

September 4, 2018 Somethings Old, Somethings New and General Thoughts

In 2014 The Charter Township of Filer sent registered letters to all City Council members asking for assistance in negotiating a Sewer agreement with Manistee – no Council member responded. Upon election to City Council, Roger Zielinski and I reached out to the Filer DDA after a notice was published in the MNA stating negotiations with the City were terminated and Filer was now negotiating an agreement for the service with the LRBOI. We got the negotiations back on track with a resulting long-term agreement. Why does that matter?

The proposed LRBOI service was planned to run under Manistee Lake (directional drilling) from the US 31 corridor. Sewer service to Munson is now provided by the LRBOI with their expanded service into Manistee township. The expansion to Filer Township would have put other customers “at risk” and potentially impact revenue from Meijer’s and the Oaks Prison – the Oaks being the most significant water and sewer customer of the City. There would have been a significant impact to revenue and a potentially large increase in rates to City users to make up for the revenue. It was avoided. Our revenue will increase from Filer as development takes place and ease the investment burden on City taxpayers as our excess capacity is used. It took a lot of meetings with the Filer DDA and Board to build confidence and secure that agreement.

The Capitol Improvement Fund is a 4% 10-year average draw from the Oil & Gas fund, around \$380,000 a year. At the start, this fund was sourced from excess in Fund Balance (20% of General Fund Budget) and the Oil & Gas withdrawal to “pay as you go” capital projects. When I took office in 2014, 83% of this fund was obligated to debt service (leveraged) to make installment payments on big ticket projects. It paid for the Ramsdell roof (now paid) and continues to pay for the Municipal Marina cost overruns (two loans), the Ramsdell Heating and Cooling system, and Arthur Street Boat Launch improvements. We are now down to 62% obligated, with the remaining funds dedicated to additional street maintenance. As we pay the debt, I will continue to advocate for more funds dedicated to street maintenance. I pushed to take an additional \$200,000 from Oil & Gas this year and add projects to the planned street rehabilitation (the Oil & Gas has a balance of \$10,500,000). The Street Ad Hoc Committee report is as important to me today as when it was released.

Recent City surplus property sales have also been added to street maintenance projects and future sales have been earmarked for additional street maintenance to improve the condition of streets. Roger Zielinski made the motion to dedicate all surplus property sales to additional street projects.

Unfunded Liabilities has been a hot topic throughout the State, Manistee being no exception. The City Retirement system was 108% funded in 2005 when Council approved a move into MERS. The most recent Budget reflects 83.2% funding with a \$3,272,588 unfunded liability. It has been pretty much dismissed over the years by stating the City needs to raise employee contributions (has not happened) or Manistee was “in much better shape than most communities.” Our payments have risen from \$22,500 in 2005 to over \$447,194 this year with projected budgets showing cost exceeding \$600,000 in 2020. I’ve proposed moving from a Defined Benefit program, to Defined Contribution for equity between labor groups and long-term financial stability, starting with the non-unit City Hall staff. Union groups could be included as contracts expire. At present, the IAFF (Firefighters) require a 28% of payroll contribution and the closed USW (Public Works) a 3.35% contribution from the City – a very wide gap. Employees contribute 4% of payroll to their retirement. We need to keep promises made to current employees but also need to quit adding to our taxpayer liability.

Transparency has been my goal from the beginning. I fund and update this website with files and information for public access. I'm readily available to meet with the public. I respond to all email and telephone communications.

I have not missed a Capital Conference or Michigan Municipal League event since being elected (nor has Roger Zielinski). They are informative and offer an opportunity to interact with other elected officials. We share the information with those who do not attend due to work schedules or conflicting obligations. I've missed 3 meetings in over 3 years, about a 98% attendance rate. I missed 2 meetings while attending ELK's Grand Lodge meetings during 2 of my 3 tenures as Exalted Ruler, and 1 meeting for pre-operative cancer surgery. I've never gone to a meeting without being thoroughly prepared and ready to act on behalf of our citizens. It takes many hours of preparation and significant research to know the issues and be aware of the public interest for these meetings.

Council meetings are just a beginning; there are County Commission meetings, Township meetings, LRBOI Tribal Council meetings, Intergovernmental meetings, a full slate of commission and committee meetings for the City, Housing Commission and other agency meetings. I knew what I was getting into and have no reservations concerning the obligations of serving the community.

