in the future.



PERSONNEL ISSUES

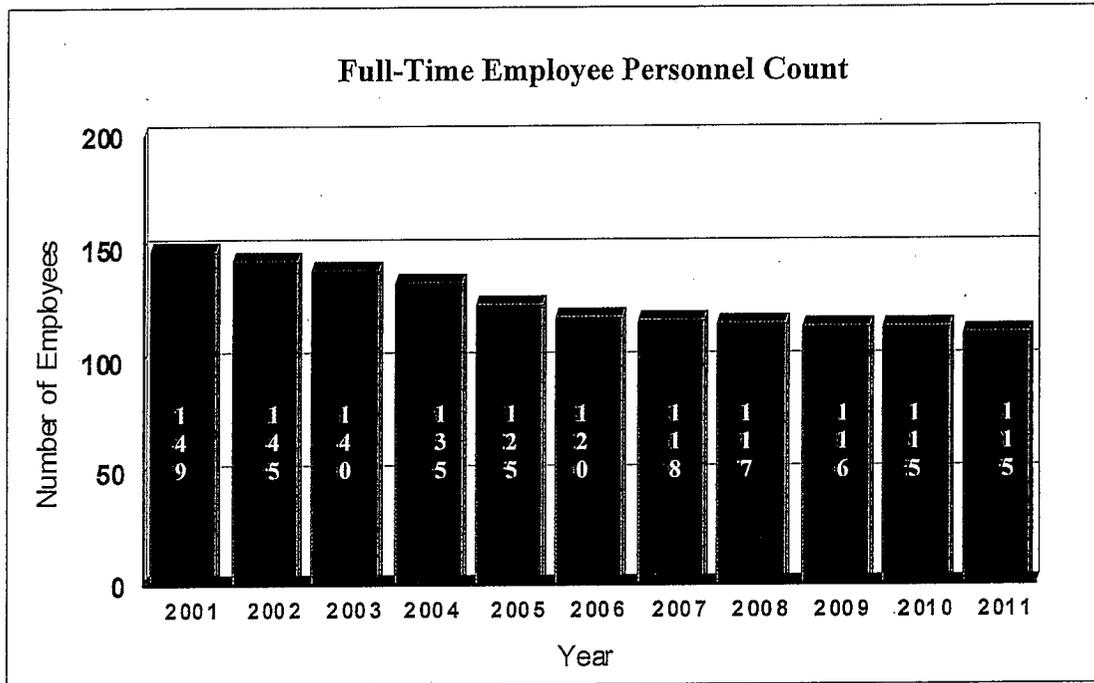
Currently, three (3) collective bargaining units have agreements that are set to expire with the upcoming fiscal year. Those units are the Police Officers Labor Council – PSO/Dispatch Unit, the Police Officers Labor Council - Command Unit and the International Brotherhood of Electrical Workers, Local 979 who represent the Electrical Department employees. No increases in wages for these units are included in the proposed budget.

Collective bargaining agreements for the Teamster's Unit 214 – Municipal Group and Teamster's Unit 214 – Water/Wastewater Group are entering into the third year of a three year contract. These unit employees' salaries are expected to raise an average of 2% due to multi-year labor agreements. Non-union employees', including Department Head salaries and wages are frozen with no increase in the proposed budget.

On March 8, 2011, I invited all of the various union business agents and stewards to meet with me to have an open and honest discussion on the current economic condition of the City and State and the impact the various funding shortfalls will have on the fiscal health of the proposed budget. In two (2) separate follow-up meetings, I asked each Teamster unit that does not have a contract expiring within the upcoming fiscal year to: 1) accept a pay freeze in the upcoming fiscal year, 2) contribute 5% towards the cost of their medical insurance premium and 3) commit to working with me in reorganizing our medical insurance plan in an effort to reduce costs. I felt the request was fair and reasonable given the current economic upheaval and unprecedented medical premium rate increases. As of the publishing date of this message, Teamster Unit #214, the Municipal unit has expressed an interest in talking about concessions, while Teamster's Unit #214 – Water/Waste Water have stated they will not give-back on their existing agreement. Over the course of the next few months, I will continue to negotiate with all of the unions on cost saving measures. However, if I am unsuccessful in obtaining any concessions, I will be required to implement lay-offs, follow through with reduced staff working hours and streamline services as necessary in order to reduce costs and balance the budget.

