

September 21, 2011

To: Financial Planning Committee

From: Wayne Davis, Interim City Manager
James A. Hanson, Finance Director

Subject: 2012 Operating and Capital Budget and 2012 – 2016 Five-Year Capital Improvement Program

We are pleased to submit the recommended 2012 operating and capital budget, including the four year (2012 – 2016) revenue and expenditure forecast, and the 2012 – 2016 five-year capital improvement program (CIP) to the City Council’s Financial Planning Committee for initial review. As we have agreed, the committee and staff will briefly review this document at the September 7th meeting, and then will review it with the entire City Council in a more comprehensive session in the coming weeks.

The budget is the primary fiscal planning tool for moving the City forward toward accomplishing its mission—“Providing superior services with integrity. Partnering with you to build a great community!”—consistent with its values, vision and leadership philosophy. It also provides the resources to support the City’s goal of becoming a higher performing organization.

Briefly, this budget accomplishes these key objectives:

- Continues stewardship of City resources in a prudent manner while delivering superior services;
- Follows priorities from the 2011 strategic plan for new initiatives;
- Addresses reductions in key revenue sources based on the passage of the State’s biennial budget; and
- Provides adequate resources to maintain current service levels and provide for the City’s capital assets; infrastructure maintenance, capital improvements and asset acquisition over the life of the budget and four-year expenditure forecast.

As you will see in the following analysis section, considering the current economic conditions, the City continues to enjoy a strong financial position, benefiting from careful controls on spending, relatively steady earnings tax collections, and protected strong fund balances in the General, Capital Improvement, General Debt Retirement and Arts and Amenities Funds. However, the outlook for the

future will provide a challenge to maintain target balances in the General Fund with the elimination of the tangible personal property tax reimbursement, the reduction in the Local Government Fund and an estimated reduction in assessed valuation of the City due to the County's reappraisal process. As a result, the City anticipates that the 2012 revenue collections from the State and Hamilton County will be lower than amounts collected in 2011. The elimination of the estate tax in 2013 will dramatically impact General Fund revenue levels and included in this budget is a recommended plan to reallocate the income tax revenues from the current percentage distribution of General Fund 67%, Debt Service 8% and Capital Improvement 25% beginning in 2013.

The reallocation proposed for 2013 would change the percentage distribution as follows: General Fund 76%, Debt Service 4% and Capital Improvement 20%. However, without a significant increase in earnings tax collections, the re-distribution of income may not generate adequate revenues to completely fund current General Fund service levels in the long-term. As a result of these factors and the continued uncertainty in the economy, it will be especially important for the City to continue its sound practice of financial management, to continue to contain its own costs of operations, and to possibly consider three potential proactive initiatives which would require City Council action to continue to ensure financial stability in the long term. The initiatives are:

1. reallocation of the City earnings tax revenues beginning in 2013;
2. consideration to assessing an additional \$5.00 to be collected for motor vehicle registrations from residents of the City beginning in 2013; and,
3. discussion and consideration in implementing the remaining one-half mill of property tax collections as authorized by the City charter at some point in the future to stabilize revenues and continue to fund critical services of the City.

In addition to reviewing revenues, staff has identified certain programs and operations which may require reduced service levels or alternate funding sources if revenues do not increase in future years. Our recommendation is to discuss areas of reduction with the Finance Committee and other committees related to the discussion topic over the course of next year. **Specific areas of concern are the number and types of events funded by the City, the cost of solid waste collections, implementation of certain improvements as recommended in the Parks Study and revenue shortfalls in municipal pool operations and the Street Construction, Maintenance, and Repair Fund.** In addition, initiatives and projects, such as land acquisition, the construction of sidewalks and/or road improvements and a downtown parking garage, will require a significant commitment of City resources and, as such, detailed discussion by City Council as to desirability, timing and financing options will be critical. These projects have special notation with an asterisk (*) beside their description to assist City Council in identifying these projects for further discussion.

