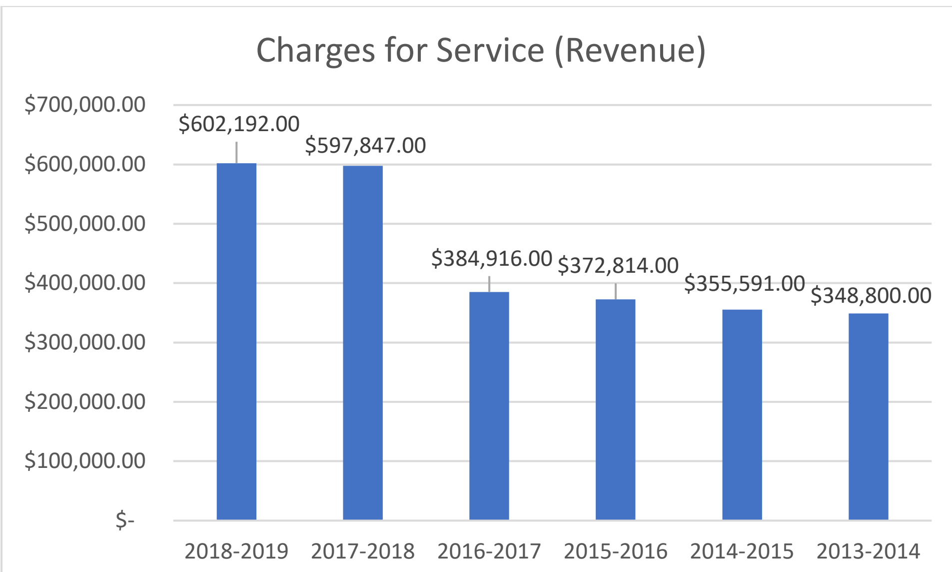
Budgets and Financial Data:

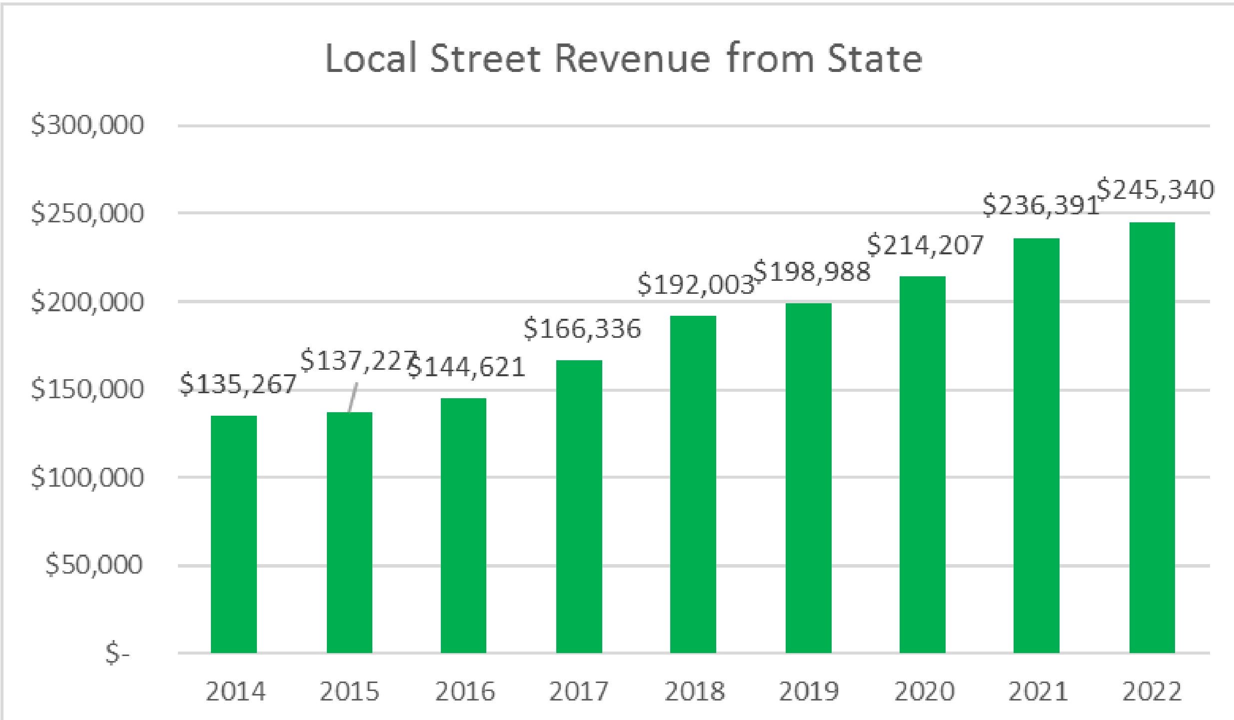
Looking back can often help in looking forward. How do we continue to meet rising costs when our revenue is not growing? In our private lives we often prioritize and make some choices. Our City Charter assigns the responsibility for presenting a Budget on the City Manager based on the priorities of City Council. A direct quote from page 16 of the 2018-2019 Budget, "**General Fund:** *Projections show the general fund having increasing deficits moving forward. General fund revenue is not expected to grow at an adequate rate to maintain service levels and fund priorities moving forward, in spite of cost containment efforts. Adjustments will be needed in service levels or prioritization of resources.*" For the past several years, Mayor Pro Tem Zielinski has ask what cuts in services and personnel we are looking at (as the Budget states) and what we can do now to insure "stepping off a curb, rather than stepping off a cliff in the future." It does not appear to be a recommendation the staff wants to make. We have been getting "revenue" by increasing charges for services from the Refuse, Major Street, and Local Street funds (Act 51 revenue from the State). The chart below indicates the increases:



