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Twee

Final (I hope!) update on the 2012 budget



Dear neighbors,

It's been an interesting week, if you like watching the weather. Whether you agree that climate change is upon us, or just think that this is one odd spring . . . well, I'm keeping records of this one. And if you thought you could put away your winter coat -- not this week. But the weather prognosticators (read that as fortune tellers) are saying it will be nearly 90 on Monday. Great start for the summer. I'm still too cold and wet from the rain on Wednesday.

I have some great photographs of the mess on Plymouth Road, and of course many of you found new areas with high water. Island Park is still pretty much underwater, the river is too dangerous to take a traditional Memorial Day canoe ride, and I read that some fish have been caught in the soccer fields at Fuller Park.

It's my task to report to you and keep you as informed about City government as I can. I'm very sorry that this message isn't about the benefits we all enjoy by having a well-qualified staff work around the clock to clear debris and mud and clay from Plymouth Road. I'm also sorry that this message doesn't include the accolades it should about the staff who worked overtime to help us all deal with flooded roadways, flooded basements, and other difficulties caused by the unexpectly heavy rain on Wednesday -- and the very wet month of May. As I write this, I'm anticipating yet another wet and rainy night. I keep muttering -- this is what fund balances are for.

So . . . entirely too much of my mind is still on the budget.

You may have read that the City still has not approved its budget for next year. This is unusual, and I've been waiting to make certain I had all of my facts as correct as I could get them before trying to talk about money again. If you aren't tired of the budget, please read on.

(The June 6th Council meeting will not concern the budget!)

Why is the Council taking so long to vote on the budget?

I'm pretty certain I'm not the only one who has grown exhausted by the budget process. The Council was supposed to vote on the budget on May 16, but didn't. Instead, we adjourned without voting, and reconvened on Monday, May 23. We adjourned that meeting - still without voting - until this Tuesday, May 31. It's all the same meeting.

At the meeting Tuesday evening, the City Council will have the opportunity to discuss and vote on several planned expenditures for the current year's budget that were tabled on May

16th. It may also discuss amendments to the proposed budget - I mentioned those in the message I sent out on May 14th. In addition, the City Council may confront a resolution to end the current parking agreement with the DDA, and transfer both the responsibilities and the income from parking back to the City.

If everyone has their ducks in a row (difficult in this weather!) the Council may discuss the proposed budget, entertain amendments to the budget, and vote. If seven (7) members of Council approve the final version of the budget, it will pass. If there is no such agreement, the budget as proposed by the City Administrator in April will be put into effect.

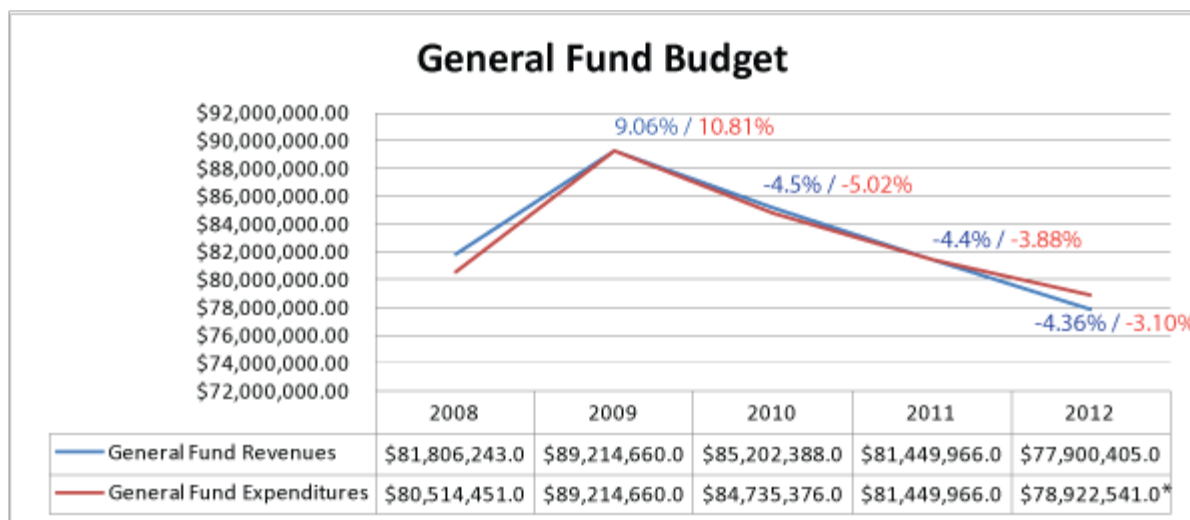
Why so much attention on the General Fund?