Budget Analysis

This budget's first priority is to continue the successful stewardship of the City's resources, while maintaining high quality service delivery. In the 2012 budget, staff is proposing a continuation budget from 2011 maintaining the same level of personnel with the exception of the elimination of the Tax Commissioner position which was combined with the Assistant Financer Director position. Otherwise, the proposed 2012 budget for personnel is consistent with the 2011 budget, with 65 full-time employees and 39 part-time/seasonal employees. As in past years, the City will continue to invest in capital asset maintenance to protect the City's \$57 million investment in capital assets. Although not programmed in 2012, for planning purposes, we have again included the issuance of TIF bonds, for the construction of public improvements in 2013, which leverages the \$195 million Vintage Club mixed-use development project, although at this point, the development of this project as proposed in the TIF Service Agreement is questionable.

As a part of the 2012 operating and capital budget, the City will undertake a number of significant activities that are part of the 2011 strategic plan and will seek to move our organization forward in terms of the services we provide to our citizens. These include the collaborative effort to promote economic development and branding using the theme of "Buying Local" and aggressively addressing the commercial vacancy situation by hiring a commercial real estate specialist to market the City's business district. These are all efforts to build community and promote economic development in Montgomery, consistent with the direction of the new strategic plan.

Following is a detailed analysis of the recommended budget and Capital Improvement Plan, as well as a full explanation of the policy decisions that will be needed by City Council, both currently and into the future. We look forward to reviewing the budget with you as we continue to deliver superior services in an efficient and effective manner.

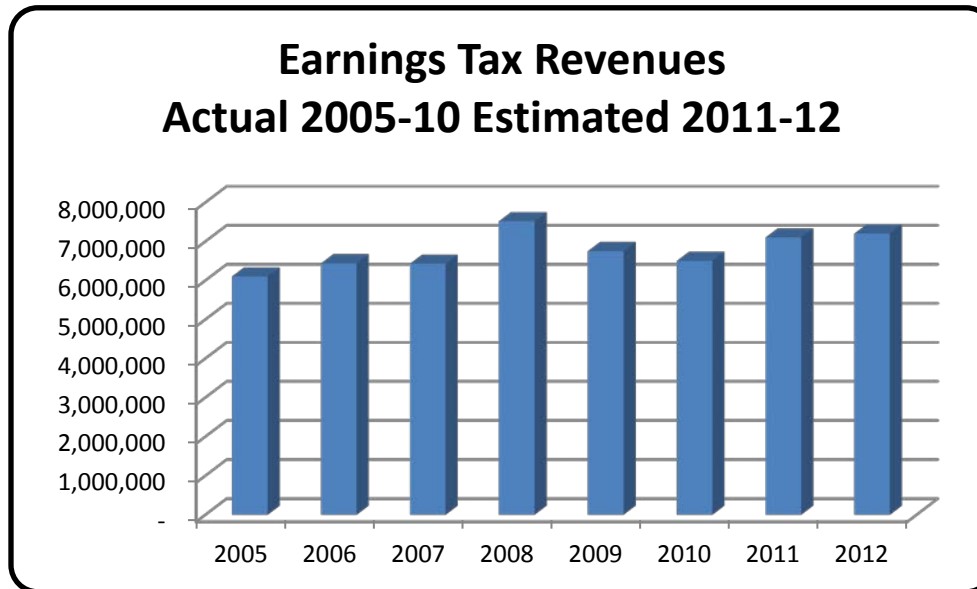
I. Overview

The 2012 budget plan, as with previous plans, strives to provide for the strong financial management of the City, balancing the desire to provide a high quality, yet cost-effective level of services to our residents within the financial resources available to our organization. The budget also reflects a commitment to the preservation of capital assets through infrastructure maintenance projects. Similarly, debt service continues for the capital improvement projects that were undertaken to promote and enhance the high quality of life that is evident in Montgomery. Generally, the proposed budget continues the current service levels with some minor changes that are described below. New projects and service enhancements are guided by the City's 2011 Strategic Plan and again will assist the City in attaining its mission and vision for superior services for our citizens.

II. Revenue Assumptions

Listed below are the revenue assumptions that were used to construct the 2012 revenue forecasts. The 2012 revenue assumptions provided a base from which to plan for 2013 through 2016. They have been modified as circumstances warranted.

- Earnings Tax. At the time of writing this document, earnings tax collections were up 11% over collections for 2010. Following the historical trend that revenues collected through the month of July reflect 62.8% of the total annual earnings tax collections, staff has estimated that total earnings tax revenues by year end 2012 will be \$7,100,000. This new estimate is reflected in the 2011 revenue in this budget. For 2012, staff is forecasting a 1.5% increase, which will bring the estimated tax collections to \$7,200,000 and return the City to the 2008 total collection level for earnings tax. The out years reflect a 1.5% increase through 2016. The chart below reflects actual tax collections for years 2001 through 2009 and budget estimates for the years 2011 and 2012.