On March 22, 2011, Governor Rick Snyder unveiled his special message on Community Development and Local Government Reform. In that message, the Governor asked the Michigan Legislature to enact a bill that requires local units of government to (among other things) begin addressing employee compensation in order to qualify for his Economic Vitality Incentive Program (EVIP). The EVIP is designed to replace the statutory revenue sharing system that was eliminated in the Governor's proposed budget. To qualify, the City of Escanaba must meet best practices in three categories, including employee compensation cost controls. In his message, the Governor has asked the Michigan Legislature to enact a bill which would require local units of government to place all newly hired employees on a defined contribution plan or hybrid retirement plan that caps annual employer contributions at 10% of base salary. Additionally, he asked that the newly created bill, where applicable, provide for a 1.5% multiplier to be used to determine employee pensions. Further, a 2% multiplier is being requested for employees who are not eligible for social security benefits, such as our Public Safety Officers. Governor Snyder is also asking that a provision in the new bill mandate implementation controls to avoid pension spiking such as using a three-year salary average that does not include more than a total of 240 hours of paid leave and overtime to determine benefit levels. Lastly, Governor Snyder is proposing that all newly hired employees be on an 80/20 employer to employee health care premium. Should municipalities accomplish the goals of the Governor, additional revenue sharing funding is possible.

In that the Governor is tying any additional state revenue share contributions to local units of government based on the outcomes of future labor agreements, we as a City must do our best to meet the requirements of the EVIP. Depending on what the Michigan Legislature includes in the bill, the impact will guide the budgeting process and collective bargaining agreement negotiation process in the upcoming weeks, months and years.



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, and/or 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
Water Plant Intake Pipe	Water	\$3,000,000
South Elevated Water Tower Restoration	Water	\$255,500
South Lincoln Road Water Main	Water	\$242,000
DDA Property Acquisition/Demolition	DDA	\$90,000
Sheridan Road Property Acquisition	Land Dev.	\$50,000
DDA District Curb/Sidewalk Repair	DDA	\$25,000
Marina Breakwall Reconstruction	Marina/Land Dev	\$18,700
Marina Water Basin Mgt Plan	Marina	\$16,000
Update Entrance Sign – Ludington Street	DDA	\$15,000
Cross Country Ski Trail Improvements	Land Dev.	\$5,000
Fix It/Paint it Rehab Program	DDA	\$5,000
Business Incubator Space and Support	DDA	\$5,000
Citywide Sidewalk Repair	General	\$5,000
Migratory Bird Enhancement Initiative	Land Dev.	\$3,000
Soccer Field Potable Water Line	Private Donation	\$3,000
Community Entrance Sign Landscaping	DDA	\$2,500
Farmer's Market – Conceptual Design	DDA	\$0

BUDGET SCHEDULE

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 have or will take place:

April 1, 2011		Proposed Budget released to the City Council (<i>Completed</i>)
April 11, 2011	8:00 a.m.	Budget work sessions begin - City Hall (<i>Completed</i>)
April 12, 2011	8:00 a.m.	Budget work sessions continue - City Hall (<i>Completed</i>)
April 13, 2011	8:00 a.m.	Budget work sessions continue - City Hall - If needed (<i>Completed</i>)
April 21, 2011	7:00 p.m.	(Regular Council Meeting) The Council will be asked to pass a resolution setting May 5, 2011, as the fourth Public Hearing on the FY2011-12 City Budget.
May 5, 2011	7:00 p.m.	(Regular Council Meeting) Public hearing on FY2011-12 City Budget.
May 19, 2011	7:00 p.m.	Public hearing and adoption of City Budget.

While it is my privilege to author this budget message, thanks must be given to all Department Heads, City employees, City Boards, Commission and Committee Members, and community members who committed themselves to assisting in this very difficult budget process. The City Council can take great pride and satisfaction in knowing the employees of this City stand ready to serve. 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