



May 4, 2009

CITY OF ESSEXVILLE
1107 Woodside Avenue
Essexville, MI 48732

The Honorable Russell R. Tanner, Mayor and
City Council Members
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Re: Transmittal of the City Manager's Proposed Annual Budget for Fiscal Year 2009/2010 and; The Proposed Capital Improvement Program Covering Fiscal Years 2009/2010 through 2014/2015

Dear Mayor Tanner and City Council Members:

As set forth in the City Charter, this letter of transmittal shall serve as the City Manager's "Budget Message" which explains the City Manager's proposed annual budget for fiscal year 2009/2010 ("Budget") in fiscal and financial terms and programmatically. This letter outlines the proposed fiscal policies required to implement the Budget, describes in detail important features of the budget and highlights major changes from the previous fiscal year.

Enclosed for your consideration are the proposed Budget and the proposed six-year Capital Improvements Program ("CIP") covering the 2009/2010 and five subsequent fiscal years. In accordance with the City Charter and law, the Budget is balanced with recommendations for funding all proposed services and activities in the coming fiscal year without placing any fund in a deficit position.

General Overview

The total expenditures (excluding capital expenditures and transfers) budgeted for all fund types are \$3,913,144 compared to \$3,915,562 budgeted for fiscal year 2008/2009.

The Budget will fund all present general government, public safety and public works' services at basic levels. There are no major organizational or operational changes proposed with the Budget.

It is proposed to use \$143,439 in cash reserves from the fund balance and retained earnings in a number of funds to cover proposed operating expenditures, transfers and capital purchases¹.

Cash reserves in the Sewer and Water Funds will fall below the City Council's present reserve policy.

¹ The proposed budget is projected to use cash reserves from the General, Major Street, Local Street, Motor Vehicle & Equipment and Downtown Development Funds.

The revenue projection for the General Fund is based on a 1.8% reduction in the City's taxable value, no further reduction in state shared revenues, Metro Act funding remaining at its present level and no changes in the City's franchise fee structure.

General Fund operating revenue will not cover General Fund operating expenses. All general government and public safety services are paid through the General Fund.

The budgets for several General Fund activities such as sidewalk repair and maintenance, tree removal and replacement and all travel and training have been significantly reduced.

Personnel

Full-time staffing levels are proposed to be reduced by one position in the Department of Public Works. This staffing reduction will be accomplished through attrition.

The Budget will fund 19 regular full-time positions, one temporary full-time² operator/technician at the wastewater treatment plant (WWTP) and one seasonal position paid by the Downtown Development Authority (DDA). Private contractors will be used for mowing parks and other public properties and for City Hall site maintenance.

- Full-time positions consist of eight (8) employees in the Department of Public Safety, six (6) employees in the Department of Public Works, one (1) employee at the wastewater treatment plant, the City Manager, City Clerk, City Treasurer, and Administrative Assistant.
- The staffing level at the WWTP consists of the full-time operator and the temporary full-time operator/technician noted above and an oversight contractor.³

Total wage, salary, and benefit expenditures across all funds and activities are projected to increase 3.1% over the fiscal year 2008/2009 budgeted expenditures.

- Salaries and wages are budgeted to increase by 3.0%⁴
- The increase in the City's cost to provide health insurance benefits for its full-time employees and retirees less than 65 years of age is limited to 8%. Health insurance premiums for retirees 65 years of age and older are expected to increase 15%.

² The City Council authorized this temporary position at the WWTP through October 31, 2010 to maintain staffing levels required by the Michigan Department of Environmental Quality (MDEQ) until the treatment works at the plant have been decommissioned. Once improvements at the plant have been constructed the City's wastewater will be pumped to the West Bay County Regional Wastewater Treatment Plant for treatment.

³ The former Director of Public Works (Art Kalnins), who maintains the required state licenses for the plant, will continue to provide oversight of the wastewater treatment plant on a contract basis until the treatment works at the WWTP have been decommissioned.