As mentioned earlier in this document, staff is proposing that the Earnings Tax be reallocated beginning in 2013, the same year the Estate Tax will be eliminated as a result of House Bill 153. The current allocation is: 67% of Earnings Tax revenues to the General Fund, 8% to the General Bond Retirement Fund and 25% to the Capital Improvement Fund. The proposed reallocation would provide 76% of the Earnings Tax revenues to the General Fund, 4% to the General Bond Retirement Fund and 20% to the Capital Improvement Fund. The proposed reallocation would provide the General

Fund with approximately \$650,000 in redistributed tax revenues to support operations while continuing to meet targeted fund balances in both the General Bond Retirement and Capital Improvement Fund.

- Real Estate Tax. Based on the reappraisal information received from the Hamilton County Auditor's Office, the property tax collections for the year 2012 are forecasted to decrease approximately 9% from the amount collected for 2011. For four years 2013-2016, staff has estimated a 1.5% annual increase based on the current trend in building values and a struggling construction and remodeling sector of the economy. In addition to the current millage assessed of 10.05 mills (4.5 mills to General Fund and 5.55 mills to the Fire Fund), City Council, according to Article IX, Section 9.02 of the City Charter, has the ability, by passage of a resolution, to increase property tax millage up to five mills of assessed valuation. The City total millage of 4.5 is combined of 3 mills of inside millage and 1.5 mills of Charter Levy millage. An additional one-half mill could be added which would generate approximately \$250,000 in additional property tax revenues for the General Fund. The levying of this additional charter millage could be considered as an option if current sources of revenues do not improve and no further acceptable reduction in services can be made in the future.
- Estate Tax. Although this tax generated \$2.2M in 2009, \$1M in 2010 and year-to-date collections in 2011 are \$533,000, staff forecasts \$500,000 to be received through 2012. The City's five-year forecast reflects complete elimination of this tax after 2012, although there may be some runoff from estates settled in 2013 from deaths in 2012.
- Investments. For 2012, this revenue source is forecasted to earn 1.00-1.50%, which is consistent with current interest rates on new investments. Future earnings are expected to remain at 1.00% in 2012-2016, as the Federal Reserve has committed to maintain interest rates at or near zero through to mid-year 2013.
- Gasoline Tax. These revenues are anticipated to remain relatively flat due to a decrease in demand because of high fuel prices.
Motor Vehicle Taxes. These revenues are forecasted to remain relatively flat from 2012 through 2016. To supplement revenues for road maintenance, City Council may initiate an additional \$5.00 license plate fee, which would generate an estimated \$50,000 in new revenues.
- Local Government Funds. The state budget which is based on a fiscal year of July to June reduced the Local Government Fund by 15% for the fiscal year 2011-2012 and 50% for fiscal year 2012-2013. For years 2014 through 2016 revenues are estimated flat in the Local Government Fund, based upon the new lower revenue projections.

III. Management of Targeted Fund Balances

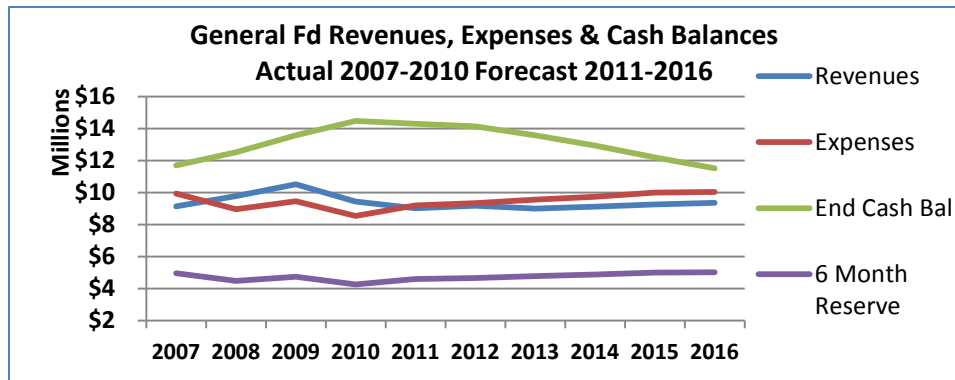
One of the key components of the City’s strong financial management is its targeted fund balance policy. Created in 2001 and amended in 2008, the current policy identifies targeted fund balances in the following four funds:

- General Fund (established as six – twelve months of operating expenditures);
- Capital Improvement Fund (established at \$1,000,000);
- General Bond Retirement Fund (established as the total principal and interest of the subsequent year’s debt service payment);
- Arts and Amenities Fund (established at \$376,237, equivalent to two large bequests to the fund).