We've been certified as a Redevelopment Ready Community with a complete revision of the Planning and Zoning Master Plan. We are beginning the process of Rising Tide to learn how to better leverage our many assets into economic development opportunities. The main goal is adding well paying, family sustaining wage jobs to the community. We are in the process of considering the DDA Tax increment Financing request for renewal. We have had surplus in the last budget year after relying on the Fund Balance in the past to meet obligations and spending. I lead an effort to stop "double funding" the Alliance for Economic Success – we were paying \$46,500 a year in addition to the County's \$90,000 to fund this activity. A majority of the last 3 year contract objectives were not achieved. Our tax revenue continues to lag expenses and I've brought to light the increased "charges for service" from Street and Refuse funding revenues to support staff costs (payroll, insurance, and retirement) – the explanation is we quit "subsidizing" the user from these revenues. We are on the verge of contracting with the County for Planning and Zoning services with the Planning and Zoning Director's recent retirement, a move in the right direction to make the City and County more efficient and collaborative. We contracted the Assessor service in the past for cost savings without a loss of service and resident satisfaction. It's the trend of the future.

The key to the future is better efficiency. Is it more cost effective to contract services, or to staff and equip your own function? I've worked through those issues in the military and with FiveCAP. Could we save by contracting yard waste pickup? How about beach grooming? How about fall leaf pickup? Why did we get into ambulance service? Need for service? Revenue?

We bought a second ambulance (and pay to operate it). We began charging taxpayers (without City Council approval) in 2014 for billing not covered by insurance (when they were paying for the service through taxes). Mayor Pro Tem Zielinski found the "soft billing" policy for taxpayers and I discovered it was recommended by the Deputy Chief to the Public Safety Director and the billing service, then implemented without City Manager or City Council consultation or approval. The process has been halted and resident taxpayers will only have insurance charged for service and no longer receive the "soft billing" for services they already fund through property taxes. Our costs have increased from under \$700,000 a year to \$1,089,000 this year for Fire & EMS. Public Safety has gone from 30% of the

General Fund Budget in 2013 to 36.9% this budget year, a 23% increase without an increase in tax revenue growth – where did the money come from?

There is so much more to understanding the Budget than just reviewing and approving what is proposed by staff (City Manager). City Council is responsible for adopting the Budget (after Public Hearing is held) and if not adopted by May 15th, the City Manager proposed budget is considered adopted. When I objected to new Police firearms being paid for from the Capital Improvement Fund, the CFO simply stated they would take the funds from Streets and add it to the operating budget for Police to pay for them. You must know where funds are coming from to pay for services. I have budgets and audits back to 2003 that I've studied and attempted to compare – with great difficulty, as expenses have changed categories and reorganizations have taken place that are challenging to make them meaningful. The “difference” and “% change” columns were dropped from the 2018-2019 budget to make it “more readable.” I find it more work myself since it comes in PDF instead of spreadsheet and those columns can't be inserted for formula calculation.

Quote from the 2018-2019 Budget:

While the enclosed budget recommendations represent the City Manager and Staff's best judgment for spending based on existing City Council policies and priorities, these issues are subject to the Council's review and ultimate decision.

Can't put the blame on staff for the budget with the italicized comment taken from the budget – it falls squarely on City Council – so make sure your Council member is budget savvy!

Personnel costs were 78.7% of the General Fund budget this year as opposed to 72.77% the previous year but were a much smaller increase than the prior year (\$360,877 in 17-18 versus \$128,198 in 18-19). The overall 2018-2019 Budget is greater than 2017-2018, but the General Fund is several hundred thousand dollars less due to a different method of accounting for debt service. Each year is a learning process, with about 6 weeks to digest, interact with the Public, get some majority opinions on direction, and debate to a conclusion product.

Here is a copy from the 2018-2019 Budget document that most people miss, prior Budgets simply stated we were “unsustainable”. Rodger Zielinski keeps asking staff what a “step off the curb” would look like rather than “stepping off a cliff” – being “proactive” rather than “reactive.” It concerns me when we knowingly propose (and adopt) a budget and spending when we know we can't sustain it in the future. I get the feeling staff wants Council to make the decisions on cuts and take the public heat rather than propose options to Council.