When I write about the budget, mostly I focus on the General Fund. There's a reason that much of the discussion about the City's budget is also about the General Fund - the General Fund is the source of revenue that pays for police and fire protection, a significant portion of parks maintenance, a chunk of field operations and fleet (those trucks and snow plows), all the administration at the City, and for a portion of the cost of maintenance of public property. By providing the funds, it also supports the staff members that do the work most of us see.

When the General Fund doesn't have enough revenue to support its various activities, the City Council must either find that revenue or eliminate activities. Recently, the budgets that the Council has approved have included ways to eliminate activities or shift expenses to other funds - thus keeping the activities, but paying for them out of some other source.

This year's proposed budget is no different. The activities to be eliminated include still more staff - especially fire fighters and police. In the near future, the City can continue to try to cut its way to financial health, but it will be at the expense of City services. In any reasonable projection of the City's finances, I've come to believe, the City must increase revenue. I'm not certain through what mechanism, however.

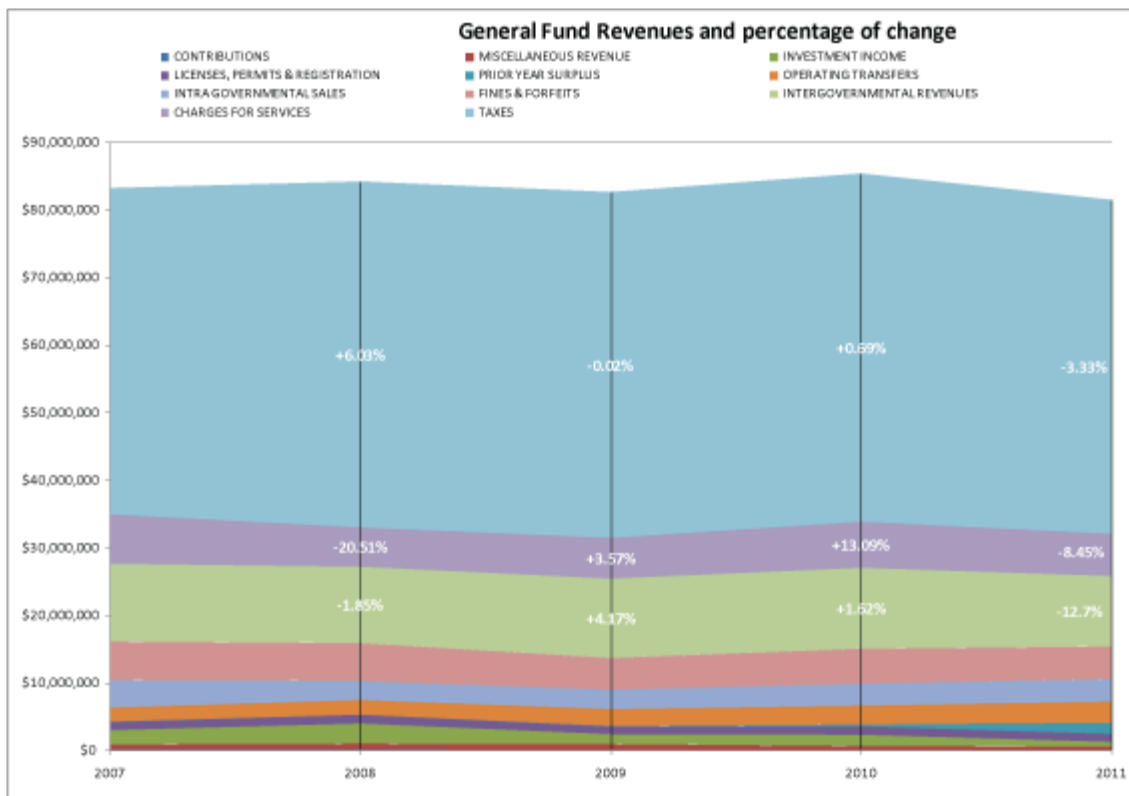
Here's what I've learned: A family with its income frozen year-upon-year will find that it needs to cut back on expenses in order to pay the basic bills. The cost of fuel for the car, the cost of heating the house, the cost of food - all of these increase each year. If income stays the same or decreases, the family will have to find ways to spend less. At some point, those ways will become serious. While an imperfect metaphor, it holds true that a City's income also needs to increase in order to provide the same level of service - or it must cut services.



*requires use of \$1 million + from the Fund Balance

The chart above shows the proposed budget, including revenues and expenditures for each fiscal year since 2008. These figures represent the approved budget, not the actual revenues and expenditures. (*The City is required to have a balanced budget; the General Fund makes*

up only part of the budget.) Looking at this chart, it appears that revenue and expenses are dropping, not holding steady or increasing. I wanted to see what has happened with actual revenues.