The purpose of these fund balances is to provide a level of emergency funding that will ensure continuity of City operations in the event of a catastrophe, a loss of City revenue, or a downturn in the economy. In the case of the Arts and Amenities Fund, the fund balance preserves the original bequest, as well as a subsequent donation for the support and development of the City’s arts and amenities.

A. General Fund

The General Fund’s 2012 ending fund balance is projected to be \$13,455,377, which is \$67,809 or .50%, less than 2011’s budgeted ending fund balance of \$13,523,186. The minimal decrease is attributed to an **one-time transfer of \$416,563** from the Ohio National Life Tax Increment Financing Fund to the General Fund as authorized by the Ohio Revised Code since the TIF district have been terminated and all capital projects associated with it have been completed. The \$13,455,377 estimated ending fund balance represents more than eighteen month reserve in the General Fund. **(Page 6)**



While that is a strong reserve, the five-year forecast shows a continuing reduction in the fund balance—a result of little or no increases in revenues; the elimination of the Estate and Personal Property Tax revenues; the reduced real property tax revenues as a result of the reappraisal

process, and escalating costs of future health care. In addition, the transfer of funds to the Street Construction, Maintenance & Repair Fund and to the Municipal Pool Fund has been programmed based upon the inability of these budgets to generate adequate revenues to support operations. The reduced fund balance continues to be within the policy target range (six months) through the ending budget forecast year 2016 (see chart), although the downward trend will need to be addressed so as to avoid the substantial reduction of the fund balance in the future.

Given the identified revenue reductions, as well as the increased expenses associated with personnel and the City's general costs of doing business, staff will continue to monitor legislative mandates, as well as economic activity for potential impacts upon the City's operations and the General Fund balance. As discussed previously, a reallocation among the General, Capital Improvement and General Bond Retirement Fund has been proposed in 2013 to balance the funding among operations, capital outlay and debt service. Staff will also continue to investigate opportunities to reduce costs of operations including possible reduction of additional positions, operational enhancements and cost-cutting measures, alternative service providers and increased cost sharing with employees in health care benefits.

B. Capital Improvement Fund

The value of the City's capital assets (e.g., land, buildings, infrastructure, etc.) is \$57 million. To sustain these assets, the City's budget is a financial plan which will provide for the ongoing maintenance, repair and replacement of those assets. The Capital Improvement Program (CIP) is the vehicle for budgeting to account for the maintenance repair and replacement of those assets. In addition to reflecting normal levels of capital equipment replacement and capital project planning in 2012, this fund will provide funding for infrastructure maintenance from the existing revenue stream.

The reallocation of the earnings tax to the Capital Improvement Fund in 2007 from 21.5% to 25% has provided adequate flow of revenues for projects funded from the Capital Improvement Fund as a part of a four-year, stepped-up program for infrastructure maintenance. As presented in the budget for years 2013 through 2016, staff is proposing that City Council consider reducing this reallocation to 20% in 2013. The funding request for 2012 totals \$2,323,000, compared to \$2,655,400 estimated for 2011. This funding request, along with the proposed reallocation, will allow the Capital Improvement Fund to achieve and maintain the reserved fund balance target of \$1,000,000 in 2012 through 2016. **(Page 50)**

C. General Bond Retirement Fund

Projected expenditures in 2012 will be \$520,239 compared to \$561,950 in 2011. The current debt service payment schedules will continue to reduce the City's General Obligation debt paid from this fund from \$1,890,000 outstanding as of December 31, 2011 to \$220,000 by December 31, 2016. **(Page 46)**

The continued reduction of debt, with no planned general obligation debt needs on the horizon contribute to the growth of the fund balance. A growing fund balance, in the face of declining obligations, is one reason that staff is proposing that the earnings tax allocation, be reduced from 8% to 4% in 2013. An additional future decrease in the earnings tax allocation should be considered, possibly as early as 2016, as all current General Obligation Debt will be retired in 2017.