⁴ The proposed increase represents a one-time lump sum payment with no increase in the employee's base salary or wage.

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Re: Transmittal of 2009/2010 Budget and Capital Improvements Program

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- Retiree's health insurance costs which have been redistributed based on where the retired employee's salaries or wages were paid prior to the employee's retirement.
- The City's contribution rate to the pension system will increase by an average of 4% for all employee groups.

The Governmental Accounting Standards Bureau ("GASB") rules require that the City report its unfunded future obligations with a statement of its plan to fund these obligations. The City of Essexville must comply with these reporting requirements with our fiscal year ended June 2010.

- Unfunded health care and retirement benefit costs are presently estimated at between \$4 million and \$5 million. Based on the revised compliance schedule, the statement of the City's unfunded benefits liability will be included in the fiscal year 2009/2010 audited financial statements.

General Expenditures

Premiums for the property/casualty insurance coverage are expected to increase by 3% for fiscal year 2009/2010.

The cost for most of the services contracted by the City will increase between 2.5% and 3.0%.

The rate of increase for the cost of utilities and fleet fuel costs will continue to exceed the basic rate of inflation projected for other cost centers. Activities impacted the most by these energy and fuel costs are the wastewater treatment plant and general public works' maintenance operations.

Property Tax and Millage

Continuing problems with the housing market have adversely affected the selling price of homes throughout the County. The result of this soft market is a reduction in the City of Essexville's State Equalized Value ("SEV") and its taxable value. The reduction in taxable value will result in a decrease in property tax revenue for fiscal year 2009/2010.⁵

- The gross taxable valuation for the City decreased by \$1,520,860 or 1.8%. The net taxable value of the City (exclusive of the DDA captured increment) decreased \$1,561,764 or 1.9%.
- The incremental taxable value within the DDA District increased \$40,904 or 0.4%.⁶

⁵ Property tax revenue will be \$15,191 less than what is projected for fiscal year 2008/2009.

⁶ To finance operations and the various elements of its Tax Increment Financing Plan the DDA is permitted to capture all eligible local and county property taxes assessed on the incremental growth in the taxable value within the DDA District since its formation in 1988.

The local tax burden proposed to offset general government operations, (infrastructure) bond debt and supplemental rubbish/trash collection services is proposed at 15.5931 mills. This is a decrease of 0.1458 mills from the 2008/2009 collective levy.⁷

- Projected tax revenue is based on the City Council authorizing a millage levy of 9.7266 for general operating purposes, 5.3665 for bond debt service and 0.5000 for supplemental rubbish/trash services. The individual millage levies and the aggregate levy are within the limits allowed by the City Charter and law.
- The DDA has requested that the City Council levy 1 mill on properties within the DDA District as authorized under Act 197, Public Acts of 1975. The DDA uses this millage to pay operational and promotional programs undertaken by the DDA.

User Fees and Charges

Revenue projections are based on billing 120,000 one hundred cubic feet (CCF)⁸ for water and 100,000 CCF for sewer.

Billable flow for purposes of water and sewer charges has declined significantly over the past several years.

Stagnant billable consumption, capital construction and the increasing cost of regulatory compliance; has depleted cash reserves in both the water and sewer funds.

- Water Utility – The water commodity charge⁹ is not proposed to increase with this budget. We expect that the water utility will essentially break even using the present rate structure. The present rate is \$3.75 per CCF.
- Sewer Utility – The sewer commodity charge is not proposed to increase with this budget. The present rate is \$5.25 per CCF.

The commodity charge is not sufficient to cover the present debt service for the sewer system in addition to operation and maintenance. Revenue projections for the sewer system are based on the City Council approving a readiness to serve charge in the amount of \$7.00 per month per Residential Equivalency Unit (REU).¹⁰ This monthly charge will service the debt from the 1997 State Revolving Fund loan.

- Solid Waste Collection Services – There are no increases in the present rate of \$37.00 per quarter for waste collection services.
- Protective Inspections - Permit fees do not cover the cost of providing this service. A transfer from the General Fund is required to cover the shortfall.