General Fund Revenues					
	2007	2008	2009	2010	2011
CONTRIBUTIONS	\$71,966	\$55,753	\$1,000	\$1,000	\$1,000
MISCELLANEOUS REVENUE	\$813,659	\$941,158	\$919,837	\$664,750	\$570,181
INVESTMENT INCOME	\$2,178,650	\$3,040,654	\$1,554,517	\$1,725,776	\$786,097
LICENSES, PERMITS & REGISTRATION	\$1,210,632	\$1,284,688	\$1,133,848	\$1,243,020	\$1,195,950
PRIOR YEAR SURPLUS				\$213,101	\$1,546,714
OPERATING TRANSFERS	\$2,131,979	\$2,220,571	\$2,580,157	\$2,856,068	\$3,208,345
INTRA GOVERNMENTAL SALES	\$4,034,112	\$2,778,406	\$2,819,564	\$3,221,635	\$3,299,689
FINES & FORFEITS	\$5,653,836	\$5,555,722	\$4,639,674	\$5,131,420	\$4,756,999
INTERGOVERNMENTAL REVENUES	\$11,533,514	\$11,320,574	\$11,793,143	\$11,983,797	\$10,461,880
CHARGES FOR SERVICES	\$7,338,986	\$5,834,027	\$6,042,076	\$6,833,170	\$6,255,897
TAXES	\$48,243,639	\$51,151,232	\$51,139,879	\$51,492,881	\$49,389,214
Grand Total	\$83,212,980	\$84,182,785	\$82,623,695	\$85,368,628	\$81,473,977

The information above reflects actual revenues for each year except 2011, as that year is not yet complete. Please note the information about revenues from taxes - that's primarily the 6 mills of property taxes that goes to the General Fund. (The rest of our property taxes is earmarked for other funds or other taxing authorities.)

What I see when I look at this chart and table is that revenues from taxes, charges for services and intergovernmental revenues have all decreased, with the taxes dropping significantly in the last year. (*Charges for services - recreation fees, police protection at UM events and schools, fire protection to UM, water services outside Ann Arbor, etc. Intergovernmental revenue - State-shared revenue and grants.*) Adding things up, the General Fund revenues are expected to be down \$2 million from taxes, \$1.5 million from state shared revenue and grants, and overall almost \$4 million - and that's for this current year.

The budget for next year is \$2 million less than this year, and I'm fairly convinced this is an optimistic budget. State-shared revenue other governmental funds that might affect the General Fund are more limited than in the past. The \$2 million the City received in Statutory State-shared revenue may disappear entirely this year, based on the State's budget.

The source for this information is the approved budgets and audits for each of these years. You can find my data sources [here](#) for links to both audits and budgets.

What about those 'buckets?' Can the City use that money?

Fairly often I hear from people who are angry about 'buckets'. Whether you like the term or not, Ann Arbor's voters have voted to tax themselves for specific purposes. Each time we do that, the money raised for that purpose - paying benefits, supporting parks, improving the solid waste system - becomes restricted to that purpose. That's one type of bucket. Other types are funds raised through bonds in order to accomplish a specific goal or funds given in a grant in order to further a specific project. Examples of grants include the federal grant for reconstructing the Stadium bridges.

Each of these funds is restricted. There are some 'buckets' that the City Council created - notably the Municipal Center and Percent for Art funds. However, the Municipal Center funds are primarily earmarked bond dollars for this project, and the Percent for Art funds use dollars from a number of dedicated funds, including storm water and street maintenance. However, none of these 'created' funds has a significant amount of General Fund dollars still in it that could be returned for use. At least, not as far as I can tell.

Can't we keep the fire and police staffing levels where they are?

Sometimes labor disputes become budget issues. The police department has voiced a legitimate concern about past events (their health issues, radon, and the Larcom building). Public union members cannot sue their employer for health care above that in their benefits package. The City administration has concerns about the budget (benefits packages should be consistent across all employee categories; all employees should help pay for health insurance as well as co-pay for medical care and prescriptions). Equity matters, but so does good stewardship. Fire and police staff are not alone in being expected to change. All members of AFSCME are also expected to make accommodations; some union and all non-union staff have already done so.

What difference would settling these contracts mean for the budget? I'm told that if the police, fire, and AFSCME unions contributed the same 7% toward health insurance that other members of the staff do, many of the layoffs would be eliminated, at least for the next couple of years. If the State of Michigan imposes a 20% contribution for all municipal employees, that will be even better for the budget, if not for each individual staff member.