A second reason to reduce the tax allocation to this fund is the requirement that any funds in a debt fund must only be used for debt service and may not be transferred out or used for any other purpose. Staff will continue to monitor this fund to ensure there is not more of a balance than is necessary for the City to address the planned needs of its general debt obligations.

D. Street Construction, Maintenance and Repair (SCMR) Fund

This fund will have a projected ending fund balance of \$725,782 in 2012. This is a reduction of \$126,114 from the projected ending fund balance of \$851,896 in 2011. **(Page 41)** The reason for this decline is gasoline tax and motor vehicle registration revenues are lagging behind forecasted operating costs, which primarily consist of personnel costs, supplies and materials. In addition, the decline in revenues generated by the Environmental Impact Fees collected from assessments on new construction and then matched by revenues from the general fund has reduced the amount transferred into the SCM&R fund in recent years due to the downturn in the economy and reduction in construction projects.

The reduction and elimination of tax revenues in the General Fund will lessen revenues available for future transfers to the SCM&R fund. In past years, staff has identified that an increase in the license plate fee provides an opportunity to increase City revenues. City Council should consider initiating the additional \$5.00 license plate fee tax beginning in 2013, which would generate an estimated \$50,000 to support the operation of this Fund.

E. Arts and Amenities Fund

This fund has a reserved fund balance of \$376,237, protecting the corpus of the two bequests that initiated the fund. In 2012, the fund balance is estimated to be \$578,563 at year end. **(Page 44)** This fund balance would permit the City to consider the installation of additional public art work/sculpture or other cultural amenities or services in the community as is stated in the City's vision statement.

F. Fire (Levy) Department Fund

Although there is not a targeted cash balance for this fund, the cash balance does require regular review as the Fund is financed by a 5.5 mill property tax levy to support the City's fire and emergency medical operations. In the 2012 Annual Operating Budget, the cash balance in this fund is estimated to be approximately \$4.1 million at year end. **(Page 38)** In terms of percentage of cash balance to operating expenditures, this represents about 22 months of operating expenditures.

At current staffing levels, a replacement levy for fire and emergency medical services will not need to be considered in the 2012-2016 timeframe. However, this could change with a policy decision to change the staffing composition of the Fire Department. Currently, a staffing study is underway to determine whether the Department's current full-time/part-time structure will adequately serve the community or if additional career positions may be needed to address any difficulty in hiring qualified part-time personnel in the future.

IV. Revenues, Expenditures, Personnel Costs and Cost of Solid Waste and Recycling

A. Revenues

Total City budget revenues for 2012 are forecasted at \$18,869,495, compared to the revised forecast of \$17,441,700 for 2011, a difference of \$1,427,795 or 8.2%. Most of the increase is attributed to \$1M in grants anticipated for road improvement in 2012. General fund revenues for 2012 are estimated at \$9,185,088, an increase of \$158,359, or 1.8% from 2012's revised estimated revenues of \$9,026,729. The small increase is attributed to a **one-time transfer of \$416,563** from the Ohio National Life Tax Increment Financing Fund offset by the loss of the tangible personal property tax reimbursement, and a reduction in both real estate property tax collection and local government funds.