It appears that our cost for winter maintenance, street sweeping, crack sealing, and refuse (picking up trash and yard waste) has increased over $250,000 in 5 years. The Act 51 revenue from the State is also the primary source of street rehabilitation funding. This past Budget when the Police needed funds to replace service pistols and I objected to it being taken from Capitol Improvement funds as opposed to the Police Budget, the CFO simply said, "we'll take it as increased revenue from the Street Fund and add it to the Police Budget." I'm not disputing the need for new service pistols, but knowing this need and submitting a Revenue Sharing Grant request would have been a proactive and legitimate response. The need didn't "catch us by surprise" as we knew the age and condition of our equipment, just didn't plan for it. I know when my automobile insurance and registration are due and make allowances in my personal budget to meet those expenses. I've been trying to get all Council members to look at this issue, but the focus always seems to be on Appropriations (2.7% of the Budget). We must look at the "big ticket" items and make some hard choices if staff is not willing to offer their recommendations.

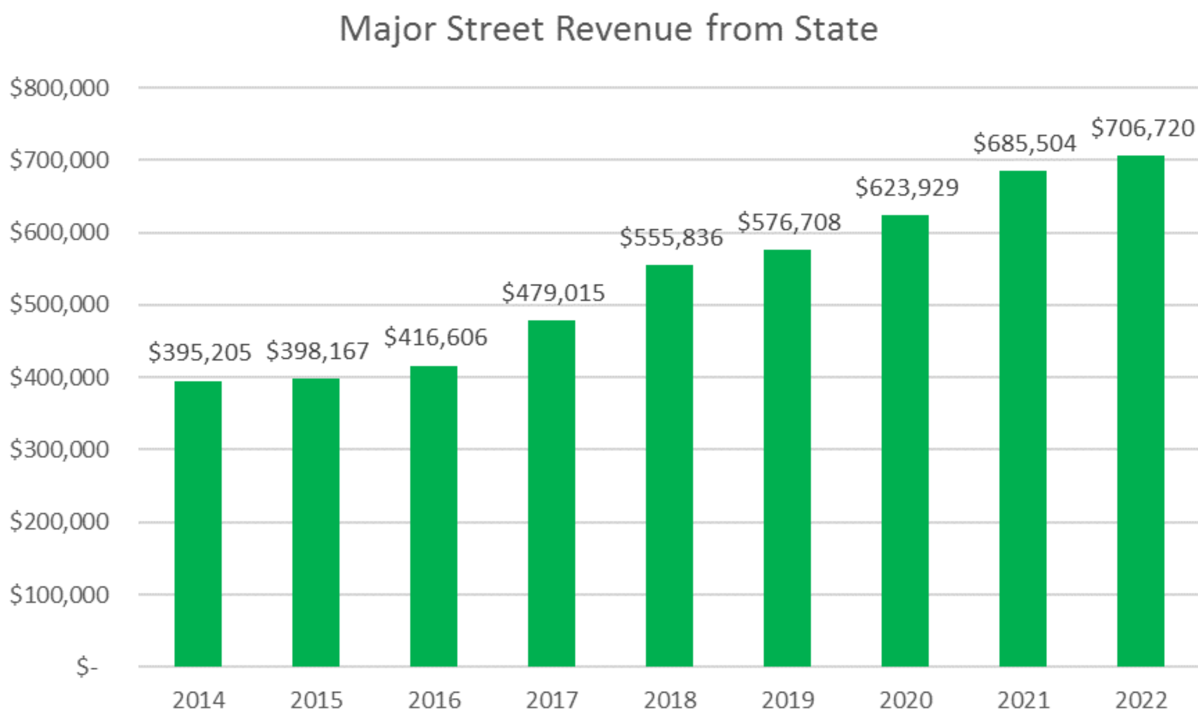
Also, from page 16 of the 2018-2019 Budget: "*Streets: The budget includes both Major & Local street projects and the transportation improvement plan anticipates an average of $1,125,000* *annual investment from FY 2019 through FY 2022. This is well above the minimum target of $600,000 identified in the Street Asset Management Plan. Maintaining and accelerating street investment will require additional resources, including considering a Headlee override*."