If there's a way to keep employee levels up, many of those on Council want to find that way. It may not be part of the budget, but will hopefully continue to be part of the discussions between now and July 1. I'd like to be optimistic. In so many ways, the losers of this type of dispute are the people in Ann Arbor.

What's with the parking agreement?

To a greater extent than anyone anticipated in 1992, when this relationship began, the DDA has become synonymous with parking. Managing parking is not part of the DDA's legal mandate; it's a separate contract they have with the City. In the last few years - since 2003 and clearly since 2005 - the City has seen the parking system as a revenue source, not a tool to improve working, living and shopping in downtown Ann Arbor.

The proposed agreement extracts as much income as everyone agrees is possible, given current projections. The DDA will have to defer maintenance - it already is doing that -

except for major and necessary work. The agreement requires that the City keep the DDA's fund balance at or above \$1 million during the next 5 years, and that the DDA pay the money back if and when their fund balance returns to \$4 million.

The DDA's budget figures indicate that they gross \$16 million from parking. Out of that, they pay about \$8 million for various debts the parking system has. From the remainder, they pay Republic Parking to manage the system, part of the salaries of two staff people, a consultant to help decide the maintenance schedule, maintenance on the system, and some other expenses. The City would receive 17% of the gross revenues - that \$16 million - before any expenses were paid.

The parking agreement also removes from Council the ability to reject any change in the parking fees, and requires that the City report to the DDA on how money is spent to maintain the streets in the DDA. Some of us on Council feel that this is backwards, and that the Council should be the responsible body, not the DDA.

I agree with that.

So, there are the issues: the parking agreement means the City is dependent on revenues from parking to support the General Fund budget. Settling union contracts would help eliminate layoffs and keep benefits equitable for all staff members. General Fund revenue dollars are not increasing; neither is the fund balance (I checked that, too). And many of us want to constrain funds by saying 'this is for parks' or 'this is for street maintenance'. As a result, the General Fund cannot use those dollars, either.

Increase income year-over-year or decrease expenditures year-over-year. I'm still not supporting an income tax. We still don't have our benefits problems resolved.

I'm really looking forward to Tuesday night.

On the horizon

I read in AnnArbor.com that the City may seek funds to help improve the infrastructure so we can deal with the weather we've been having. We should all discuss how a loan would be paid back.

I understand the street millage should be on the ballot this November. Given the ongoing maintenance issues, I'd like to see the City spending the dollars in reserve (there's \$23 million in undesignated fund balance, but that doesn't mean there isn't a plan!). I will also support a renewal of the street millage.

There may be a new millage that will, if passed, provide funds for the City to maintain sidewalks. I've been encouraging the City to consider this since I was elected the first time in 2007. I don't believe that having each property owner responsible for sidewalk in front of their property is equitable -- one person could need to repair sidewalk damaged by a tree on their neighbor's property. One side of the street could have sidewalk while the other side has none. Each property owner, taxing themselves a small amount (.25 mills), can help support the entire sidewalk system. Of course, that means the City becomes responsible for maintaining the sidewalks. But honestly, don't you think the City should be?

The parks millage is up for renewal next year. Some members of Council are considering whether the millage shouldn't cover all parks expenses. If this millage were on the ballot, with all parks expenses included, it would increase the amount a property owner pays in taxes. If passed, it would shift about \$3.5 million from the General Fund to the increased millage. What do you think?



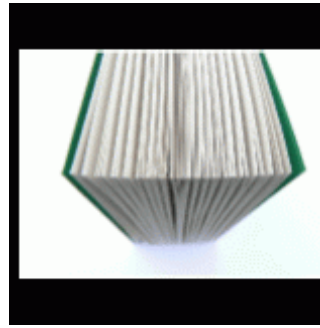
Coffee in the morning

I usually hold 'office hours' every Monday morning at The Northside Grill. This Monday (May 30th) I'm taking the morning off -- and so is The Northside. I'll be at my usual table on Tuesday morning, May 31, at 7:30 a.m. and will stick around until 9 a.m. If you want to talk, please join me there. I'll be back again on Monday, June 6th.

The folks at The Northside have decent morning coffee and a friendly, neighborhood atmosphere. If you see me there, please wave, and if you have time, please, join me for coffee and a chat.

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What am I reading?

"Wrongology" by Kathryn Schultz is worth the time I'm spending. Not only does it remind me that it's easy to assume you know the answer, and therefore fail to check the evidence, but also that it's really easy to follow the wrong path a long way, even after you know you're lost. Acknowledging error is embarrassing.

I try to keep an open mind, but I also try to check the facts. Opinions can be personal; facts are facts. Please correct me if my facts are wrong. Always.

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Sabra Briere, Ann Arbor City City Council · 1418 Broadway · Ann Arbor, MI 48105

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