Issues

The two biggest sources of general fund revenue, property taxes and revenue sharing are not growing at an adequate rate to offset rising costs and maintain service levels and funding priorities moving forward. Although the tax base is showing growth this year, it is still not at the pace we would like to see. Likewise, the State has shown no interest in increasing discretionary revenue sharing to local communities, although there is a significant lobbying push to do so.

Appropriations (\$172,000) are only 2.7% of the budget but get a lot more passion and discussion than the big-ticket departments. MAPS Paine Pool 10-year obligation ends this year (\$40,000) and could be

on the chopping block. PEG fell last year, as did Veteran Flags (no cemetery in the City of Manistee – victim of Municipal Spending Rules). Ramsdell operating subsidy of \$55,000 is here also (in addition to the debt service (\$108,950 – expires 2027) and major repairs and other City expenses. Council members get lobbied hard here and chambers fills with supporters for a special cause. I'll refer to the *Issues* copy above – are we ready to cut services and personnel to fund appropriations?

Municipal Marina is often criticized as an expense with no reward. This is another area of past mismanagement as the issue is really cost overruns and debt service rather than viability of the Marina as a business. Two loans are outstanding (\$650,000 original) with debt service of about \$63,000 this year and running through 2026. The transfer in to cover debt is \$65,000 – almost a break even. What is “heavily subsidized” is the debt, not the operation of the Marina. Only a government entity can afford to operate a business at a loss long-term or subsidize the operation with tax dollars.

Charges for service – where do they come from? Refuse “charge for services” is budgeted at \$335,145 this year, an increase of \$43,715 from 17-18 Budget year and \$71,038 more than it was in 16-17 Budget year. This goes into the General Fund as revenue. Yard waste experienced a large increase, from \$41,640 in 16-17, to \$82,724 in 17-18, to the current \$100,493.

Between Major and local Streets \$491,500 is charged for routine maintenance and traffic services; *An obligation of the fund is to pay for routine maintenance of the streets, including sweeping, plowing, salting, snow removal, right-of-way maintenance, patching and crack sealing. This involves reimbursing the general fund for labor and equipment; although at present administrative costs that can rightfully be charged to the street funds are still being absorbed by the general fund.*

The idea of an override millage was presented in the 18-19 budget to restore 2.4 mills in taxes for about \$425,000 in annual funds “dedicated” to street rehabilitation (not routine maintenance). My concern is this would result in additional City charges for services and administration and would become the primary (if not only) source of funding. We are at the maximum millage available to City Council now, a voter override would be necessary. I would want a guarantee of the City matching the funds generated by the millage at least one-to-one. I can't see the City putting a tax burden on the residents and redirecting resources to other functions. We need \$600,000 a year to “maintain” the condition of streets – I'd guess around \$900,000 as a minimum to start making some improvement. Can't get there without some serious changes in service delivery.

DDA tax Increment Finance (TIF) renewal. Going forward with DDA Public Hearings and another Work Session with the DDA in October. It was interesting that a member of the DDA didn't like my suggestion of funding the DDA with a district override millage (3.0) rather than tax increment. The DDA “captures” just over \$160,000 in City taxes now in addition to \$100,000 in County/millage taxes. If the DDA TIF is not renewed and the DDA “goes away” the City gains the \$160,000 for the General Fund. It is pointed out we would “lose” the millage \$100,000 but when you offset the administrative costs it is even. I'm one of 9 members of the DDA Board and it is one of the more challenging Boards I serve on. I want to see increased property values and development. Marketing schemes that help some businesses hurt others. There is a lot to be considered before a decision is made but time is getting short. Meetings are at 12:00 noon the 2nd Wednesday of each month with a Public Comment period (for agenda items) and public Comment at the conclusion. Come and observe the proceedings yourself and offer some comments on the agenda items or at the end of the meeting.

Getting attention on issues is a concern of a residents. My response is simple, contact the City Manager by email with a “CC” to all Council members. Attach photographs to emphasize your point. When I brings issues up, I sometimes have been told “no one has contacted me with that concern.” Put it in writing, with copies to others and it gets both attention and follow-up. Need some emails?

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As always, thank you for your support and comments. Jim