The following charts from pages 133 and 130 of the 2018-2019 Budget indicates increases in the funding from Act 51 revenue and projections.



As State funding has increased for Local and Major Streets, "charge for services" have increased. State Local street funding has increased $56,736.00 from 2014 – 2018 and Major Street funding $160,631.00 in the same period. Charges for service increased $174,000.00 in the same period. Act 51 funding has increased by $217,367.00 but all but $43,367.00 of it has been channeled to the General Fund. The General Fund by contrast is contributing $75,000 this year to Streets.

One of the questions I began with, "where do we get the funds for increased expenses when revenue is not growing at the same pace?" is answered when you take a detailed look at the budget. The Budget indicates General Fund support of $75,000.00 goes to streets, but that is offset from the $200,000.00 plus increase in "charge for service." It's all in the Budget!



There is no argument that Streets are an issue. The Street Ad Hoc Committee did include a recommendation for a Headlee override millage to accelerate Street maintenance. My concern is the City would consider the millage to be the source of Street funding in the future and cease contributing from Capitol Improvement, General Fund, and other sources – resulting in less funding, not more. Call me pessimistic if you will, but my experience has shown this to be reality.

City payroll increased $138, 198.00 this year and $360,877 the previous year despite recent retirements and contracting of functions or letting the State assume responsibilities (Building Permits and Inspections). We have reduced the personnel count by three and now contract Assessing, Rental Inspections (fees cover the contract) and most recently, Planning & Zoning. Note we did not "cut" personnel but took these actions concurrent with attrition. Also note that despite the changes to contracting, we gained little in actual savings. Personnel cost are 78.7% of the General Fund Budget this year and continue to rise.

I can't imagine reductions in staffing by laying employees off – we need to be more forward thinking than that.

The single largest expense increase is the City retirement plan through MERS. I've previously posted charts on this growth and the accompanying unfunded liability incurred (over $3,200,000.00 now). My proposal for a Defined Contribution plan in place of the Defined Benefit now offered to new employees has finally gained traction. It would take 20 years of accelerated payments to eliminate our unfunded liability but result in more stable cost to the City and several potential advantages to the employees and taxpayer. The imbalance of our current system results in the City contributing as little as 3.35% to some employee groups and over 28% to another. Public Works (USW Union) has largely self-funded their retirement plan and are nearly 100% funded with minimal unfunded liability. Employees contribute 4% of their salary to the plan. As a former securities licensed insurance agent, I've built models that reflect lower assumptions than MERS that reflect the potential advantages to employees. The Government sector is about the only remaining employer offering Defined Benefit retirement, even the State of Michigan quit in mid 2000s (they "grandfathered" current employees). I ask the CFO to be involved in planning a Defined Contribution plan but was not included.

Economic Development is a hot topic. We are moving forward with the Rising Tide program and I've been included on the Steering Committee. Good paying family sustain jobs are my focus. The Alliance for Economic Success (AES) questioned our Redevelopment Ready Community (at the County Summit) certification because Joe Hollander withdrew his project for the former Milliken building (over frustration with the Historic District Commission – not City Council). Staff has criticized the community backlash to "those people" (subsidized low-income) being on a prime River Street location. Third Coast likewise expressed dissatisfaction (they failed to get State tax Credit funding). City Council passed a 10% 35-year Payment In Lieu Of Taxes (PILOT) for Third Coast that would have surrendered $1.9 million in property tax over the 35-year term. The 2% PILOT Third Coast desired with a $6,000 Municipal Service payment (2.5% annual escalator) would have benefited the City at the expense of the County and millage funded functions, but most of all put another $180,000 in the developer's pocket. The "devil is in the detail" and I pay attention to and investigate those details. Our Budget clearly states a lack of revenue growth will impact services and neither of those projects would have added jobs or property tax growth. Reading the proposals and calculating the details can be very revealing. The City has 25% of the County population in .6% of the land mass yet is 27% of the taxable value and has 90% of the subsidized housing. We have PILOTs with Housing Commission, Rietz Park and Manistee Place now (just ended with Cherry Hills). Developers who make their living from government funded programs that require subsidized units invest little of their own capital, seldom hire local trades, and buy their materials from large suppliers. I'd certainly be willing to make concessions to someone bringing jobs to Manistee.

As always, thank you for your support! Coffee most mornings at House of Flavors or can meet you at your convenience. Jim