⁷ The decrease in City millage will lower the cost of taxes to an owner of a residential property with a taxable valuation of \$40,000 (\$80,000 cash value) \$5.83 for the coming year.

⁸ One hundred cubic feet of water is approximately 750 gallons.

⁹ The charges are based on the amount of water used as indicated by meter readings.

¹⁰ Each residential unit will be billed on the basis of one REU. The increased cost per residential customer will be \$84.00 per year. All other customers will be billed one REU per 75,000 gallons of water used.

Other Revenue

- Combined investment revenue for all funds will be \$38,384 based cash available for investment and an average investment interest return of 2.0%. This is down from the \$50,925 projected to be received in fiscal year 2008/2009.
- Investment income generated in the General Fund in fiscal year 2009/2010 is projected to be \$21,164 which is down from the \$34,500 projected to be earned in fiscal year 2008/2009.
- It is expected that the General Fund will receive \$10,000 in Metro Act (Act 48, PA 2002) distributions from the State of Michigan.¹¹
- The Budget projects that the City will receive \$35,000 in cable television franchise fees.¹²
- Charter Communications has served notice to the City that it will terminate its lease for a portion of the City's former landfill site that Charter had used for the operation and maintenance of a communications tower. The effective date of the lease termination is December 31, 2009. The City will lose \$7,670 in lease income to the General Fund as a result of the lease termination.

Inter Fund Transfers

- \$25,000 will be transferred from the Major Street Fund to the Local Street Fund.¹³
- \$25,000 will be transferred from the General Fund to the Motor Vehicle Fund to cover the cost to purchase a replacement patrol vehicle for the Department of Public Safety.
- \$17,587 is projected to be transferred from the General Fund to the Inspections Fund to cover operating expenses for protective inspections services.
- A total of \$15,935 is projected to be transferred from all operating funds to the Fringe benefit Fund.

Fund Balance and Retained Earnings

The combined ending fund balance and retained earnings for fiscal year 2009/2010 for all funds is projected to be \$1,795,846 which is \$143,439 less than what is projected for fiscal year 2008/2009. Fund balance and retained earnings in the Budget are reflected as cash or cash equivalents.

¹¹ The Act limits the use of these funds to the repair, maintenance, or construction of public infrastructure within the street rights-of-way. Even though the budget activity is within the General Fund this source of funding cannot be used for general operating activities of the City.

¹² The City entered into a Uniform Video Services Local Franchise Agreement with Charter Communication in August 2007 which provides for the continued payment of a franchise fee to the City. The Agreement is for 10 years. As under the previous franchise agreement with Charter, the franchise fee is 5% of the Charter's gross revenue earned in the City of Essexville from the sale of video cable service.

¹³ The formula used to distribute Act 51 funds to local units of government is not sufficient to cover the cost of maintaining the local street system which has historically required a transfer from the Major Street Fund.

Capital Improvements Program

The proposed Capital Improvements Program ("CIP") covering fiscal years 2009/2010 to 2014/2015 outlines ongoing and proposed capital projects and purchases totaling \$16,250,100 which is an increase of \$6,535,350 over the 2008/2009-2013/2014 CIP.

The largest single expenditure in the proposed CIP is \$8.2 million to decommission the treatment works at the City's WWTP and retrofit the pumping station to transfer the City's wastewater to the West Bay County Regional Wastewater Treatment Plant for treatment. This project is expected to be under construction in fiscal year 2009/2010.

Summary

The pressures of available revenue not quite covering the cost of providing core and essential services persist and they are substantial. The Budget does fully utilize available revenue and reflects the affect of the changes that have been implemented over the past several years which have reduced operational costs and helped the City live within its means.

Once again, I want to extend my thanks to the City Council for their direction and support and to our staff and all of our employees for their hard work and commitment to excellence especially in these challenging times.

Respectfully Submitted,



Dale J. Majerczyk
City Manager

DJM

Enclosures

Xc: Department Heads w/enclosures