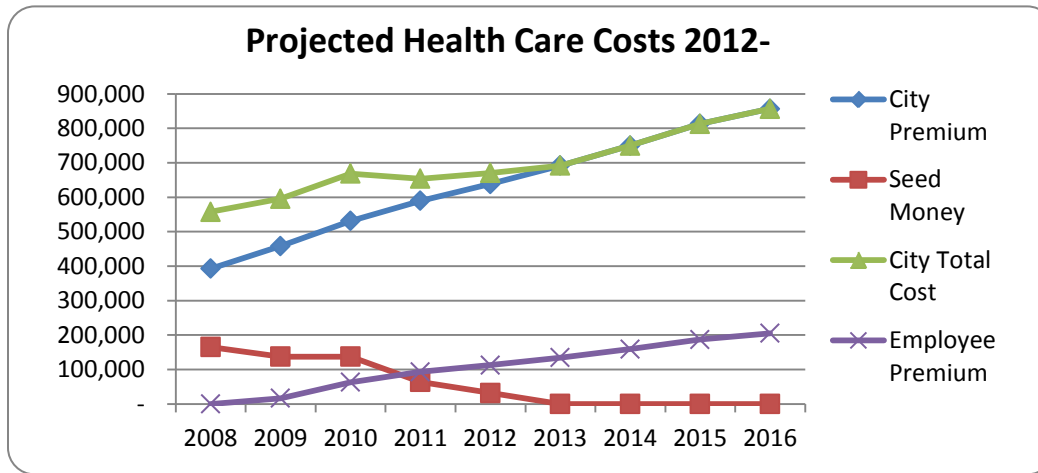
B. Expenditures

Total City expenditures are projected at \$18,034,878, an increase of \$98,018 or .5% under the revised forecast of 2011 expenditures of \$18,132,896. General fund expenditures, before transfers, are estimated at \$8,800,097 for 2012, a difference of \$23,832, or .2%, over the 2011 revised forecast of expenditures of \$8,776,265. This increase is primarily due to increases in personnel-related costs, as well as energy, gasoline and utility costs. Compared to the 2011 General Fund budget of \$9,874,379 passed by Council the 2012 proposed General Fund budget of \$9,252,897 represents a reduction of \$621,482 or 6.5%.

C. Personnel Costs

The City currently has three labor agreements in force: IAFF (Fire) expiring in March, 2012, FOP (Police) expiring in June, 2013, and AFSCME (Public Works) expiring in August, 2014. Pay increases negotiated in these agreements set the pattern for budget planning for 2012 to 2013, with negotiated wage increases of 1.75% set for 2012 for FOP and AFSCME and 2013 for AFSCME. Exempt employees have wage increases of 1.75% for years 2011-2012 and 2012-2013. Expiring contracts will have to be renegotiated with the goal of maintaining wage levels at or near the amounts forecasted in future years. Other personnel-related costs are pension payments; health, dental and life insurance; FICA and Medicare; overtime; longevity; leave payout; workers' compensation; and wellness and sick leave incentive programs.

Since 1998, the City's medical insurance costs have tiered "caps" which have been established in an effort to control City expenditures for health care. The first tier of caps has traditionally been increased 6% for health insurance and 3% for dental coverage annually in each of the City's labor contracts and for all non-contract personnel. Secondary caps to split any difference over the first tier cap amounts are split on a 50%-50% basis between the employee and the City. This model has resulted in a plan that requires employees to change the scope of their health insurance and has proven considerably more successful than other public sector employer models in cost containment.



In the recently approved health insurance contract with United Healthcare, the total premium rate increases for the High Deductible Health Plan (HDHP), with a Health Savings Account (HSA) option, averaged 15% over the previous plan. This increase is shared by the City and employees through the “caps” established for health insurance costs. Currently the City has all employees enrolled in a HDHP/HSA plan for 2011-

2012. For dental coverage, Dental Care Plus was renewed again with a 2% decrease for the plan year 2011-2012. To continue our past budgeting practices, health insurance and dental care rates are forecasted to increase 10% and 3%, respectively, for 2012 through 2016. It is important to remember that the City’s caps, both on health and dental coverage, provide a cost-sharing mechanism which encourages the employees to make sound financial decisions that benefit both the employee and the City. The chart above projects the City’s total premium cost increase to approximately \$850,000 in the year 2016, with employee costs estimated to rise to \$200,000. Additionally, the City has continued to decrease its contribution to employee HSAs, which was put in place five years ago to assist in the transition to the lower-cost, consumer-driven health care products.

D. Solid Waste and Recycling Costs

Next to personnel costs, the single largest expenditure of General Fund dollars is the waste collection and recycling service. In 2010, the City spent \$544,348 for this service and projects to spend another \$577,000 in 2011. The contract with Rumpke awarded in 2010 helped stabilize the cost for this service for the years 2012 through 2017. As a result, we have programmed the cost of this service to be \$552,319 in budget year 2012, increasing to \$593,587 in budget year 2016. As planned the RecycleBank incentive which cost the City approximately \$25,000 will be eliminated as a cost savings measure for 2012.

E. Strategic Plan Initiatives.

In accordance with the City's 2011 Strategic Plan, City Council and staff have undertaken efforts to enhance our communications with the residents, businesses and the general public. Two initiatives which surfaced in the strategic plan that have budgetary implications for 2012 include; a program to encourage residents to "Buy Local" and a program to reduce the vacancy rate in commercial buildings. In department code 712-Citizen Engagement funds have been budgeted for a "Buy Local" campaign. In addition, in department code 407-Development, \$25,000 has been programmed to contract the services of a commercial real estate specialist to market vacant commercial buildings.

V. 2012 Operating and Capital Budget Highlights

The significant program changes reflected in the 2012 proposed budget are described below:

A. Capital Asset Maintenance.

Preservation of capital assets is a key component of the City's strong financial management. Implementing a regular repair and maintenance program is, in turn, the key to preserving capital assets. Annual street maintenance repair costs are consistently some of the largest expenditures for maintenance programs. In 2007, City Council agreed to preserve and extend the life of City streets by instituting an accelerated street resurfacing program for a four year period which ended with year 2011. For 2012, funding for this street resurfacing, crack sealing, curb repairs and surface treatments program is recommended at \$850,000, reflecting a reduction to previous levels prior to 2007. In addition, the 2012 CIP contains funding for other infrastructure projects, including drainage projects and expanded curb and sidewalk replacement that maintain and protect the City's capital investments.

B. Park Improvements.

The 2012 budget follows our practice of multiyear forecasting by programming amounts in the parks, recreation and special events accounts that reflect the recommendations of the ten-year parks master study. To continue implementation of the park improvements in 2012 consistent with the strategic plan, funds have been budgeted in the Parks capital maintenance, capital equipment and operating equipment accounts beginning in 2012 and forecasted through 2016. Some of the capital projects programmed for construction in 2012 are: resurfacing tennis courts-Weller Park (\$80,000), resurfacing basketball court-Montgomery Park (\$8,000), asphalt path repairs-various parks (\$5,000) and parking lot repairs at various parks (\$5,000). Please note that many of these projects have been moved out of 2012 into future years pending discussion on the continuing desirability of completing these projects given the future limited resources.

C. Vintage Club Tax Increment District.

The difficult economy has further resulted in the delay of this part of the project from its original start date. Accordingly, \$8,000,000 has been programmed in 2013 for the construction of improvements in the development.

VI. Cost-Savings Initiatives

In an effort to address the loss of revenues that the City will face in the future, staff has and will continue to evaluate cost containment measures within our organization. Examples of work that has and will continue to occur is as follows:

- The City has reduced positions through critical evaluation of every vacancy that occurs in our work force. Toward this end, the City also makes extensive use of part time employees in an effort to save benefit costs as well as contracted labor where appropriate.
- The City has been negotiating reduced/declining wage increases with our unions as well as decreased City contributions to health care. Many years ago, we reduced the number of sick leave days for our employees and have lower benefits in terms of vacation time than many of our comparable cities.
- The City's employee health care benefits team puts the management and funding of the City's health care benefits in the hands of a dedicated group of employees who have worked since 1999 to reduce or cut benefits so as to manage health care costs for both the City and its employees. The system we have negotiated where we establish annual "caps" of what the City will pay for health care, has forced cost sharing with employees much earlier than we have seen this sharing in other jurisdictions. The City also runs a wellness program for employees in an effort to encourage healthy lifestyles and reduce the cost of medical insurance. Additionally, the City made the move to the consumer driven health care products, including high deductible health care plans with health savings accounts, 5 years ago.
- The City has operated a merit based pay plan for many years where the employee's performance is tied to merit-based pay increases. This is in place for all employees with the exception of the police department which, because of collective bargaining, has been able to retain the traditional public sector longevity based pay steps that reward employees with increases simply because of their longevity with the City. The merit-based pay for performance system accompanies the City's human resource tools which feature detailed performance appraisals that link to employee wage increases, 360 degree peer feedback and progressive job descriptions that require all employees to demonstrate leadership, management, technical and communications/team skills.

- We employ process improvement techniques such as LEAN and others utilized within the private sector and have examined many of our services/projects, including building permitting, road salt application, purchase orders, holiday lighting, etc. to eliminate wasteful steps in our process to save the City and its taxpayer's dollars.
- The City has operated under the principle of high performance government for over 10 years. Under this principle, employees are expected to demonstrate leadership, management and communication skills as well as their traditional technical skills in the work they perform every day. This has allowed the City to deliver services more efficiently and effectively to our customers by better utilizing more advanced skills in all of our staff members.
- The City also makes a tremendous use of grant funds to leverage its tax dollars. Many of our street and roadway projects have been financed with grant funds as are many special programs/equipment in our police and fire departments.
- The City also makes great use of volunteer resources in the City making use of many talents of our residents and business persons and avoiding the need to hire or contract for some services it provides. Our special events such as Bastille Day, Fourth of July celebrations as well as other quality of life programs including the beautification efforts of our City would not be possible without the wonderful assistance of our many citizen volunteers.
- The City prepared for the financial crisis in 2001 when it set projected fund balances or "rainy" day fund balances and work toward building those balances when the economy was good. These rainy day funds as well as sound financial practices have assisted the City in weathering the financial storm and will assist greatly in addressing the loss of the state revenues and estate tax so that decisions can be made in an intelligent way with the input of the community. The impact of this type of financial planning resulted in our City not experiencing financial crisis these past couple of years during the economic downturn when many others were cutting staff, implementing furloughs, cutting services and increasing taxes. While the City will have to deal even more with the state revenue cuts and loss of the estate tax, it finds itself in a decent financial position from which to address these losses in the future.

Staff will continue to investigate these and other cost containment opportunities in the future.

VII. Recommended Discussion Topics City Council

Staff is recommending that over the course of the next year that City Council and its operating Committees discuss the following options to address revenue shortfalls in the City's budget:

- **Reallocation of City's Income Tax Revenues-** The proposed reallocation in 2013 would change the allocation of the earnings tax from the current percentage to allocate 76% of the earnings tax revenues to the General Fund, 4% to the General Bond Retirement Fund and 20% to the Capital Improvement Fund from the current allocation of 67% General, 8% Debt and 25% Capital.
- **Additional Motor Vehicle Registration Fee-**Council should consider initiating a \$5.00 license fee tax for 2013, which depending on the number of vehicles registered in the City, would generate additional revenues which could be used for street maintenance.
- **Charter Millage-** An additional one-half mill could be added within the charter authorized millage and would generate approximately \$250,000 in additional property tax revenues for the General Fund. This action could be considered at some point in the future, dependent upon the impact of the loss of revenues in the General Fund.
- **Reevaluation of Current Service Levels-** Specific areas of concern which require discussion while faced with future declining revenues are the number and types of events funded by the City, the escalating cost of solid waste collections, the continuing desirability of implementing some of the recommended improvements of the Parks Study and the inability of the municipal pool and Street Construction Maintenance Repair Fund to generate sufficient revenues to pay for operations.

VIII. Summary

Staff is pleased to be able to submit the attached budget to you for review and comment. This proposed budget continues the City's strong commitment to quality services, high level of maintenance of its capital assets, continuing repayment of outstanding debt, commitment to the City's strategic plan, and maintenance of targeted fund balances in the face of a severe challenge to local governments through loss of revenue and/or the poor economy. It is through this comprehensive approach to financial planning that the City has been able to create its strong financial position, while at the same time continuing to maintain its reputation as a high quality, desirable community with enviable services and infrastructure. It is through the same approach that it will navigate these uncertain financial times in a proactive manner to continue to provide quality services to our community.

In order to achieve these results, the City involves all members of its team in the decision-making and management processes, developing the business economy of the City. This mindset and approach is evident throughout the 2012 budget. Examples of this approach range from addressing the need for back-up support in our departments, to the innovative approaches recommended by the Health Care Benefits Committee for more sharing of health care costs, to the implementation of the ten-year parks master study, and other initiatives under the guidance of the 2011 Strategic Plan. The 2012 budget and 2012-2016 CIP were prepared with the assistance of the department heads, finance department staff, mid-level managers, front-line employees, and board and commission members. Every effort was made to accommodate the submitted requests. In some cases, deferral or rearrangement of funds was made to balance the budget.

In closing, we thank all employees and volunteers who participated in the preparation of this budget. Through the dedicated work of all these individuals, the City has developed a comprehensive revenue and spending plan that continues its strong financial position and keeps our promise to provide superior services. We extend our thanks to all City Council Members for their diligence in overseeing our financial position functioning as stewards of public funds, and in protecting the assets of the City for future generations. Staff looks forward to discussing the proposed budget and Capital Improvement Program with City Council.